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# Republic of the Philippines

## PFM Strategy Implementation Support

### Public Financial Management and Accountability Assessment

June 2016

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EAST ASIA AND PACIFIC

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**FISCAL YEAR**

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**CURRENCY EQUIVALENTS**  
 Currency unit = Philippine Peso (PhP)  
 USD 1 = PhP 47.06 (as of June 28, 2016)

### **Acronyms and Abbreviations**

AAR	Annual Audit Report
ADB	Asian Development Bank
AFR	Annual Financial Report
APCPI	Agency Procurement Compliance and Performance Indicator
ARAAOD	Annual Report on Appropriations, Allotment, Obligations and Disbursements
ARMM	Autonomous Region in Muslim Mindanao
BED	Budget Execution Document
BESF	Budget of Expenditures and Sources of Financing
BIR	Bureau of Internal Revenue
BLGF	Bureau of Local Government Finance
BoC	Bureau of Customs
BOT	Build-operate-transfer
BSP	Bangko Sentral ng Pilipinas
BTr	Bureau of the Treasury
CIIP	Comprehensive and Integrated Infrastructure Program
CoA	Commission on Audit
COFOG	Classification of the Functions of Government
COMELEC	Commission on Elections
CPI	Consumer Price Index
CSO	Civil Society Organization
DAR	Department of Agrarian Reform
DBCC	Development Budget Coordinating Committee
DBM	Department of Budget and Management
DENR	Department of Environment and Natural Resources
DepEd	Department of Education
DFA	Department of Foreign Affairs
DFAT	Department of Foreign Affairs and Trade (Australia)
DILG	Department of the Interior and Local Government
DND	Department of National Defense
DoA	Department of Agriculture
DoF	Department of Finance
DoH	Department of Health
DoJ	Department of Justice
DOLE	Department of Labor and Employment
DOST	Department of Science and Technology
DOTC	Department of Transportation and Communications
DPWH	Department of Public Works and Highways
DSWD	Department of Social Welfare and Development
eFPS	Electronic Filing and Payment System
eLAMS	Electronic Letter of Authority Monitoring System
eMDS	Electronic Modified Disbursement System
eNGAS	Electronic New Government Accounting System

EO	Executive Order
GAA	General Appropriations Act
GAM	Government Accounting Manual
GCG	Governance Commission for GOCCs
GDP	Gross Domestic Product
GFS	Government Finance Statistics
GGAC	Good Governance and Anti-Corruption (Cabinet Cluster)
GIFMIS	Government Integrated Financial Management Information System
GMIS	Government Manpower Information System
GNI	Gross National Income
GOCC	Government-owned or controlled corporation
GPPB	Government Procurement Policy Board
GPRA	Government Procurement Reform Act
ICC	Investment Coordination Committee
IMF	International Monetary Fund
INTOSAI	International Organization of Supreme Audit Institutions
IPSAS	International Public Sector Accounting Standards
ISSAI	International Standards of Supreme Audit Institutions
IT	Information Technology
LBM	Local Budget Memorandum
LGU	Local Government Unit
LIBOR	London Interbank Offered Rate
MDS	Modified Disbursement System
MFO	Major Final Output
MTEF	Medium-term expenditure framework
MTFF	Medium-term fiscal framework
NEDA	National Economic and Development Authority
NEP	National Expenditure Program
NGA	National government agency
NGAS	New Government Accounting System
NGICS	National Guidelines on Internal Control Systems
ODA	Official development assistance
OSBPS	Online Submission of Budget Proposal System
PAP	Program, activity, and project
PDAF	Priority Development Assistance Fund
PEFA	Public Expenditure and Financial Accountability
PFM	Public Financial Management
PGIAM	Philippine Government Internal Audit Manual
PhilGEPS	Philippine Government Electronic Procurement System
PI	Performance indicator
PPP	Public-private partnership
PPSAS	Philippine Public Sector Accounting Standard
PPSSA	Philippine Public Sector Standard on Auditing
RA	Republic Act
RATE	Run-After-Tax-Evaders
RATS	Run-After-The-Smugglers
RMO	Revenue Memorandum Order
TESDA	Technical Education and Skills Development Authority
TSA	Treasury Single Account
UACS	Unified Accounts Code Structure



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The Government managed the process through a high-level Steering Committee under the leadership of the Department of Budget and Management (DBM) and with representation from the Commission on Audit (CoA), Department of Finance (DoF), Bureau of the Treasury (BTr), National Economic and Development Authority (NEDA), and Governance Commission for Government-Owned or Controlled Corporations (GCG).

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PEFA assessment report of the Republic of the Philippines, May 2016

The quality assurance process followed in the production of this report satisfies all the requirements of the PEFA Secretariat and hence receives the '**PEFA CHECK**'.

PEFA Secretariat,

June 2, 2016

## Executive Summary

1. This Public Expenditure and Financial Accountability (PEFA) performance assessment report evaluates the seven core pillars of the public financial management (PFM) system of the Government of the Philippines (Government) as set out in the summary assessment below. It evaluates how effectively the PFM system achieves the desirable budget outcomes of aggregate fiscal discipline, strategic allocation of resources, and efficient service delivery. The assessment was conducted through consultations between departmental staff and a World Bank cross-sectoral team, and was managed by a high-level Government steering committee. Where there are PFM weaknesses, the report provides information on areas that reform activity should address more strongly. Table 05, at end of the Executive Summary, gives the performance indicator scores. A more comprehensive table showing the scores with accompanying explanation is in Annex 1 of the report.

2. A similar assessment was conducted in 2007 but published with some delay in 2010; and this most recent assessment, begun in mid-2015, is used to compare progress over the past eight years. The recent assessment uses an upgraded 2016 PEFA framework that includes four new indicators on management of assets and liabilities, refines some of the previous indicators, and introduces a stronger focus on internal financial controls.

3. The main report is structured as follows: **Chapter 1** is an introduction explaining the context, purpose and process of preparing the report, specifying the institutional coverage; **Chapter 2** provides an overview of relevant country-related information that provides the context underpinning the indicator results and the overall PFM performance; **Chapter 3** provides the detailed assessment of performance in terms of the seven pillars of the PFM system. It provides analysis and measurement of results in terms of the 31 performance indicators (PIs) of PFM performance; **Chapter 4** includes an integrated crosscutting analysis on performance of the PFM systems and how it impacts on the Government's ability to deliver on the intended fiscal and budgetary outcomes, and to identify the most important systems weaknesses in that respect; **Chapter 5** provides an overview of government initiatives to improve PFM performance summarizing the approach to PFM reform, including the institutional factors that are likely to impact the planning and implementation of reforms. **Annexes 1-4** provide supporting data and information to the assessment; and **Annex 5** provides scores assessed using the 2005/2011 PEFA assessment framework for direct comparison with the previous PEFA assessment baseline scores.

### Assessment Coverage and Timing

4. The assessment covers general central government PFM practices used by institutions with budget allocations from the central government. For local government and government companies, the assessment covers fiscal risk oversight practices, but not the detailed PFM practices that are in place in the local government units and the government companies. Public-private partnership arrangements and Social Security Funds are covered only to the extent that allocations are made in the central government budget. These are considered extra-budgetary units. Data gathering for the assessment, primarily took place from July to November 2015, but data through April 30, 2016 was considered. Completed fiscal years are 2012, 2013, and 2014,

the latest three years for which audited reports are available. The last completed fiscal year is 2015, and the latest budget submitted to legislature and enacted is for the fiscal year 2016.

### **Summary Assessment of PFM Performance**

5. The PEFA Framework enables the Government of the Philippines to examine, both at the broad and detailed levels, how each area of its PFM system is performing and how performance has changed since the 2010 assessment. The first and most important step is to look at the results at the broad level of the PFM pillars of the budget cycle. This enables the Government to see where reform efforts have not yet enabled the PFM system to reach a satisfactory level.

6. The PEFA assesses 94 PFM dimensions that make up 31 performance indicators (PIs), which in turn make up the 7 PFM pillars. Each dimension and performance indicator is assigned a rating of “A” to “D” as per highly structured objective criteria set down in the PEFA Framework (Figure 0.1). Table 0.1 compares the numbers of performance indicators in each pillar that rated reasonably well (A or B) with the numbers that did not (C or D). Table 0.2 shows the equivalent results at the lower level of PFM dimensions for each of the pillars. The tables show that 3 of the 7 PFM pillars (transparency, policy-based budgeting, and asset and liability management) are strong and have improved since the 2010 assessment; 1 pillar (predictability and control in budget execution) is evenly balanced; and the remaining 3 (budget reliability, accounting and reporting, and external scrutiny) are weak. These results show that good performance at the beginning of the budget cycle in policy-based budgeting and transparency are not yet put into effect by the downstream accounting and external scrutiny elements of the budget cycle with a consequential poor performance in budget reliability. This deficiency has substantial effects on budget outcomes considering that budget reliability is a central factor to ensuring fiscal discipline in allocating budget resources to deliver intended services. The lack of capacity of the accounting system to assist budget managers with timely information is a primary cause of the relatively poorer downstream results. This area needs urgent attention. Continued development of a comprehensive, integrated accounting and financial information system can provide tools for monitoring and analysis that would allow timely decision-making to enhance efficiency in budget execution and effectiveness in service delivery. A substantial investment of resources, skills, and authority is required to achieve such outcomes. An effective PFM system needs the defining authority of a comprehensive PFM law to ensure that all staff engaged in financial activities understand and adhere properly to the financial regulations and procedures. Only at that time will the Government be able to deliver the budget as intended.

7. With regard to the design of reform actions, it is creditable that compared with 2010 assessment, there are more areas rated as good (“A”) or satisfactory (“B”). At the sub-indicator level (dimensions), the improvement is even more marked (Tables 0.2 and 0.4). Performance can be improved by focusing reform efforts on clearly identified parts of the PFM systems and processes that do not meet the necessary requirements for an open and orderly PFM system. The PEFA assessment provides a solid foundation for designing new and evaluating ongoing reforms. In summary, the assessment found the following main concerns that need to be addressed to improve the delivery of budget outcomes:

- **Fiscal discipline** – Failings and delays in reconciliations with budget execution and accounting systems are inadequate to monitor and facilitate budget delivery.
- **Resource allocation** – An FMIS is still in development and procurement lacks an independent complaints mechanism while budget allocations steadily increased with limited absorptive capacity in executing departments.
- **Service delivery** – Inadequacies in internal control exist while financial reporting and oversight is insufficient to provide assurance on service delivery as envisioned in the budget.

Figure 0.1 PEFA Rating Summary

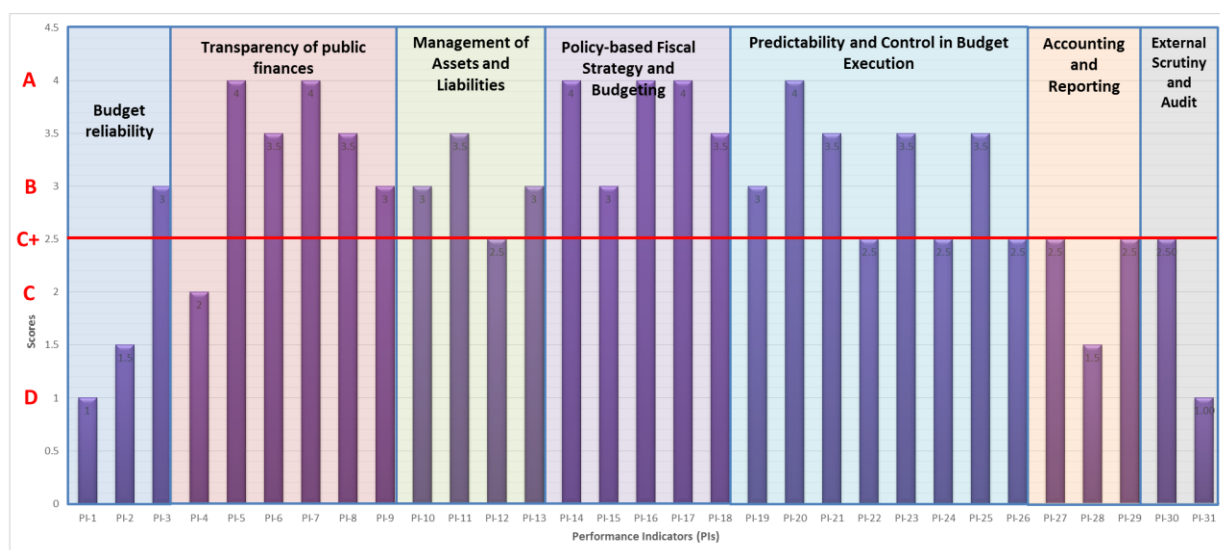


Table 0.1: Distribution of PEFA assessment 2016 Ratings by Indicator

Core Pillars of PFM Performance	Ratings		Total indicators
	A / B	C / D	
I. Budget reliability	1	2	3
II. Transparency of public finances	5	1	6
III. Management of assets and liabilities	3	1	4
IV. Policy-based fiscal strategy and budgeting	5	-	5
V. Predictability and control in budget execution	5	3	8
VI. Accounting and reporting	-	3	3
VII. External scrutiny and audit	-	2	2
<b>Total</b>	<b>19</b>	<b>12</b>	<b>31</b>

**Table 0.2: Distribution of PEFA assessment 2016 Ratings by Dimension**

<i>Core Pillars of PFM Performance</i>	Ratings		Total dimensions
	A / B	C / D	
I. Budget reliability	2	4	6
II. Transparency of public finances	9	3	12
III. Management of assets and liabilities	8	5	13
IV. Policy-based fiscal strategy and budgeting	16	1	17
V. Predictability and control in budget execution	23	5	28
VI. Accounting and reporting	4	6	10
VII. External scrutiny and audit	2	6	8
<b>Total</b>	<b>64</b>	<b>30</b>	<b>94</b>

### Major Strengths and Weaknesses in Achieving Budget Outcomes

8. This section considers the results for each pillar, examining the main strengths and weaknesses, and assessing how performance, in particular processes and systems, affect other public financial management (PFM) processes as well as the budget outcomes. It is necessary to assess why a poor score justifies reform effort in terms of its likely effect on budget outcomes.

9. **Budget reliability (PI-1-3).** While the assessment framework specification for comparing budgeted expenditure with expenditure outturn data could not be calculated as such due to the non-availability of consolidated, comparable numbers for actual disbursements, the comparison was made with obligations incurred. As a proxy for expenditure, obligations would always be in excess, but the budget reliability still comes out as poor for both revenue and expenditure outturns. This lack of credibility in the budget can lead to shortfalls in the funding of priority expenditures. For the outturn by allotment class, the variance ranged from 14 percent in 2012 to 25 percent in 2014 with capital outlays showing the greatest gap in expenditures. Aggregate revenue outturn performed well, but aggregate expenditure outturn did not, with obligations falling short of appropriations by 13 percent in 2012 to 28 percent in 2014, thereby affecting fiscal discipline. Improving budget outcomes would require an emphasis on both revenue and expenditure. This depends on prompt and focused financial reporting processes so that budget managers can respond to variations as they arise. The effect on desired budget outcomes is potentially substantial as the Government has strong intentions to secure social service expenditure priorities and deliver these services in the most efficient manner. A well-performing information system within a strong regulatory framework could help achieve this objective.

10. **Transparency of public finances (PI-4-9).** This area performs very well. The budget preparation and budget management processes rate highly in public policy and transparency. There is room for greater accord with Government Finance Statistics (GFS) classifications in accounting processes to give better information that will assist with budget monitoring; and there is need to improve data on financial assets. Timeliness of Annual Financial Reports for extra-budgetary agencies needs to improve to meet statutory requirements.

11. ***Management of assets and liabilities (PI-10-13)***. Results for this pillar are mixed. Some annual audited reports for government-owned or -controlled corporations (GOCCs) and local government units (LGUs) were not issued within 9 months risking the adequacy of the timeliness of fiscal risk monitoring. Management of public investments rated well with strong institutional arrangements, an important area for public financial management. Management of public assets was less effective with need for better accounting systems for financial and non-financial assets to deal with audit reports of discrepancies leading to qualified audit opinions. Debt management is an extremely important function for fiscal discipline and generally rates well, but the medium-term debt management strategy needs to be published to provide transparency.

12. ***Policy-based fiscal strategy and budgeting (PI-14-18)***. This pillar rates well with all areas displaying satisfactory or good performance, which reflects the many efforts made in the recent years to improve the budget formulation process.

13. ***Predictability and control in budget execution (PI-19-26)***. Results here are mixed with weaknesses undermining performance in other pillars. The performance indicators focus on the internal control framework. The Government has an extensive formal structure for internal control and internal audit with its Administrative Code and rules for the implementation of internal control and internal audit. However, the de jure and de facto performance can diverge; internal audit programs can be delayed, similarly as the implementation of management actions, to address concerns raised by the auditors. External audit observations and audit qualifications were too numerous to be fully satisfied with the implementation of these controls, thus risking budget outcomes. Internal control of payroll and the conduct of payroll audits were assessed as sufficiently effective as were arrangements for expenditure commitment control. However lack of automation limits the overview to enable effective monitoring of continuing appropriations and commitments brought forward from previous years. Audit reports from the Commission on Audit (CoA) are routinely qualified, and even adverse opinions and disclaimers are issued. Concerns raised include compliance with internal controls and largely the integrity of financial information presented. Procurement processes rated well apart from the need to introduce an independent complaints mechanism, leaving concerns about transparency, fairness, and fiscal discipline. Also, a significant proportion of procurements did not use competitive processes, again leaving similar concerns. Other areas that need rectification are improving the effectiveness of internal audit through better resourcing and an independent reporting mechanism; inclusion of accounts for foreign-funded projects in the treasury single account (TSA) system to consolidate cash balances for effective fiscal management; and an efficient regular process for capturing and aging arrears in both revenues and expenditures to mitigate risks to fiscal discipline.

14. ***Accounting and reporting (PI-27-29)***. Systems and processes covered under this pillar form the primary source of information for decision-making by management. These did not rate well. Both financial data integrity processes and in-year budget reporting require substantial improvement. Some basic processes such as reconciliation of bank accounts, and cash advances were not handled well. Most financial reporting is compiled through spreadsheets without the necessary controls that would ensure data integrity. Most departmental annual accounts are given qualified audit opinions leaving the Government with no assurance as to the reliability of its annual accounts. Timely submission of in-year budget reports is a challenge among several line



departments and agencies. Most reports are prepared manually and, as of February 29, 2016, less than 20 percent of reports for the second, third, or fourth quarter had been received. The need for a comprehensive accounting system is apparent if budget outcomes are to be assured. With the pace of development of technology in recent years, it is common for governments to rely on comprehensive accounting systems to monitor and achieve stated intentions for fiscal discipline, optimum resource allocation, and service delivery. The electronic New Government Accounting System (*eNGAS*), with its computerized accounting solutions, has been rolled out to many agencies, but not all, and is undergoing development and further updating. A whole of government audit opinion is not currently issued by the Commission on Audit; but with qualified opinions on the majority of the individual agency financial statements, it may not be possible to ascertain the integrity and completeness of the overall financial data for the Government. This is a continuing significant defect in the annual financial accountability framework.

15. *External scrutiny and audit (PI-30-31)*. This pillar is incomplete; despite a strong external audit performance, there is the lack of a complete revenue audit. Absence of a formal scrutiny process at the legislature leaves the oversight function in the budget cycle incomplete.

### Main Performance Changes since 2010 PEFA Assessment

16. Tables 0.3 and 0.4 compare the changes in performance ratings (by indicators and dimensions, respectively) from the 2010 PEFA assessment with those in 2016.

**Table 0.3: Distribution of Ratings by Indicator (old methodology)**

Core Pillars of PFM Performance	2010 Ratings		2016 Ratings		Total indicators
	A / B	C / D	A / B	C / D	
Credibility of the budget	1	3	1	3	4
Comprehensiveness and transparency	3	3	5	1	6
Policy-based budgeting	1	1	2	-	2
Predictability and control in budget execution	2	7	6	3	9
Accounting, recording and reporting	-	4	1	3	4
External scrutiny and audit	1	2	2	1	3
<b>Total</b>	<b>8</b>	<b>20</b>	<b>17</b>	<b>11</b>	<b>28</b>

**Table 0.4: Distribution of Ratings by Dimensions (old methodology)**

Core Pillars of PFM Performance	2010 Ratings		2016 Ratings		Total indicators
	A / B	C / D	A / B	C / D	
Credibility of the budget	1	4	2	4 <sup>a</sup>	5
Comprehensiveness and transparency	6	4	9	1	10
Policy-based budgeting	2	5	7	-	7
Predictability and control in budget execution	10	18	19	9	28
Accounting, recording and reporting	2	7	4	5	9
External scrutiny and audit	5	5	6	4	10
<b>Total</b>	<b>26</b>	<b>43</b>	<b>47</b>	<b>23</b>	<b>69</b>

<sup>a</sup> Indicator was revised in 2011 to add a dimension.

17. It is clear that the Government of the Philippines has improved its PFM performance in some areas but not in the most crucial areas of budget credibility and accounting, recording, and reporting. Annex 5 contains a table showing the current PI ratings and explanations along with the 2010 report ratings for comparison. The previous assessment resulted in a number of recommendations. The following list gives those recommended areas in need of change and the current position in relation to their most relevant desired budget outcome parameter:

#### ***Fiscal discipline***

- Proliferation of banking arrangements with limited central control/oversight – now resolved through the treasury single account.
- Absence of a central fiscal authority with government-wide responsibility for financial risk management – now resolved through effective fiscal risk management.
- Lack of codification of financial management rules – now resolved through comprehensive manuals.
- Ineffective external audit – now resolved with well performing Commission on Audit.
- The issue of unreconciled bank accounts is a continuing problem for departments and agencies – not yet resolved, needing a comprehensive accounting system.

#### ***Resource allocation***

- Ineffective control in procurement process – now resolved through formal procurement arrangements.
- Lack of monitoring/control of budgetary realignments and use of savings – now resolved through improved budget management.
- Fragmented financial management information system with limited capability to track transactions and reconcile the individual systems – partly resolved through IT improvements but still in need of major revamp.
- Many inventory and asset management systems are presently manual systems, subject to the usual weakness of any manual record-keeping system – not fully resolved needing a comprehensive accounting system.

#### ***Service delivery***

- Persistence of high-risk transactions – not fully resolved with continuing internal control deficiencies.
- Limited use of risk-based audit – now resolved through more modern CoA-audit methods.
- Generally weak capacity of Internal Audit Units – now partly resolved through more resources in Internal Audit Service but more central monitoring could be considered.
- Apart from the absence or the limited development of a management information system, the extensive reliance on hard-copy memos appears to slow down internal communications – not fully resolved without a comprehensive management information system.
- Sanctions for financial mismanagement are rarely applied, partly because of the inexact assignments of accountabilities; the apparent lack of concern over compliance with rules means that the government is not in a position to identify systemic weaknesses in the existing internal control and financial accountability regime and take corrective measures

- not fully resolved with a need to consider modernized financial management legislation.

### **On-Going and Planned PFM Reform Agenda**

18. The Philippines Government is implementing its Philippine PFM Reform Roadmap: Towards Improved Accountability and Transparency, 2011–2015. Also the Good Governance and Anti-Corruption Cabinet Cluster Action Plan 2013-2016 includes several PFM-related activities. The comprehensive PFM reform agenda aims to clarify, simplify, improve, and harmonize the financial management processes and information systems of the Philippines' civil service. The PFM program is the main vehicle for consideration when evaluating the results of this PEFA assessment.

19. A PFM Program Steering Committee provides strategic oversight to program planning and implementation and decides funding priorities year to year. The National Economic and Development Authority plays an important advisory role to the program. The PFM program has ongoing improvement activities in the following areas relevant to the findings of this assessment: automating financial management processes in large spending agencies; introducing a government integrated financial management information system (GIFMIS); supporting departments to improve their internal controls, risk management, and internal audit functions; and pilot-testing a PFM competency framework.

20. The PEFA results show that the reform program to date has had success in strengthening the capacity of central agencies such as the Department of Budget and Management (DBM) in budget development and transparency, but this has not been matched by reform improvements in the capacity of line agencies to provide accurate and timely reporting. It is clear from the results of this PEFA assessment that the reforms associated with technology need substantial increases in scope to enable line agencies to manage financial transactions in accord with regulations and budget intentions and to obtain real-time financial reporting to maintain budget execution in line with service delivery requirements. The improved accounting systems must enable agencies to produce annual accounts that are timely and free from audit qualifications. The performance of eNGAS and current IT development plans need to be reviewed against international practices and in relation with the PEFA results and revised as necessary to provide the PFM information and management systems needed.

**Table 0.5: PEFA Assessment Summary of Scores 2016**

<i>Performance Indicators (PIs)</i>		<i>Scoring Method</i>	<i>2016</i>					<i>Overall Score</i>
			<i>Dimension Rating</i>					
			<i>(i)</i>	<i>(ii)</i>	<i>(iii)</i>	<i>(iv)</i>		
<b>Pillar I. Budget reliability</b>								
PI-1	Aggregate expenditure outturn	M1	D				<b>D</b>	
PI-2	Expenditure composition outturn	M1	D	C	A		<b>D+</b>	
PI-3	Revenue outturn	M2	A	C			<b>B</b>	
<b>Pillar II-III. KEY CROSS-CUTTING ISSUES:</b>								
<b>II. Transparency of public finances</b>								
PI-4	Budget classification	M1	C				<b>C</b>	
PI-5	Budget documentation	M1	A				<b>A</b>	
PI-6	Central government operations outside financial reports	M2	A	A	C		<b>B+</b>	
PI-7	Transfers to subnational governments	M2	A	A			<b>A</b>	
PI-8	Performance information for service delivery	M2	A	A	C	B	<b>B+</b>	
PI-9	Public access to fiscal information	M1	A				<b>A</b>	
<b>III. Management of Assets and Liabilities</b>								
PI-10	Fiscal risk reporting	M2	C	C	A		<b>B</b>	
PI-11	Public Investment Management	M2	A	A	A	B	<b>A</b>	
PI-12	Public Asset Management	M2	C	C	B		<b>C+</b>	
PI-13	Debt Management	M2	A	A	D		<b>B</b>	
<b>Pillars IV-VII. BUDGET CYCLE</b>								
<b>IV. Policy-based Fiscal Strategy and Budgeting</b>								
PI-14	Macroeconomic and fiscal forecasting	M2	A	B	A		<b>A</b>	
PI-15	Fiscal Strategy	M2	A	B	C		<b>B</b>	
PI-16	Medium-term perspective in expenditure budgeting	M2	A	A	B	A	<b>A</b>	
PI-17	Budget preparation process	M2	A	A	A		<b>A</b>	
PI-18	Legislative scrutiny of budgets	M1	B	A	A	B	<b>B+</b>	
<b>V. Predictability and Control in Budget Execution</b>								
PI-19	Revenue administration	M2	B	B	A	D	<b>B</b>	
PI-20	Accounting for revenue	M1	A	A	A		<b>A</b>	
PI-21	Predictability of in-year resource allocation	M2	C	A	A	A	<b>B+</b>	
PI-22	Expenditure arrears	M1	B	C			<b>C+</b>	
PI-23	Payroll controls	M1	B	B	B	A	<b>B+</b>	
PI-24	Procurement management	M2	B	B	B	D	<b>C+</b>	
PI-25	Internal controls on non-salary expenditure	M2	A	B	B		<b>B+</b>	
PI-26	Internal audit	M1	A	B	C	B	<b>C+</b>	
<b>VI. Accounting and Reporting</b>								
PI-27	Financial data integrity	M2	D	A	C	C	<b>C+</b>	
PI-28	In-year budget reports	M1	A	D	C		<b>D+</b>	
PI-29	Annual financial reports	M1	B	C	A		<b>C+</b>	
<b>VII. External Scrutiny and Audit</b>								
PI-30	External audit	M1	C	C	B	B	<b>C+</b>	
PI-31	Legislative scrutiny of audit reports	M2	D	D	D	D	<b>D</b>	

# Chapter 1. Introduction

1.1. Chapter 1 outlines the context and purpose of the public financial management (PFM) assessment, the process by which the assessment report was prepared, and the methodology used in undertaking the assessment.

## 1.1 Rationale for and Purpose of the Assessment

1.2. The previous Public Expenditure and Financial Accountability (PEFA) assessment for the Government of the Philippines (Government) was undertaken during 2007 (based on data covering the period 2004-2006 and the PFM status as of mid-2007), and published with some delay in May 2010.<sup>1</sup> The assessment showed that while some specific elements of the Government's PFM were relatively well functioning, overall it was weak with shortcomings in all six PFM (PEFA-rated) areas. However, improving the functioning of the PFM system has been an integral part of reform measures under the administration of President Benigno S. Aquino, and several concrete initiatives have been undertaken since mid-2010.

1.3. **The PEFA is carried out as an objective, indicator-led assessment of the national PFM system in a concise and standardized manner.** Its intention is to establish the current status of PFM performance that correlates with an updated understanding of the overall fiduciary environment, identifies the developments that have taken place since 2010, and provides a credible basis for the preparation of a medium-term PFM reform strategy (spanning a three- to five-year horizon). These will inform the plans of development partners that are supporting PFM reform initiatives, including Australia's Department of Foreign Affairs and Trade (DFAT) and the World Bank.

1.4. **By applying the 2016 PEFA Performance Management Framework, the work will help to provide a baseline for future assessments of PFM performance.** This can take into account remaining weaknesses as well as new gaps identified so as to establish new control mechanisms.

## 1.2 Assessment Management and Quality Assurance

1.5. The World Bank and Australia's DFAT initiated the PEFA process in collaboration with the Government of the Philippines. The assessment was financially supported by DFAT, and the World Bank organized the technical team. The Government through the PFM Committee under the DBM leadership provided high-level coordination of assessment inputs, reviewed and approved the Concept Note, appraised the draft report as well as the action plan and medium-term strategy, and cleared the report for publication.

1.6. **The management and quality assurance arrangements and participating individuals are presented in Annex 3A.** As exemplified in this PEFA organizational arrangement, a cross-

sectoral team from the World Bank carried out the assessment. The reviewers of the Concept Note and the Assessment Report, both draft and final, comprised a diverse group of experts and PFM professional from development agencies.

### 1.3 Assessment Methodology, Coverage, and Scheduling

1.7. The institutional coverage of the assessment encompasses the budgetary central government. This includes all Government departments, national government agencies (NGAs), autonomous agencies, and de-concentrated entities. However, at the level of institutional entities, the focus is on PFM practices as evidence of Government performance rather than a review of specific entities. The coverage also includes the budgetary support to government-owned or -controlled corporations (GOCCs), which are included in the Government's annual expenditure program. Similar approach was taken for Social Security funds. Contingent liabilities related to Public-private partnership (PPP) projects were included in fiscal risk management and the PPP projects are extra-budgetary activities. The Government's fiscal risk oversight of GOCCs is also covered, but not the GOCCs' PFM performance. Local government units, which comprise provinces, cities, municipalities and barangays, are not covered in this assessment. The assessment includes an overall review of inter-governmental relationships, including LGU reporting and Government monitoring.

1.8. **The assessment team carried out extensive data collection and consulted with a range of stakeholders, including Government officials and development partner representatives.** The list of persons consulted is presented in Annex 3B, and main information sources are provided in Annex 3C. Sources are provided for all data tables, figures, and boxes; and specific references are provided in the main text, especially in Chapter 3.

1.9. **The data cut-off (snapshot) date of the assessment was April 30, 2016.** Data gathering for the assessment, primarily took place from July to November 2015, but data through April 30, 2016 was considered. Completed fiscal years are 2012, 2013, and 2014, the latest three years for which audited reports are available. The last completed fiscal year is 2015, and the latest budget submitted to legislature and enacted is for the calendar year 2016. The analyses of the performance indicators in Chapter 3 are based on the latest data available in each case. The coverage has been clearly indicated under each PI description.

1.10. **The assessment was conducted in order of the following stages and schedule:**

- |   |                        |
|---|------------------------|
| a) Briefing to the DBM Executive Committee                    | March 9, 2015          |
| b) Issuance of letters requesting nomination of focal persons | March 24, 2015         |
| c) Concept note review by circulation                         | March 31, 2015         |
| d) Formal launch workshop                                     | May 13, 2015           |
| e) Data gathering   | July to November, 2015 |

Pending the release of the revised Performance Measurement Framework by the PEFA Secretariat on February 1, 2016, the assessment came to a temporary pause. Once the new

framework was released, the draft report was revised to align it with the new guidance and the assessment resumed:

- |   |                  |
|---|------------------|
| f) Draft report submitted to Steering Committee   | March 1, 2016    |
| g) Stakeholders' validation workshops             | April 6-18, 2016 |
| h) Receipt of written comments from Government    | April 28, 2016   |
| i) Presentation to Steering Committee             | May 12, 2016     |
| j) Presentation to Development Partners           | May 13, 2016     |
| k) Final report for clearance to publish          | May 26, 2016     |
| l) Revised final draft report to PEFA Secretariat | May 30, 2016     |
| m) Issuance of PEFA CHECK by PEFA Secretariat     | June 2, 2016     |
| n) Clearance to publish issued by PFM Committee   | June 15, 2016    |
| o) Receipt of final comments from Government      | June 21, 2016    |
| p) Publishing and dissemination of reports        | June 30, 2016    |

## Chapter 2. Country Background Information

2.1. In order to place the PFM performance measurement in a wider context, Chapter 2 provides information about core characteristics of the Government's PFM system. This covers country economic, budgetary and fiscal trends, structure of the public sector, legal and institutional framework for PFM, and the Government's internal control framework.

### 2.1 Country Economic Situation

2.2. The Philippines is one of the most dynamic economies in the East Asia region, with increasingly sound macroeconomic fundamentals and a competitive, globally recognized workforce. In 2015, economic growth was recorded at 5.9 percent, which represents a slight deceleration from 6.2 percent the previous year. Nonetheless, the country is still one of the leading performers among major economies in the region.

2.3. **On the demand side, the strong performance of private domestic demand supported by decade-low inflation and robust, although slowing, remittances drove GDP growth.** Government consumption and capital formation were also stronger than the previous year at 9.4 percent and 13.6 percent respectively, as public spending picked up in the last three quarters. However, a contraction in net exports adversely affected growth. On the supply side, agriculture growth continued to disappoint as El Niño intensified. Manufacturing also decelerated, driven by slower growth in food and beverage subsectors weaker exports. As in previous years, the services sector drove growth, accelerating to 6.7 percent in 2015.

2.4. **Sustained growth in 2015 led to significant improvements in unemployment and, to some extent, job creation; but the quality of growth remains a problem.** In January 2016, the unemployment rate fell to 5.8 percent, the second lowest in a decade. However, the underemployment rate rose by 2 percentage points to 19.7 percent. In addition, weak agricultural output led to a reduction of 935,000 jobs in agriculture, bringing net job creation to 752,000 between January 2015 and January 2016.

2.5. **The domestic financial market experienced sharp volatilities, yet fundamentals remain sound.** The stock index, responding largely to uncertainties in China's financial market, declined significantly by 12.5 percent from its end-2015 levels and 25 percent from its peak in April 2015, bringing the stock index to its lowest level in almost two years. However, in early 2016, the stock market recovered strongly. Despite the volatility, the domestic financial market remains resilient and underlying fundamentals continue to be sound. The combination of low levels of non-performing loans and higher capital adequacy ratio provides the necessary cushion for the domestic financial sector. In addition, several prudential measures are in place to mitigate risks. Likewise, monetary policy remains supportive with room to respond to higher global interest rates. Finally, the peso remains flexible and is in line with market fundamentals, offering a cushion to large capital outflows.

2.6. **Consumer price index (CPI) inflation continued to decelerate, averaging 1.4 percent in 2015, the lowest inflation rate in a decade.** This was below the 2 to 4 percent target of the



*Bangko Sentral ng Pilipinas* (BSP). Several supply-side factors explain the slower rate of inflation.

2.7. Lower inflation was driven by the deceleration of food inflation, as timely importation of rice kept food supply sufficient despite lower agriculture output, partly as a result of El Niño. In addition, low oil prices also contributed to lower inflation given its direct pass through on electricity, transportation, and manufactured goods prices. On the other hand, core inflation, which excludes certain food and energy items to better capture underlying price volatilities, was higher at 2.0 percent. This suggests that low inflation is largely driven by volatile goods and is transitory in nature, and hence is not indicative of the economy slowing. Table 2.1 shows selected economic indicators over the past three years.

**Table 2.1: Selected economic indicators**

	2013	2014	2015
GDP (current values, PHP billions)	11,538	12,645	13,307
GDP per capita (current values, PHP thousands)	117.5	126.6	131.0
Real GDP growth (%)	7.1	6.2	5.9
CPI (annual average change, (%))	3.0	4.1	1.4
National government debt (% of GDP)	49.2	45.4	44.8
External terms of trade (annual % change)			
Exports of goods and services	1.5	10.4	-3.8
Imports of goods and services	-2.0	11.9	-0.1
Current account balance (% of GDP)	4.2	3.8	2.9
External debt (% of GDP)	28.9	27.3	26.5
Gross official reserves (months of imports)	11.5	9.9	10.1

Source: PSA, BSP, and BTr

## 2.2 Fiscal and Budgetary Trends

2.8. Higher revenues and weak spending have led to a growing fiscal space despite unprecedented increases in the budget in recent years. In 2015, despite some revenue reducing measures,<sup>1</sup> tax effort was sustained at 13.6 percent in part due to strong private sector growth, ramp-up of excise tax rates and less leakages from sin tax, and improved tax administration. However, government spending decreased from 17.3 percent of GDP in 2013 to 16.8 percent of GDP in 2015. For instance, during the same period, while the budget increased by more than 30 percent, government expenditures only increased by 11.6 percent in nominal terms. Key numbers from the Government's aggregate fiscal data are shown in Table 2.2.

2.9. **Increases in the budget were rightly targeted toward priority areas.** The budget for education, health, and social protection grew by almost three times between 2010 and 2016. As a result, the Philippines today has a world-class conditional cash transfer program. The public education system provides 13 years of free schooling, and universal healthcare coverage is close to being achieved. The spending reforms were made possible by the above-mentioned improved revenue effort, which created significant fiscal space of more than 1 percent of GDP, lower

<sup>1</sup> For instance, a proposal increasing the non-taxable ceiling on bonuses from PHP 30,000 to 82,000 was signed into law in the first quarter of 2015.

interest payments as a percentage of GDP, and improved transparency and accountability of public spending. Table 2.3 shows the Government's actual budget allocation by functions.

**Table 2.2: National Government Aggregate Fiscal Data**

	% of GDP			
	Actual			Programmed
	2013	2014	2015	2015
<b>Total revenues</b>	<b>14.9</b>	<b>15.1</b>	<b>15.8</b>	<b>17.1</b>
Own revenues	14.9	15.1	15.8	17.1
<i>Tax revenues</i>	13.4	13.6	13.6	16.0
<i>Non-tax revenues</i>	1.5	1.5	1.7	1.1
<i>Other revenues</i>	-	-	0.5	-
Grants	-	-	-	-
<b>Total expenditure</b>	<b>17.3</b>	<b>16.0</b>	<b>16.7</b>	<b>19.6</b>
Non-interest expenditure	14.5	13.5	14.4	16.8
Interest expenditure	2.8	2.5	2.3	2.8
<b>Government balance (including grants)</b>	<b>-2.4</b>	<b>-0.9</b>	<b>-0.9</b>	<b>-2.5</b>
<i>Primary balance</i>	0.5	1.9	1.4	0.5
<b>Net financing</b>	<b>2.8</b>	<b>1.4</b>	<b>0.7</b>	<b>0.7</b>
External	-0.7	0.1	0.5	0.5
Domestic	3.5	1.3	0.2	0.2

Source: BTr and DBM.

**Table 2.3: National Government expenditures, obligation basis, by sector**

	Nominal (in Php millions)		
	2013	2014	2015*
<b>Economic Services</b>	<b>516,710</b>	<b>492,502</b>	<b>706,991</b>
Agriculture, Agrarian Reform, and Natural Resources	119,687	108,089	138,257
Trade and Industry	6,546	5,741	5,971
Tourism	5,214	3,656	4,631
Power and Energy	29,829	18,394	9,476
Water Resource Development and Flood Control	27,074	25,556	39,756
Communications, Roads, and Other Transportation	207,351	202,164	340,158
Other Economic Services	15,203	9,361	32,291
Subsidy to Local Government Units	105,806	119,541	136,451
<b>Social Services</b>	<b>712,112</b>	<b>764,590</b>	<b>952,741</b>
Education, Culture, and Manpower Development	327,036	325,801	453,013
Health	56,857	84,986	96,258
Social Security, Welfare, and Employment	177,347	199,073	246,738
Land Distribution (CARP)	5,000	-	100
Housing and Community Development	32,196	26,691	10,349
Other Social Services	1,824	1,667	2,035
Subsidy to Local Government Units	111,852	126,372	144,248

<b>Defense</b>	<b>87,833</b>	<b>87,195</b>	<b>115,785</b>
Domestic Security	87,833	87,195	115,785
<b>General Public Services</b>	<b>341,661</b>	<b>340,195</b>	<b>431,120</b>
General Administration	132,537	119,164	153,402
Public Order and Safety	115,055	121,968	143,035
Other General Public Services	9,424	3,430	25,522
Subsidy to Local Government Units	84,645	95,633	109,161
<b>Net Lending</b>	<b>16,626</b>	<b>13,395</b>	<b>26,500</b>
<b>Debt Service</b>	<b>323,434</b>	<b>321,185</b>	<b>372,863</b>
Interest Payments	323,434	321,185	372,863
<b>Total expenditure</b>	<b>1,998,376</b>	<b>2,019,062</b>	<b>2,606,000</b>

Source: DBM Fiscal Statistics Handbook

Notes: \*denotes programmed expenditures.

**2.10. Despite the government's target of achieving infrastructure spending of 5 percent of GDP by 2016, this area lags far behind the progress achieved in human capital investment.** In 2015, infrastructure spending was programmed at 4.8 percent of GDP from 3.5 percent in 2013, although actual spending may be much lower.<sup>2</sup> According to the Government, the relatively slow growth of infrastructure spending is partly the result of structural weaknesses within key departments and agencies, including (i) poor planning; (ii) weak program and project design; and (iii) procurement difficulties such as frequent bid failures, weak capacity to procure, right-of-way issues, difficulties in securing permits, and coordination problems. Weak spending also points to an improving debt profile as evidenced by declining government debt and corresponding interest payments although at the same time it indicates missed opportunities for translating revenue growth into severely needed investments.

**Table 2.4: National Government Expenditures, obligation basis, by sector**

	% of GDP		
	2013	2014	2015*
<b>Economic Services</b>	<b>4.5</b>	<b>3.9</b>	<b>5.3</b>
Agriculture, Agrarian Reform, and Natural Resources	1.0	0.9	1.0
Trade and Industry	0.1	0.0	0.0
Tourism	0.0	0.0	0.0
Power and Energy	0.3	0.1	0.1
Water Resource Development and Flood Control	0.2	0.2	0.3
Communications, Roads, and Other Transportation	1.8	1.6	2.6
Other Economic Services	0.1	0.1	0.2
Subsidy to Local Government Units	0.9	0.9	1.0
<b>Social Services</b>	<b>6.2</b>	<b>6.1</b>	<b>7.2</b>
Education, Culture, and Manpower Development	2.8	2.6	3.4

<sup>2</sup> Actual data on infrastructure spending for 2015 has yet to be released.

Health	0.5	0.7	0.7
Social Security, Welfare, and Employment	1.5	1.7	1.9
Land Distribution (CARP)	0.0	0.0	0.0
Housing and Community Development	0.3	0.2	0.1
Other Social Services	0.0	0.0	0.0
Subsidy to Local Government Units	1.0	1.0	1.1
<b>Defense</b>	<b>0.8</b>	<b>0.7</b>	<b>0.9</b>
Domestic Security	0.8	0.7	0.9
<b>General Public Services</b>	<b>3.0</b>	<b>2.7</b>	<b>3.2</b>
General Administration	1.1	0.9	1.2
Public Order and Safety	1.0	1.0	1.1
Other General Public Services	0.1	0.0	0.2
Subsidy to Local Government Units	0.7	0.8	0.8
<b>Net Lending</b>	<b>0.1</b>	<b>0.1</b>	<b>0.2</b>
<b>Debt Service</b>	<b>2.8</b>	<b>2.5</b>	<b>2.8</b>
Interest Payments	2.8	2.5	2.8
<b>Total expenditure</b>	<b>17.4</b>	<b>16.0</b>	<b>19.6</b>

Source: DBM Fiscal Statistics Handbook

Notes: \*denotes programmed expenditures. Numbers may not add up due to rounding

**Table 2.5: National Government expenditures, obligation basis, by expense class**

	Nominal (in Php millions)		
	2013	2014	2015*
<b>Current expenditures (CE)</b>	<b>1,531,784</b>	<b>1,623,586</b>	<b>1,911,440</b>
Personal Services (PS)	611,752	635,598	745,965
Maintenance and Other Operating Expenses (MOOE)	299,995	314,912	463,325
Subsidies	54,760	77,407	15,719
Allotment to LGUs	241,843	273,236	311,888
Interest payments	323,434	321,185	372,863
Other CE	-	1,248	1,680
<b>Capital Outlay (CO)</b>	<b>449,966</b>	<b>382,081</b>	<b>668,060</b>
Infrastructure spending	404,084	350,727	641,790
Other CO	45,882	31,354	26,270
<b>Net lending</b>	<b>16,626</b>	<b>13,395</b>	<b>26,500</b>

Net lending	16,626	13,395	26,500
<b>Total expenditure</b>	<b>1,998,376</b>	<b>2,019,062</b>	<b>2,606,000</b>

Source: DBM Fiscal Statistics Handbook

Notes: \*denotes programmed expenditures. Numbers may not add up due to rounding.

**Table 2.6: National Government expenditures, obligation basis, by expense class**

	% of GDP		
	2013	2014	2015*
<b>Current expenditures (CE)</b>	<b>13.4</b>	<b>12.8</b>	<b>14.4</b>
Personal Services (PS)	5.3	5.0	5.6
Maintenance and Other Operating Expenses (MOOE)	2.6	2.5	3.5
Subsidies	0.5	0.6	0.1
Allotment to LGUs	2.2	2.2	2.3
Interest payments	2.8	2.5	2.8
Other CE	-	-	-
<b>Capital Outlay (CO)</b>	<b>3.9</b>	<b>3.0</b>	<b>5.0</b>
Infrastructure spending	3.5	2.8	4.8
Other CO	0.4	0.2	0.2
<b>Net lending</b>	<b>0.1</b>	<b>0.1</b>	<b>0.2</b>
Net lending	0.1	0.1	0.2
<b>Total expenditure</b>	<b>17.4</b>	<b>16.0</b>	<b>19.6</b>

Source: DBM Fiscal Statistics Handbook

Notes: \*denotes programmed expenditures. Numbers may not add up due to rounding.

### 2.3 Legal and regulatory arrangements for PFM

2.11. Under its 1987 Constitution, the Republic of the Philippines has provincial and municipal local governments with local revenue collection and spending autonomy as well as autonomous regions, all under the general supervision of the President. The Constitution provides a strong statutory basis for PFM and the economic management of the country. Various sections of Article II, *Declaration of Principles and State Policies*, establish requirements that the PFM system must meet. Section 9 provides that the state shall promote a just and dynamic social order that will ensure the prosperity and independence of the nation and free the people from poverty through policies that provide adequate social services; and promote full employment, a rising standard of living, and an improved quality of life for all. Section 25 provides that the state shall ensure the autonomy of local governments. Section 27 provides that the state shall maintain honesty and integrity in the public service and take positive and effective measures against graft and corruption. Section 28 covers taxation, including that Congress is to evolve a progressive taxation system. Article VI sets out the legislative arrangements for the Congress; it includes sections for appropriation and revenue bills, preparation and management of the budget, disbursement of discretionary funds, and taxation. Article VII vests executive power in the President; it includes sections on public debt, and the submission to the Congress within 30 days from the opening of every regular session, as the basis of the general appropriations bill, a budget of expenditures and sources of financing, including receipts from existing and proposed revenue

measures. Article IX establishes constitutional commissions, including establishing the Commission on Audit with the dual roles of keeping the general accounts of the Government, and of auditing those accounts as well as providing the President and the Congress with an annual report on the financial condition and operation of the Government and its agencies, and recommendations for measures to improve effectiveness and efficiency. Article XI establishes a strong basis for internal control over PFM through its provisions on the accountability of public officers and includes establishing anti-graft and ombudsman bodies. Article XII covering the national economy includes arrangements for a planning body and a central bank, and for establishing government companies. The National Economic and Development Authority (NEDA) is the country's premier social and economic development planning and policy coordinating body. It is chaired by the President and supported by seven cabinet-level interagency committees dealing with functional areas.

**2.12. The Constitution's budgetary provisions provide some detailed prescriptions of relevance to PFM.** Article VI Section 25 provides that the Congress may not increase the appropriations recommended by the President for the operation of the Government as specified in the budget; that budget provisions must relate to particular appropriations; and that the form, content, and manner of preparation of the budget shall be prescribed by law. Other provisions cover special appropriations for specific purposes and carry over of previous year's appropriations in case Congress is unable to pass the budget on time. Article VI Section 29 provides that no money shall be paid out of the Treasury except in pursuance of an appropriation made by law and that money collected on any tax levied for a special purpose shall be treated as a special fund and paid out for such purpose only.

**2.13. The administrative arrangements for the legislative and regulatory framework for PFM established by the Constitution are given effect at a general level the Administrative Code of 1987.** This act incorporates in a unified document the major structural, functional, and procedural principles and rules of governance desired by the Government of the Philippines. The Code includes separate sections covering finance, budget and management, local government, and the Commission on Audit, which includes accounting as well as audit. A Department of Finance is primarily responsible for the sound and efficient management of the financial resources of the Government, its subdivisions, agencies, and instrumentalities. The national budget is formulated within the context of a regionalized governmental structure and within the totality of revenues and other receipts, expenditures, and borrowings of all levels of government and of government corporations. The Code includes skeleton provisions covering budget policy, preparation, authorization, execution, and accountability. It also includes some detailed provisions relating to various forms of expenditure and contracting. The President submits a budget covering estimated receipts and estimated expenditures to the Congress. All appropriations, revenue or tariff bills (bills authorizing increase of the public debt) shall originate exclusively in the House of Representatives, but the Senate may propose or concur with amendments. The decentralized local government structure is guaranteed its just share in national taxes and wide latitude for resources generation. The annual budget preparation process is organized based on a circular issued each year by DBM, which also issues circulars on budget execution and reporting guidance: the Budget Execution Documents (BEDs) and the Budget and Financial Accountability Reports. At the operational level the Administrative Code provides for

planning services in each department to provide the department with economical, efficient, and effective services relating to planning, programming, and project development.

**2.14. The Administrative Code's chapter on the Commission on Audit provides support for internal control and accounting.** All government resources are managed, expended, or utilized in accordance with law and regulations and safeguarded against loss or wastage through illegal or improper disposition to ensure efficiency, economy, and effectiveness in the operations of government. The responsibility to take care that this policy is faithfully adhered to rests directly with the chief or head of the government agency concerned. Accounting provisions state that all moneys and property officially received by a public officer must be accounted for as government funds and government property, revenue funds shall not be paid out except in pursuance of an appropriation law or other specific statutory authority, and every officer whose duties permit or require the possession or custody of government funds shall be held accountable. Government auditing is defined as the analytical and systematic examination and verification of financial transactions, operations, accounts, and reports of any government agency for the purpose of determining their accuracy, integrity, and authenticity; and satisfying the requirements of law, rules, and regulations.

**2.15. There are sets of laws, presidential orders, and agency circulars and memoranda that provide the detailed rules and regulations for the administration of these arrangements in the Administrative Code.** The DBM issued Circular No. 2008-8 on the National Guidelines on Internal Control Systems (NGICS)<sup>2</sup> and Circular 2011-5 on the Philippine Government Internal Audit Manual. They are applicable to all departments, government companies and local government units. These regulations contain substantial arrangements for the internal control systems that are required by the Constitution. The DBM is mandated to promulgate the necessary rules, regulations or circulars for the strengthening of internal control systems of government agencies concerned<sup>3</sup>. In the development and implementation of policies, plans and programs as regards strengthening of internal control systems and internal audit in government, the DBM is coordinating with the Office of the President-Internal Audit Office, COA and other departments/agencies concerned. The Office of the President-Internal Audit Office has a coordinating role and, in concert with DBM and the Commission on Audit, has the responsibility for regularly reviewing the manuals to ensure that they are updated, relevant, and attuned to the developments in the bureaucracy and best international practices such as those of INTOSAI. Since 1978 the Government of the Philippines has required that agency heads have responsibility to install, implement, and monitor a sound system of internal control. The Internal Audit Service is required to operate in all government agencies and is regulated by the DBM.

**2.16. The NGICS contains the fundamental principles, policies, and standards to guide each government agency in developing its detailed and comprehensive system of internal controls.** Agency characteristics such as mandate, functions, nature of activities, operating environment, human resource profile, size and organizational structure are to be considered in developing or improving the individual controls. A strong and responsive internal control system is an essential component of an organization's internal and external processes, and can

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<sup>3</sup> Administrative Order No. 119, s. 1989; Memorandum Order No. 277, s. 1990

significantly enhance the integrity of operations and improve organizational outcomes and results. Fiscal transparency is supported by Article II Section 28 of the Constitution that states “Subject to reasonable conditions prescribed by law, the State adopts and implements a policy of full public disclosure of all its transactions involving public interest”.

**2.17. There is no separate law for accounting.** Provisions for accounting are instead promulgated by the Commission on Audit with Circular No. 2001-004 that prescribes the New Government Accounting System (NGAS) for all national government agencies.<sup>3</sup> The NGAS Manual is based on CoA Circular No. 2002-002. With the adoption of the Philippine Public Sector Accounting Standards (PPSAS) effective January 1, 2014, CoA revised the NGAS Manual and prescribed the Government Accounting Manual for National Government Agencies to be used effective January 1, 2016 through COA Circular No. 2015-007. The Co A annually issues a number of circulars that provide further guidance on specific accounting aspects. This includes Circular No. 2013-1 on the Unified Accounts Code Structure (UACS), which was issued jointly with the DBM and the Department of Finance (DoF).

**2.18. The legislative and regulatory PFM framework is fragmented with many elements having extensive provisions.** An overview regarding the legislative and regulatory PFM framework is provided in Table 2.5.

**Table 2.7: Legislative and Regulatory Framework for PFM**

	<i>Constitution</i>	<i>Laws</i>	<i>Rules and Regulations<sup>4</sup></i>
Planning	Article XII, Section 9 and 10	Book II, Section 29. EO292 Book IV Chapter 3 Section 12 EO292 <sup>5</sup>	Executive Order 230 Memorandum Order No. 222
Budgeting	Article VII, Section 22 Article VI, Section 25, paras 1 and 7 Article VI, Section 27, para 2	Book VI, Chapter 2, Sections 4-8. EO292 Book VI, Chapter 3. EO292 Book VI, Chapter 4. EO292 -	DBM annual circulars
Inter-governmental fiscal relations	Article X Sections 6 and 7	Book II, Chapter 4, Section 36. EO292 RA 7160 (Local Government Code), Title III	
Revenue functions	Article VI, Section 28, paras 1 and 2	Book VI, Chapter 3, Section 20. EO292	
Budget execution	-	Book VI, Chapter 5. EO292	
Accounting	Article IX, Part D, Section 2 (2)	Book V, Subtitle B, Chapter 6-8. PD 1445 (Government Auditing Code of the Philippines), Sections 25, 33, 63, 86, 109-122	CoA Circulars No. 2001-004 and 2002-002 (NGAS), and 2015-007 (Government

<sup>4</sup> Several circulars, memorandum orders and other issuances have been issued over the years and this column only includes the main documents.

<sup>5</sup> Administrative Code of 1987 issued as Executive Order 292.



	<i>Constitution</i>	<i>Laws</i>	<i>Rules and Regulations<sup>4</sup></i>
			Accounting Manual for National Government Agencies) COA Resolution No. 2014-003 (PPSAS Adoption) Joint Circular No. 2013-1 (UACS)
Internal control	Article IX, Part D, Section 2 (1)	Book V, Subtitle B, Chapter 4. EO292. PD 1445 (Government Auditing Code of the Philippines), Sections 123 and 124.	Administrative Order No. 119 dated March 29, 1989 Memorandum Order No. 277 dated January 19, 1990 DBM Circular No. 2008-8 (NGICS)
Internal audit	-	Book IV, Chapter 2, section 8. EO292 RA 3456 as amended by RA 4177	DBM Circular No. 2011-5 (PGIAM)
Budget reporting and monitoring (accountability)	Article IX, Part D, Section 4	Book VI, Chapter 6, Section 52-57. EO292	DBM Circular No. 2012-543 CoA-DBM Joint Circular No. 2014-1
Procurement	-	RA 9184 (GPRA)	Revised Implementing rules and regulations
Debt management	-	- <sup>/a</sup>	
Asset management	-	- <sup>/b</sup>	
Treasury functions	Article VI, Section 28, para 1 Article VI, Section 29, para 1	Book IV, Title II, Chapter 4, Section 29, EO 292	
Performance monitoring	-	Book VI, Chapter 2, Section 9. EO292 Book VI, Chapter 6, Section 51. EO292	
External audit	Article IX, Part D	Book V, Subtitle B, Chapter 6. EO292 PD 1445 – State Audit Code	

<sup>/a</sup> Debt management is stated as a task of the Bureau of the Treasury (BTr), but is not otherwise specified.

<sup>/b</sup> A requirement to review and appraise asset management systems is stated for two departments (Agrarian Reform, and Public Works and Highways), but not across national government agencies or as an oversight function.

**2.19. In 2015, two bills were separately submitted to the House of Representatives and the Senate, respectively, to enforce greater accountability in PFM by strengthening Congressional power of the purse, instituting an integrated PFM system, and increasing budget transparency and participation.** These bills (HB 6117 submitted September 8, 2015;

and SB 2719 submitted on April 14, 2015) were intended to fill the deficiency of a PFM Framework Law and seek to institutionalize the various budget cycle reforms introduced in recent years, harmonize and standardize the current mix of laws and regulations, and address the budget weaknesses identified by the Supreme Court in its July 2014 ruling on the Disbursement Acceleration Program. The law also included provisions to establish the Office of the Comptroller General in DBM and the position of Comptroller in each national government agencies. Still under deliberation since 2009, a Freedom of Information Bill would give substance to the public information prescriptions of the Constitution when issued into law.

## 2.4 Institutional arrangements for PFM

2.20. Executive Order No. 55 signed by President Benigno S. Aquino on September 6, 2011, established a PFM Committee composed of the Commission on Audit, Department of Budget and Management, Department of Finance, and Bureau of Treasury and authorized it to oversee the implementation of the *Philippine PFM Reform Roadmap: Towards Improved Accountability and Transparency (2011-2016)* especially the integration and automation of government financial systems. The roles played by these key Government agencies in PFM are described as follows:

- **Department of Budget and Management.** The main DBM functions include budget policy, preparing the annual national budget and medium-term expenditure plan, administering and controlling budget execution through the national accounting system, exercising the authority to release allotments and cash allocations to spending units through Notice of Cash allocation, overseeing the government compensation and position classification plan, and monitoring of LGU and GOCC physical and financial operations. The Department also promulgates rules, regulations, and circulars for strengthening the internal control systems of government and the organization of the Internal Audit Service. The Government Procurement Policy Board (GPPB) Technical Support Office is an attached agency under the Department.
- **Department of Finance.** The Department of Finance is in charge of the Government's fiscal policies, oversees the Bureau of Internal Revenues (BIR) and Bureau of Customs (BoC), and manages cash resources and public debt through the Bureau of Treasury (BTr). With the Department of Budget and Management, the Bureau of Treasury coordinates the allowable cash disbursements to national government agencies for budget execution. Also, the DoF Corporate Affairs Group supervises selected GOCCs and oversees fiscal and financial affairs of local government units through the Bureau of Local Government Finance (BLGF).
- **Commission on Audit.** The Commission on Audit is a constitutional body charged with the external audit of all state entities' accounts and with promulgating accounting and auditing rules and regulations. It keeps the general accounts of the Government and submits an Annual Financial Report to the President and Congress.<sup>4</sup>
- **National Economic and Development Authority.** The Authority formulates the medium-term Philippine Development Plan and Public Investment Programs and related annual plans

and programs, and coordinates programming of official development assistance. The NEDA Board, which is chaired by the President and has most secretaries as members, approves projects costing more than Php 1 billion (about US\$ 21.4 million) except if ICC approval is otherwise required by law e.g. projects requiring National Government borrowing or guarantee etc. Seven inter-agency committees assist the NEDA Board: development budget coordination, infrastructure, investment coordination, social development, tariffs, regional development, and national land use.

2.21. **The institutional set-up for PFM has two unusual attributes.** First, the dual external auditing and accounting roles of the Commission on Audit are considered conflicting under international standards; the preferred arrangement is for an audit to be independent of any administrative role in government. Second, the division of tasks between the Department of Budget and Management and Department of Finance is also overlapping; in many jurisdictions, though not all, fiscal, budgetary, cash, and debt management tasks are placed within the same entity. With the current institutional framework involving more than one oversight agency in different aspects of the PFM cycle, close coordination is a necessity and an obvious challenge.

### *Key Features of the PFM system*

2.22. As previously described, the Government’s PFM system is characterized by tasks being distributed among several oversight agencies in a manner that is somewhat unusual by international standards. At the same time, the legislative and regulatory framework is fragmented with many legislative and regulatory sources. Together this makes governance in the PFM sector challenging. Other characteristics of the PFM system include the relatively strong executive control over the budget, which includes both discretionary powers (the right to veto line items), to disburse appropriated funds and reallocate unspent balances as “savings”,<sup>5</sup> and the use of substantial discretionary funds (17 percent of the 2015 budget) in the form of Special Purpose Funds.<sup>6</sup> The highly decentralized nature of government administration through local government units and the substantial assets held through GOCCs are shown in Tables 2.6, 2.7, and 2.8.

**Table 2.8: Structure of the Public Sector**

2014	(Number of entities and financial turnover)				
	Government Sub-Sector		Social Security Funds	Public Corporation Sub-Sector	
	Budgetary units	Extra-budgetary units		Non-financial public corporations <sup>a</sup>	Financial public corporations
Government	1	95	3	639	21
Provinces	81	-	-	-	-
Cities	144	-	-	-	-
Municipalities	1,490	-	-	-	-
Barangays	42,029	-	-	-	-

Sources: PSA, CoA, DBM, and DoF.

<sup>/a</sup> Includes 14 major non-financial government corporations and 464 water districts.

**Table 2.9: Financial Structure of the National Government – Budget estimates**

2014	(PhP millions)				
	Budgetary Units		Budgetary units	Social Security Funds	Total aggregated
	Budgetary operations	Extra-budgetary operations			
Revenue	2,018,050 <sup>/a</sup>	72,364	-	474,252	
Expenditure	3,077,574 <sup>/b</sup>	38,301	-	284,781	
Transfers to/from other Government entities or LGUs	328,527 <sup>/c</sup>	-	-	-	
Liabilities <sup>/e</sup>	6,322,072 <sup>/d</sup>	-	-	55,543	
Financial assets <sup>/e</sup>	3,095,642	-	-	996,995	
Non-financial assets <sup>/e</sup>	1,178,964	-	-	484,754	

Sources: BTr, CoA, DBM

<sup>/a</sup> 2014 BESF Table C.1

<sup>/b</sup> GAA 2014

<sup>/c</sup> 2014 BESF Table B.26 (ALGU, Capital Transfers to LGUs, and Equity)

<sup>/d</sup> 2014 BESF Table D.3

<sup>/e</sup> Denotes 2014 data (latest available)

**Table 2.10: Financial Structure of the National Government – Actual expenditures**

2014	(PhP millions)				
	Budgetary units		Budgetary units	Social security funds	Total aggregated
	Budgetary operations	Extra-budgetary operations			
Revenue	1,908,527 <sup>/a</sup>	57,961	-	474,252	
Expenditure	2,227,532 <sup>/b</sup>	44,831	-	284,781	
Transfers to/from other Government entities or LGUs	429,190 <sup>/c</sup>	-	-	-	
Liabilities <sup>/e</sup>	5,735,242 <sup>/d</sup>	-	-	55,543	
Financial assets <sup>/e</sup>	3,095,642	-	-	996,995	
Non-financial assets <sup>/e</sup>	1,178,964	-	-	484,754	

Sources: BTr, CoA, DBM, DOF.

<sup>/a</sup> 2016 BESF Table C.1

<sup>/b</sup> Annual Financial Report 2014

<sup>/c</sup> 2016 BESF Table B.26 (ALGU, Subsidy, Capital Transfers to LGUs, and Equity)

<sup>/d</sup> BTr Data for 2014 National Government Debt

<sup>/e</sup> Denotes 2014 data (latest available)

## Chapter 3. Assessment of PFM Systems, Processes and Institutions

3.1. Chapter 3 provides an assessment of the key elements of the PFM system as captured by the 31 performance indicators (PIs) and, where applicable, reports on progress made in improving these. The PFM performance for each of the performance indicators was assessed and assigned ratings of “A” to “D” as per the scoring criteria for each indicator that must be met in entirety. The scores may be broadly interpreted as follows:

<b>A</b>	Represents performance that meets good international practice; the criteria for the indicator are met in a complete, orderly, accurate, timely, and coordinated way.
<b>B</b>	Typically represents a level of performance ranging from good to medium by international standards.
<b>C</b>	Represents a level of performance ranging from medium to poor.
<b>D</b>	Indicates either that a process or procedure does not exist at all, or that it is not functioning effectively.

### Pillar I. Budget Reliability

#### PI-1 Aggregate expenditure outturn

3.2. Implementing the budget as approved is an important aspect of the government’s ability to deliver public services as expressed in budgetary policy documents. This indicator assesses the difference between the actual expenditure in terms of major aggregate against the originally budgeted expenditure. This measure reflects the government’s ability to maintain fiscal discipline while adhering to the parameters set in the approved budget.

<i>Indicator / Dimension</i>	<i>Score</i>	<i>Brief Explanation</i>
<b>PI-1 Aggregate expenditure outturn</b>	<b>D</b>	The obligations incurred exceeded the range of 85% to 115% of the original budget in two of the last three fiscal years (2012 to 2014).

3.3. This indicator assesses the credibility of the budget by calculating the level of aggregate expenditure achieved as compared to the original budget appropriation for the last three completed fiscal years for which audited information is available (2012-2014). The data and resulting overall variances (in absolute terms) are used to ascertain the score achieved are shown in Table 3.1. Detailed data tables are provided in Annex 4. Considering the variances the score for PI-1 is assessed as “D” since the variance exceeded the range of 85 percent to 115 percent of the aggregate budget in two of the three fiscal years considered.

**Table 3.1: Calculation of Variance**

<b>Fiscal Year</b>	<b>Total budget appropriation (PhP billion)</b>	<b>Total obligations incurred (PhP billion)</b>	<b>Outturn as a %age of appropriation</b>
2012	2,529.56	2,196.11	86.82
2013	2,818.39	2,228.80	79.08
2014	3,077.57	2,227.53	72.38

*Source:* CoA Annual Financial Reports. Includes contingency, interest and debt principal amortization.

3.4. In the 2010 assessment, this indicator could not be rated due to challenges in ascertaining comparable numbers. A major source of complication in that assessment period (2004, 2005, and 2006) was the non-enactment of budgets before the start of the fiscal year leading to the inclusion of amounts as “re-enacted budget” in the “original” budget number.<sup>7</sup>

### **PI-2 Expenditure composition outturn**

3.5. Where the sub-aggregate composition of expenditure varies considerably from the original budget, it is unlikely that the budget will be a useful statement of policy intent. This indicator hence measures the extent to which reallocations between the main budget categories during execution have contributed toward the variance in expenditure composition. See Box 3.1 for a brief discussion about unique features of budget and expenditure data.

#### **Box 3.1 Unique features of budget and expenditure data**

The first two performance indicators (P-1 and P-2) require that the budget documents report the total amount budgeted by the government as well as the individual appropriation to each agency, and that the information is comparable to the actual expenditure. In the Philippine budget setting, this simple comparison is hampered largely by the sporadic use of technology across several decentralized accounting processes. Since the 2014 budget, a Unified Account Coding Structure (UACS) was adopted for budget formulation, execution, and reporting. The roll-out of this structure to cover all transactions is still underway. In addition, there are continuing appropriations which should be separately identified both in the appropriations as well as the expenses. A major cause of these limitations is the absence of an integrated financial management information system, which would greatly facilitate the preparation of financial reports enabling a direct comparison of the budget with accomplishment.

The original budget documents published by the Department of Budget and Management on its website are the National Expenditures Program (NEP), the consolidated budget proposals of the agencies; the Budget of Expenditures and Sources of Financing, including the underlying macroeconomic assumptions, fiscal position and detailed description of fund sources and expenditures; and the General Appropriations Act, the final approved budget for the year. The Department of Budget and Management reports on budget execution; however, the data does not include actual disbursements made. The Annual Financial Report prepared by the Commission of Audit presents the total approved budget, total released allotments, obligations incurred, and the unused balance of appropriations. The Annual Financial Report also provides consolidated information about the results of operations, cash flows, and financial condition. This Report however, does not follow the structure of any of the three DBM reports described above; thus the information in the reports by these two oversight agencies is difficult to compare. For the purposes of the assessment of the first two indicators, the numbers for

<i>Indicator / Dimension</i>	<i>Score</i>	<i>Brief Explanation</i>
<b>PI-2 Expenditure composition outturn</b>	<b>D+</b>	Overall rating based on M1 methodology.
2.1 Expenditure composition outturn by function	D	The functional composition variances (in absolute terms) exceeded 15% in two of the last three years.
2.2 Expenditure composition outturn by economic type	C	The economic composition variances (in absolute terms) were less than 15% in two of the last three years.
2.3 Expenditure from contingency reserves	A	The average of the actual expenditure charged to the contingency vote in the last three years was less than 3% of the original budget appropriation.

### *Dimension 2.1 Expenditure composition outturn by function*

3.6. This dimension measures the variance between the original, approved budget and end-of-year outturn in expenditure composition by program, administrative, or functional classification during the last three years. Contingency items and interest on debt is excluded. It reflects the government's ability to pursue its policy objectives as intended and stated in the budget. As per Table 3.2, the variance in expenditure composition exceeded 15 percent in 2013 and 2014. The score for Dimension 2.1 is hence assessed at "D". Detailed data tables are provided in Annex 4.

**Table 3.2: Calculation of Variances by Administrative Unit**

Year	<i>(PhP billions)</i>			
	Total budget appropriation	Total obligations incurred	Absolute deviation	Composition Variance
2012	1,814.02	1,483.03	184.22	12.42%
2013	2,021.36	1,662.44	272.53	16.39%
2014	2,233.59	1,644.30	359.01	21.83%

*Note:* Adjusted budget = Budget allotment x Total obligation / Total budget. Absolute deviation = Total obligation – Adjusted budget. Composition variance = Total absolute deviation / Total adjusted budget.

*Source:* CoA Annual Financial Report.

### *Dimension 2.2 Expenditure composition outturn by economic type*

3.7. This indicator measures the difference between the original, approved budget and end-of-year outturn in expenditure composition by economic classification during the last three years, including interest on debt but excluding contingency items. The composition of the budget by economic classification is important for showing the balance between different categories of inputs.

3.8. The computation is based on the total aggregate appropriation by allotment class to departments and agencies. The allotment classifications are maintenance and other operating



expenses, capital outlays, personnel services, and financial expenses. The results are shown in the Table 3.3 with detailed data tables provided in Annex 4. The variance is within 15 percent in 2012 and 2013. The score for Dimension 2.2 is assessed as “C”.

**Table 3.3: Calculation of Variance by Economic Classification**

Year	(PhP billions)			
	Total budget appropriation	Total obligations incurred	Absolute deviation	Composition Variance
2012	2,121.82	1,790.88	252.98	14.13%
2013	2,355.26	1,984.98	292.84	14.75%
2014	2,586.25	1,964.71	498.92	25.39%

Note: Adjusted budget = Budget allotment x Total obligation / Total budget. Absolute deviation = Total obligation – Adjusted budget. Composition variance = Total absolute deviation / Total adjusted budget.

Source: CoA Annual Financial Report.

### *Dimension 2.3 Expenditure from contingency reserves*

3.9. This indicator recognizes that while it is prudent to include an amount to allow for unforeseen events in the form of a contingency, this amount should not be so large however as to undermine the credibility of the budget. Table 3.4 summarizes the calculations for the years 2012 to 2014 with detailed data tables provided in Annex 4. The share is calculated using the total budget appropriation including contingency, interest and debt principal amortization.

**Table 3.4: Calculation of Contingency Share**

Fiscal Year	(PhP billions)		Contingency share (%)
	Total budget appropriation	Total contingency obligations incurred	
2012	2,529.56	6.93	0.27
2013	2,818.39	9.33	0.33
2014	3,077.57	41.32	1.34
<b>Average contingency share</b>			<b>0.65</b>

Source: CoA Annual Financial Reports and DBM Budget Technical Bureau.

3.10. In the Philippines, contingency reserves are composed of a Calamity Fund, later renamed as the National Disaster Risk Reduction and Management Fund, special fund allocations for local government units from shares in national taxes, and the President’s Contingency Fund.

3.11. The contingency share average for 2012 to 2014 is 0.65 percent, which merits an “A” score for Dimension 2.3.

**Table 3.5: Budget obligations incurred for contingency reserves**

Name of fund	<i>(PhP millions)</i>		
	2012	2013	2014
National Disaster Risk Reduction and Management Fund / Calamity Fund	3,960.17	7,676.70	41,063.82
Transfers to LGUs	2,966.18	1,649.03	258.13
<b>Total</b>	<b>6,926.35</b>	<b>9,325.73</b>	<b>41,321.95</b>

Source: DBM Budget Technical Bureau.

### PI-3 Revenue outturn

3.12. Accurate revenue forecasts are a key input to the preparation of a credible budget. Revenues allow the government to finance expenditures and deliver services to its citizens. Optimistic revenue forecasts can lead to unjustifiably large expenditure allocations that will eventually require either an in-year and potentially disruptive reduction in spending or an unplanned increase in borrowing to sustain the spending level.

<i>Indicator / Dimension</i>	<i>Score</i>	<i>Brief Explanation</i>
<b>PI-3 Revenue outturn</b>	<b>B</b>	Overall rating based on M2 methodology.
3.1 Aggregate revenue outturn	A	The revenue variances were between 97% and 106% for the years 2012 and 2013.
3.2 Revenue composition outturn	C	The composition variances (in absolute terms) were less than 15% in the last three years (2012, 2013, and 2014).

3.13. Data on revenue estimates in the original approved budget and actual domestic revenue collection based on tax and non-tax recurrent revenues is based on the information presented in the Budget of Expenditures and Sources of Financing (BESF). There are only two major revenue contributors, the Bureau of Internal Revenue (BIR) and Bureau of Customs (BoC).

3.14. The Department of Finance, Bureau of Treasury, Bureau of Internal Revenue, and Bureau of Customs assist the Development Budget Coordination Committee (DBCC) in determining the sources of financing.<sup>8</sup> The DBCC establishes the projected revenues to be generated for the budget year based on macroeconomic assumptions and parameters as well as borrowing (if needed).

#### *Dimension 3.1 Aggregate revenue outturn*

3.15. The overall variances were 98.40 percent, 98.30 percent, and 94.60 percent for 2012, 2013, and 2014, respectively. Detailed data tables are provided in Annex 4. This qualifies Dimension 3.1 for a rating of “A”.

**Table 3.6: Actual revenue compared to originally approved budget**

Year	(PhP millions)				
	Budget	Actual	Overall Variance	Absolute deviation	Composition Variance
2012	1,560,623	1,534,933	98.35%	137,822	8.98%
2013	1,745,856	1,716,092	98.30%	207,988	12.12%
2014	2,018,050	1,908,527	94.57%	193,594	10.14%

*Note:* Adjusted budget = Budget x Total actual / Total budget. Absolute deviation = Actual – Adjusted budget. Overall variance = Total budget / Total actual. Composition variance = Total absolute Deviation / Total adjusted budget.

*Source:* DBM BESF; Statistical data from BTr and DoF.

### **Dimension 3.2 Revenue composition outturn**

3.16. The variance noted in Tables 3.6 are 8.98 percent, 12.12 percent, and 10.14 percent for 2012, 2013, and 2014, respectively. This is consistent with the “C” rating criteria, which requires a variance within 10 to 15 percent for at least two of the last three fiscal years. Score for Dimension 3.2 is assessed as “C”.

## **Pillar II. Transparency of Public Finances**

### **PI-4 Budget classification**

3.17. A robust classification system facilitates effective linkage of budget allocations to underlying policies, expenditure recording and monitoring of transactions, especially the management of key line items for efficient and economical management of resources. This indicator assesses the extent to which the government budget and accounts classification is consistent with international standards.

<i>Indicator / Dimension</i>	<i>Score</i>	<i>Brief Explanation</i>
<b>PI-4 Budget classification</b>	<b>C</b>	The Unified Accounts Code Structure was implemented in 2014 for budget formulation, execution and reporting. It applies GFS administrative and economic classification. Full rollout to execution is still underway and reporting is adjusted for compliance at aggregate level.

3.18. In the Philippine budget, the basic structure of appropriations is the program, activity, and project (PAP) code for each administrative unit. These are further subdivided by “object”. The classification by function and sub-function is compliant with Classification of the Functions of Government (COFOG) classification at the structure under the Government Finance Statistics

(GFS) Manual 2001. At its most aggregated form, it lumps together, under the broad maintenance and other operating expenses, a range of various expenditures such as subsidies, current transfers, interest payments, and other operating expenses. The Unified Accounts Code Structure (UACS) addresses the disaggregated presentation of the different types of expenditures mentioned. It identifies the following three key elements: source of funding, level of organization it belongs to, and location area of the activity undertaken. The object codes are largely aligned with the GFS Manual 2001.

3.19. The UACS has officially been issued for use in the budget formulation, execution, and reporting.<sup>9</sup> It was used in the preparation of the 2014, 2015, and 2016 budget proposal. As for execution and reporting, the review noted compliance in the available 2014 CoA annual audited reports, otherwise the agency's non-compliance is tagged as a finding [e.g., National Youth Commission under the Department of Social Welfare and Development (DSWD)]. Regarding the use of the Unified Accounts Code Structure in reporting, the following was observed: (a) the BESF and General Appropriations Act (GAA) report on details of budget execution on obligation basis; (b) CoA reports reflect the actual payments and disbursements as per transaction and organize the annual report on allotment, obligations, and disbursements via responsibility centers; and (c) at the agency level every transaction is to be recorded through eNGAS, which generates the Journal Entry Voucher while every transaction requiring the utilization of allotments is recorded and monitored through eBudget System, which generates the Obligation Request and Status showing the UACS codes. However UACS procedures are fully available only in version 2 of eNGAS and eBudget, which have only been partially rolled out. At the time of assessment, no department had fully rolled out version 2 except CoA. Fields for location code are not available in this version either, but remaining 45 digits can be entered at transaction level.

3.20. The UACS Manual indicated that the GFS coding is not generally shown to be part of the Unified Accounts Code Structure; nevertheless, GFS-compliant data can be obtained from the reference table inside the system mapping the GFS function from the MFO/PAP codes, including GFS economic classification coding from the object codes for non-financial assets, financial assets, liabilities, revenues, and expenses. A separate exercise to map PAP codes with COFOG was undertaken for the 2016 budget proposal, but it is yet to be rolled out for reporting. Score for PI-4 is assessed at "C". In the absence of an integrated financial management information system, it is difficult to apply the full 54 digit UACS codes at the transaction level.

### **PI-5 Budget documentation**

3.21. The indicator assesses the comprehensiveness of the information included in the annual budget documentation as submitted to the legislature for scrutiny and approval.<sup>10</sup>

<i>Indicator / Dimension</i>	<i>Score</i>	<i>Brief Explanation</i>
<b>PI-5 Budget documentation</b>	<b>A</b>	The 2016 budget documentation fulfills 10 of 12 information benchmarks, including all the basic elements.

3.22. The Department of Budget and Management issues the Budget Call for the preparation of departments and agencies to submit their budget proposals. The Department reviews the proposals and prepares a consolidated budget proposal for scrutiny and approval of the President and the Cabinet.

3.23. The President is mandated to submit to Congress the National Expenditure Program (NEP), Budget of Expenditures and Sources of Financing, and President's Budget Message.<sup>11</sup> The Budget of Expenditures and Sources of Financing reflects the annual budget and the estimates and sources of financing.<sup>12</sup>

3.24. The Government publishes several annual budget documents, which include:

- **National Expenditure Program** provides the prior year's outturn, revised budget for the current year, and proposed budget for the next year on an obligation basis for the details of the budget of each department and agency, by program, activity or project. It also includes the agency's mandates, strategies and performance targets.
- **Budget of Expenditure and Sources of Financing** provides the underlying macroeconomic assumptions and fiscal and financial projections for the national government, local government, and corporate sectors, and details of national expenditures and revenues on a functional basis and per organizational entity (prior year, adjusted budget for the current year, and budget year on an obligation basis).
- **President's Budget Message** provides a preview of the National Expenditure Program including the principles, policies and priorities of the proposed National Budget.
- **Budget priorities framework** outlines the key programs, projects and activities based on the national development plan to be supported by the National Budget.
- **Staffing Summary** provides detailed reporting on the number and cost of permanent positions by agency, including unfilled positions.
- **People's Budget** provides informational material in an easily understandable format about the Philippine budget, its process, principles, priority expenditures and the public expenditure reforms embodied in the National Budget.
- **General Appropriations Act** is the legislative authorization containing the new annual appropriations authorized by Congress in specific amounts for the implementation of programs and activities of departments and offices of government for a given year which comes into effect when the President approves and signs the General Appropriations Bill.

3.25. The comprehensiveness of the information included in the 2015/2016 budget documents vis-à-vis the elements considered is shown in table 3.13. The table shows that the 2015/2016 budget documents fulfill 10 of 12 information benchmarks including the first 4 basic elements. The scores for PI-5 is thus assigned as "A".

**Table 3.7: Summary of information included in budget documentation**

<i>Elements of Annual Budget Documentation</i>	<i>Criteria met</i>	<i>Comments</i>
1. Forecast of the fiscal deficit or surplus, defined according to GFS or other internationally recognized standard. <sup>/a</sup>	Yes	The past year, current year and forecast for the budget year of the fiscal position is reported in the BESF and available in DBM website. <sup>/b</sup> The Government calculates the deficit as revenues (tax, non-tax, and privatization) minus disbursements (current operating expenditures, including interest payments, and capital outlays) and the forecast includes a three-year projection.
2. Previous year's budget outturn presented in the same format as the budget proposal.	Yes	The previous year's outturn is reported in the BESF available in DBM website. <sup>/c</sup> The presentation in the NEP and BESF is consistent with the budget proposal.
3. Current year's budget (either revised budget or estimated outturn) presented in the same format as the budget proposal.	Yes	The current year's budget presentations of NEP and BESF in DBM website <sup>/d</sup> are in the same format as the budget proposal; however, the financial data is updated to reflect the adjusted expenditure level.
4. Aggregate budget data for both revenue and expenditure according to the main heads of the classification used, including data for current and previous year, in addition to the detailed breakdown of revenue and expenditure estimates.	Yes	The aggregate revenue data is presented by source <sup>/e</sup> and collecting department <sup>/f</sup> is reported in the BESF in DBM website, while the expenditure programs are presented by object, <sup>/g</sup> by sector, <sup>/h</sup> and by recipient unit. <sup>/i</sup>
5. Deficit financing, describing anticipated composition.	Yes	The Government summarizes the net domestic and foreign borrowing and the detailed government-financing requirement in the DBM website <sup>/j</sup> under the heading of National Government Financing.
6. Macro-economic assumptions, including at least estimates of GDP growth, inflation, interest rates, and exchange rate.	Yes	The macro-economic assumptions <sup>/k</sup> as well as budget sensitivity to key macroeconomic variables <sup>/l</sup> are also included in BESF available in DBM website.
7. Debt stock, including details at least for the beginning of the current year, presented as per GFS or other comparable standard.	Yes	The data of debt stock of the national government is reported in the BESF presented in DBM website. <sup>/m</sup> The information shown is the beginning outstanding debt of the national government plus the additional borrowings for the year and the principal payments.
8. Financial assets, including details at least for the beginning of the current year as per GFS or other comparable standard.	No	There is no summary data of the aggregate national government financial assets. <sup>/n</sup> The information noted is per department as presented in their respective Annual Financial Report.

<i>Elements of Annual Budget Documentation</i>	<i>Criteria met</i>	<i>Comments</i>
9. Summary information of fiscal risks, including contingent liabilities <sup>n</sup> such as guarantees and contingent obligations, embedded in structure financing instruments such as public-private partnerships.	No	Fiscal risks of the government are presented in the fiscal risks statement published by the DBCC <sup>o</sup> but there are gaps in the presentation of contingent liabilities (PI-10.3). Information on domestic and foreign debt service for regular liabilities assumed by the national government, and the sinking fund provision for the retirement of domestic debt are separately disclosed in the BESF published on DBM website.
10. Explanation of budget implications of new policy initiatives and major new public investments, with estimates of the budgetary impact of all major revenue policy changes and/or some major changes to expenditure programs.	Yes	The impact of major changes in the expenditure program is noted such as the discontinuance of PDAF and DAP, significant changes in agency performance outputs and the new revenue reforms/initiatives. In 2014, the fiscal risks statement <sup>p</sup> (table 4) disclosed the forgone revenues from different tax measures and practices. Similar disclosure was noted in Fiscal Risks Statement 2015-2016.
11. Documentation on the medium-term fiscal forecasts.	Yes	Medium-term fiscal information are published in DBM website as approved by Development Budget Coordination Committee as part of the BESF.
12. Quantification of tax expenditures.	Yes	The quantification of tax expenditures is available in DBM website.

<sup>a</sup> Fiscal deficit is understood as the primary deficit (difference between current government spending on goods and services and total current revenue) plus debt service payments.

<sup>b</sup> BESF Table A.2

<sup>c</sup> BESF Table B.1

<sup>d</sup> BESF Table B.1

<sup>e</sup> BESF Table C.1

<sup>f</sup> BESF Table C.2

<sup>g</sup> BESF Table B.1

<sup>h</sup> BESF Table B.8

<sup>i</sup> BESF Table B.10

<sup>j</sup> BESF Table D.1

<sup>k</sup> BESF Table A.1. The macro-economic parameters includes budget assumptions about nominal GNI, *real GNI growth*, nominal GDP and *real GDP growth* as well as projections for *inflation rate*, population, unemployment rate, 364-day Treasury Bill rate, *PhP/US\$ exchange rate*, LIBOR, Dubai crude oil price, exports and import of goods levels and growth rates, current account balance level and % of GDP, and gross international reserves (year-end) level and equivalent importations income per month.

<sup>l</sup> BESF Table A. 6 Budget Sensitivity to Key Macro-Economic Variables which includes estimated effects of changes in exchange rate, Treasury Bill rate, LIBOR, inflation rate, real GDP growth rate, and import growth rate on revenues, disbursements and budget balance.

<sup>m</sup> BESF Table D.3

<sup>n</sup> Article VI Section 29 (1) states that no money shall be paid out of the Treasury except in pursuance of an appropriation made by law.

<sup>o</sup> The observation is consistent to the response in the International Budget Partnership Survey question no. 039.

<sup>p</sup> [http://www.dbm.gov.ph/?page\\_id=9010](http://www.dbm.gov.ph/?page_id=9010) .

## PI-6 Central government operations outside financial reports

3.26. Ex post financial reports available to the government should cover all budgetary and extra-budgetary activities of central government to allow a complete picture of revenue and expenditures.

<i>Indicator / Dimension</i>	<i>Score</i>	<i>Brief Explanation</i>
<b>PI-6 Central government operations outside financial reports</b>	<b>B+</b>	Overall rating based on M2 methodology.
6.1 Expenditure outside financial reports	A	Expenditure outside government financial reports is less than 1% of total expenditures.
6.2 Revenue outside financial reports	A	Revenues outside government financial reports are less than 1% of total revenues.
6.3 Financial reports of extra-budgetary units	C	Detailed financial reports of the majority of extra-budgetary units are submitted within nine months of the end of the fiscal year.

### *Dimension 6.1 Expenditure outside financial reports*

### *Dimension 6.2 Revenue outside financial reports*

3.27. The Administrative Code instituted through Executive Order (EO) 292, provides that all income and revenue of the government must accrue to the General Fund deposited in the National Treasury under the “one-fund” concept.<sup>13</sup> Because of the imposition of this restriction, the amount of unreported revenue and expenditure that is outside the budget framework is small and would not exceed 1 percent of total expenditure. An example of unreported revenue is the income derived from the sale of bidding documents, which are generated to recoup the administrative cost (i.e., printing expenses), and the excess is usually provided as an allowance to the technical evaluation committee.

3.28. According to interviews in the department and bureaus, all activities and operations are subjected to accounting and auditing rules and regulations. The recorded transactions are reported and disclosed in the annual audited report in line with the transparency and accountability thrust of the government. For the national government agencies, it is required that they display prescribed set of information under the Transparency Seal on their websites as mandated by Department of Budget and Management, while local government units follow the Seal of Good Housekeeping managed by the Department of Interior and Local Government (DILG).

3.29. All information, activities, and operations of departments and agencies are disclosed in their annual audit reports. Audited financial statements are consolidated by the Commission on Audit through the Annual Financial Report per Constitutional requirement (addressed in PI-29.1). The Commission on Audit consolidates the report to three categories by national government agencies, local government units, and GOCCs. In cases of special projects such as



grant and foreign funding, a separate annual audit is required and the aggregate amount of such special projects is presented in a separate table in the BESF. This information is aggregated in the Government's Annual Financial Report. The annual audited reports of official development assistance (ODA) programs and project activities are also consolidated by the Commission on Audit pursuant to the ODA Law.<sup>14</sup> Both dimensions are thus assessed at "A".

### ***Dimension 6.3 Financial reports of extra-budgetary units***

3.30. Regarding the year-end Annual Financial Report, Section 41 (1) of Presidential Decree 1445 specifically states that the deadline for its submission to the President and Congress is the last day of September of each year (i.e., nine months after year-end). The Commission on Audit consolidates the report by national government agencies and GOCCs, including the extra-budgetary units. As of this assessment date, the 2014 Annual Financial Reports were posted on the CoA website in October and November 2015.

3.31. While all transactions are reported by the respective departments and GOCCs, the timeliness of submission of the Annual Financial Reports varies. A majority of the financial reports by the extra-budgetary units were submitted within nine months of the fiscal year-end. Dimension 6.3 is rated "C".

### **PI-7 Transfers to subnational governments**

3.32. While the assessment is focused on the national government, it is recognized that subnational governments also have wide-ranging expenditure responsibilities. This indicator assesses the transparency and timeliness of transfers to local government units. In the Philippines, local government units consist of provinces, cities, municipalities, and barangays. As of December 31, 2015, the total number is 81 provinces, 145 cities, 1,489 municipalities, and 42,036 barangays.

<i>Indicator / Dimension</i>	<i>Score</i>	<i>Brief Explanation</i>
<b>PI-7 Transfers to subnational governments</b>	<b>A</b>	Overall rating based on M2 methodology.
7.1 System for allocating transfers	A	All transfers to the LGUs are based on clearly defined set of rules and procedures.
7.2 Timeliness of information on transfers	A	Information on transfers is provided by DBM early in the budget cycle.

### ***Dimension 7.1 System for allocating transfers***

3.33. National government transfers to local government units are of three types: (a) formula-based block grants (i.e., internal revenue allotment, which is the principal source of

intergovernmental fiscal transfers in the Philippines; (b) origin-based share of national government revenues; and (c) ad hoc categorical grants.

3.34. Under the Local Government Code, the aggregate internal revenue allotment of local government units is set at 40 percent of the actual internal revenue tax collections of the national government three years prior to the current year. The aggregate internal revenue allotment is then divided among different local government levels as follows: 23 percent to provinces, 23 percent to cities, 34 percent to municipalities, and 20 percent to barangays. The internal revenue allotment share of each tier is then apportioned to individual local government units based on population (50 percent), land area (25 percent), and equal sharing (25 percent) of the 40 percent of BIR revenue collections of the third quarter of the fiscal year preceding the current year. In accordance with a DBM local budget memorandum, the internal revenue allotment shares for FY2015 amount to PhP 389.860 billion while the LGU financial subsidy (also known as Local Government Support Fund), as per the 2015 Governance Appropriations Act, has a total appropriation of PhP 3.129 billion. This total appropriation is comprised of PhP 200 million financial assistance to support various priority projects, PhP 2,828 million for bottom-up budgeting projects and PhP 100 million to cover any deficiency in the internal revenue allotment shares of local government units. In aggregate, internal revenue allotment is by far the dominant source of inter-governmental transfers.

3.35. In addition to the internal revenue allotment, local government units are also entitled to shares (a) in utilization and development of natural wealth, (b) from gross income earned by all businesses and enterprises within the economic zone areas, (c) in value added taxes, (d) in tobacco excise taxes, (e) in proceeds of fire code fees, and (f) from Executive Order No. 115, on claim of Barangay officials from death benefits fund. These transfers are governed by a relevant set of rules, including the respective fund release procedures. Since all transfers to the local government units are governed by clear rules, the score for Dimension 7.1 is assessed at “A”.

### ***Dimension 7.2 Timeliness of information on transfers***

3.36. The Department of Budget and Management issues a Local Budget Memorandum (LBM) as guidance to prepare local budgets and to inform the local government units of their internal revenue allotment level for the budget year. The allotment is based on BIR certification on the computation of the local unit’s respective share from the actual collection of national internal revenue taxes pursuant to the implementing rules and regulations of the Local Government Code.<sup>15</sup> For 2015, LBM No. 68 was issued on July 1, 2014,<sup>16</sup> and for 2016, LBM No. 70 was released on June 15, 2015.<sup>17</sup> This is six months before the start of the fiscal year. The score for Dimension 7.2 is assessed at “A”.

3.37. The Department of Budget and Management also issues guidance for the release and utilization of funds chargeable against the yearly Local Government Support Fund through the Local Budget Circular (2014 and 2015)<sup>18</sup> and the utilization of LGU shares on the collection of tobacco and cigarette excise taxes through the Local Budget Memorandum,<sup>19</sup> which also provides any specific requirements that need to be met for release of certain funds.

### PI-8 Performance information for service delivery

3.38. This indicator examines the service delivery performance information in the executive's budget proposal or its supporting documentation in year-end reports. It determines whether performance audits or evaluations are carried out. It also assesses the extent to which information on resources received by service delivery units is collected and recorded.

<i>Indicator / Dimension</i>	<i>Score</i>	<i>Brief Explanation</i>
<b>PI-8 Performance information for service delivery</b>	<b>B+</b>	Overall rating based on M2 methodology.
8.1 Performance plans for service delivery	A	Performance information, both financial and non-financial, is presented in the budget documentation.
8.2 Performance achieved for service delivery	A	Performance results for most departments are annually published through report cards on respective websites and in the agency annual audit reports.
8.3 Resources received by service delivery units	C	PETS led by the Bank in 2015 for DepEd has captured the information on resources received by schools.
8.4 Performance evaluation for service delivery	B	Evaluations of service delivery have been carried out and published for the majority of the departments.

#### *Dimension 8.1 Performance plans for service delivery*

3.39. In 2014, the Department of Budget and Management introduced performance-informed budgeting through National Budget Memorandum No. 117 and the National Budget Circular No. 552 for guidance on the shift to the outcome-based, performance-informed budget. This required government agencies to strengthen the link between planning and budgeting to simplify the presentation of the budget. Performance-informed budgeting is an approach that uses performance information to assist in deciding where the funds will go. Performance information, both financial and non-financial, is presented in the appropriations document, which provides the context for the programs, activities, and projects pursued by the different agencies of government. The same practice was continued for 2015 and 2016 budgets.

3.40. The General Appropriations Act presents non-financial performance information together with the allocated resources for the different programs, activities, and projects. This information was used by the Department of Budget and Management to evaluate department and agency proposals during the budget preparation process. Instead of being immediately confronted with a long list of line items, programs, activities, and projects are grouped according to the major final outputs that departments and agencies seek to achieve. In this way the budget that goes into a particular program, activity, or project is linked directly to the final output it intended to achieve.

3.41. Performance information, both financial and non-financial information, are presented in the published appropriations document, the General Appropriations Act for all departments and

agencies. This includes objectives, indicators, and outputs. Hence, the rating for Dimension 8.1 is assessed as “A”.

### ***Dimension 8.2 Performance achieved for service delivery***

3.42. The results of each agency’s performance are generated through the results-based performance management system (RBPMS) and published under the Development Academy of the Philippines website.<sup>20</sup> Results of the priority programs are rated through the Priority Program Accountability Report Card while the results of the major final output (MFO) is rated through the MFO Accountability Report Card. Performance results are also published on the agency’s website under transparency seal and in annual audit reports, particularly in the executive summary.

3.43. Comparison with targets is available, and information on outputs is routinely published for most departments in their audit reports. Based on the assessment, the rating for Dimension 8.2 is considered as “A”.

### ***Dimension 8.3 Resources received by service delivery units***

3.44. Once the budget is approved, the Department of Budget and Management releases the funds. The actual flow of funds to the service delivery unit varies per agency and nature of the programs. Records are maintained at various levels, which allow this process to be documented, but lack of integrated systems and automation limits the ability to monitor at a central level.

3.45. Delays in receipt of intended resources by service delivery units is not uncommon and is a fact noted in CoA audit reports. This is further exacerbated by the often incomplete and unreliable records in the field offices. The lack of an integrated computerized system contributes to the difficulty in consolidating and reporting information in a timely manner. Reconciliations between the records of the recipient unit and the downloading entity are often delayed.

3.46. The Department of Education maintains an electronic basic education information system, which provides a database of physical resources at the school level. This is annually updated through a school census verified by divisional offices. Financial information is not included. In 2015, the World Bank conducted a public expenditure tracking survey (PETS), which collected data on resources received by schools. The DepEd, like all departments, is required to submit a consolidated Statement of Appropriations, Allotments, Obligations, Disbursements, and Balances (SAAODB) on a quarterly basis to the DB M. This report reflects information on resources received by the frontline service delivery units whether sub-allotted by the Central Office or directly released by DBM. Consolidation of information is however a challenge due to the absence of an integrated financial management information system, which would facilitate the consolidation of data from Budget and Accounting Units. As a result submissions are often delayed considerably. The rating is assessed as “C” based on the conduct of PETS for Department of Education, the largest service delivery departments.

### ***Dimension 8.4 Performance evaluation for service delivery***

3.47. The Department of Budget and Management annually commissions program evaluations conducted either by DBM or through third party institutions such as the Philippine Institute for Development Studies. The reports of these studies are available at the DBM website<sup>21</sup> or at SocioEconomic Research Portal for the Philippines.<sup>22</sup> The Commission on Audit, through its Special Audits Office, also conducts performance audits. Performance or value-for-money audits are classified as government-wide, sector-wide, or agency-wide. Reports are published on the CoA website.

3.48. The value-for-money audit is conducted to review management efficiency and ascertain the agency's effectiveness in achievement of desired results. In the years since 2012 to 2015, program evaluations and performance audits have been conducted for departments representing a majority of the budget appropriations. The rating for Dimension 8.4 is thus assessed as "B".

### PI-9 Public access to fiscal information

3.49. Transparency in government depends on comprehensiveness of fiscal information available to the public. The quality of information and the means by which this is made available to the public is as important as the extent of information coverage.

<i>Indicator / Dimension</i>	<i>Score</i>	<i>Brief Explanation</i>
<b>PI-9 Public access to fiscal information</b>	A	The Government makes available to the public all of the 5 basic elements and all additional elements of information.

3.50. Table 3.14 discusses the elements determining public access to key fiscal information.

**Table 3.8: Public access to key fiscal information**

<i>Elements of information</i>	<i>Criteria met</i>	<i>Availability and means</i>
<b>BASIC ELEMENTS</b>		
1. Annual Executive Budget proposal documentation: A complete set of executive budget proposal documents (as per PI-5) is available to the public within one week of the executive's submission to the legislature.	Yes	Budget documents (NEP and BESF) are published by DBM on its website within a week after submission to Congress.
2. Enacted Budget: The annual budget law approved by the legislature is publicized within two weeks of passage of the law.	Yes	After approval, the GAA is usually published by DBM on its website within two weeks.
3. In-year budget execution reports: The reports are routinely made available to the public within one month of issuance as assessed in PI-27	Yes	The in-year reports are listed in PI-27. Timeliness of issue is delayed but these are published within one month of issuance on DBM website.

<i>Elements of information</i>	<i>Criteria met</i>	<i>Availability and means</i>
4. Annual budget execution report: The report is made available to the public within six months of the year-end.	Yes	The cumulative budget execution report for December 2015 was available on the DBM website as of February 20, 2016. Detailed year-end report of the DBCC on the 2014 budget utilization was issued October 31, 2015 i.e. ten months after year-end.
5. Audited Annual Financial Report, incorporating or accompanied by the external auditor's report: The reports are made available to the public within twelve months of the year-end.	Yes	Most annual audited reports of NGAs, LGUs and GOCCs are published on Commission on Audit's website within twelve months of the year-end.
<b>ADDITIONAL ELEMENTS</b>		
6. Pre-Budget Statement: The broad parameters for the executive budget proposal regarding expenditure, planned revenue and debt is made available to the public at least four months before the start of the fiscal year.	Yes	Pre-budget documents (Budget call and Budget Fora for the budget preparation) are published by DBM on its website at the start of the budgeting process which is usually twelve months before the start of the next fiscal year. Budget proposal is submitted five months before the start of the fiscal year and a separate pre-budget statement is not issued.
7. Other external audit reports: All non-confidential reports on National Government consolidated operations are made available to the public within six months of submission.	Yes	All CoA audit reports are published on its website within a few days of submission.
8. Summary of the Budget Proposal: A clear, simple summary of the Executive's Budget Proposal or the Enacted Budget accessible to the non-budget experts, and where appropriate translated into the most commonly spoken language, is publicly available within two weeks of the Executive Budget Proposal being submitted to the legislature and within one month of the budget's approval.	Yes	People's Proposed Budget is published by DBM on its website. The 2014 People's Budget was published late but performance for 2015 and 2016 has been timely. For 2015 it was published in April (before submission) within the required time period, while for 2016, the publication was in August but still within two weeks of the submission of Budget proposal to the legislative branch.
9. Macroeconomic forecasts: as assessed in PI-14.1 are available within one week of endorsement.	Yes	Macro-economic forecasts are included in the budget memo released by DBM and posted on DBM website or announced through the media within one week.

3.51. The Philippine Government discloses its fiscal information through various agencies' websites. The DBM website ([www.dbm.gov.ph](http://www.dbm.gov.ph)) contains all budget documents, including the BESF, National Expenditure Program, and General Appropriations Act. It also contains all budget circulars and memoranda issued. The DoF website ([www.dof.gov.ph](http://www.dof.gov.ph)) and the BTr website ([www.treasury.gov.ph](http://www.treasury.gov.ph)) both contain statistical data on the national government's fiscal

position with a breakdown of revenues and expenditure on a cash flow basis. The level of government debt is also disclosed on these websites.

3.52. Audit reports of all government agencies and its instrumentalities, including selected GOCCs and local government units, are posted on the CoA website ([www.coa.gov.ph](http://www.coa.gov.ph)). As for the year-end Annual Financial Report, Section 41 (1) of Presidential Decree 1445 specifically states that the deadline for its submission to the President and Congress should be not later than the last day of September of each year (i.e. within nine months of year-end). For FY2014, only the publication of the Annual Audit Reports of DFA, DOLE, TESDA, and DOTC, exceeded the prescribed 12-month period of publication but all other Annual Audit Reports were published within the 12-month period. The CoA consolidates the reports along three categories of national government agencies, local government units, and GOCCs. Considering that all five required basic elements are met as well as the additional elements, the score for PI-9 is assessed at “A”.

### **Pillar III. Management of Assets and Liabilities**

#### **PI-10 Fiscal risk reporting**

3.53. The indicator measures the extent to which fiscal risks to the national government are reported. Fiscal risks could arise from adverse macroeconomic situations, financial positions or subnational governments or public corporations and contingent liabilities from government programs and activities.

<i>Indicator / Dimension</i>	<i>Score</i>	<i>Brief Explanation</i>
<b>PI-10 Fiscal risk reporting</b>	<b>B</b>	Overall rating based on M2 methodology.
10.1 Monitoring of public corporations	C	Annual audit reports for most GOCCs are issued and published by CoA within nine months of the year-end.
10.2 Monitoring of subnational governments	C	Annual audited reports of majority LGUs are issued and published by CoA within nine months of the year-end.
10.3 Contingent liabilities and other fiscal risks	A	Fiscal Risk Statement issued by DBM presents the country’s exposure to major fiscal risks, including significant contingent liabilities. While annual reports were issued for 2013 and 2014, a combined report was issued for 2015 and 2016.

#### ***Dimension 10.1 Monitoring of public corporations***

3.54. Public corporations exist in the Philippines in the form of GOCCs, which carry out commercial and non-commercial activities.<sup>23</sup> The GOCCs both receive subsidies and pay dividends to the national government. According to the Constitution, GOCCs “may be created or established by special charters in the interest of the common good and subject to the test of economic viability” (Article XII, Section 16).

3.55. The Philippine Government provides budgetary support to GOCCs particularly to those implementing priority programs. The total budgetary support to GOCCs in 2015 and 2016 amounts to PhP 90.33 billion and PhP 153.62 billion, respectively.<sup>24</sup>

3.56. The Governance Commission for GOCC (GCG) provides oversight to GOCCs. The GCG was established in 2011 and is attached to the Office of the President. According to Republic Act No. 10149, the GCG acts as a “central advisory, monitoring, and oversight body with authority to formulate, implement and coordinate policies” (Chapter 2, Section 5). The GCG’s focus on ensuring commercial viability has resulted in the number of GOCCs being reduced from 157 to 116 in 2014.<sup>25</sup> The GCG collects information on GOCCs’ financial performance on a quarterly basis and publishes an annual report with consolidated information, while a condensed version is included in the Government-wide Fiscal Risks Statement. The GCG conducts annual performance-setting reviews with GOCCs, using a balance scorecard approach. Targets for the next year are monitored through quarterly reports.

3.57. The Department of Finance complements the oversight role of the GCG by monitoring the contribution to the public sector fiscal balance and other financial indicators of the 14 major non-financial government corporations, three governmental financial institutions, and three social security institutions.<sup>26</sup>

3.58. The Commission on Audit issues annual audit reports for GOCCs and publishes these on its website. The 2014 CoA Annual Financial Report disclosed that combined total GOCC assets amount to PhP10.59 trillion. The top-20 GOCCs ranked by total assets already account for PhP 9.81 trillion or 92.66 percent of the total combined assets. Using the top-20 GOCC rankings by total assets and total liabilities, some of these reports for 2014 were issued within six months, while most were issued within nine months. The score for Dimension 10.1 is thus assessed at “C”.

### ***Dimension 10.2 Monitoring of subnational governments***

3.59. The individual LGU fiscal data as well as consolidated fiscal data of all provinces, cities, and municipalities categorized by region have been published on the BLGF website since 2010. The BLGF also publishes the Local Government Financial Performance Monitoring System. The BLGF’s local government financial performance monitoring systems measure several indicators regarding the financial health of local government units. Information is aggregated for inclusion into the Fiscal Risk Statement.

3.60. Local government units are allowed to borrow when funding capital investment up to a maximum amount where debt service costs account for 20 percent of regular income (Article 324 of the Local Government Code 1991). Before they are able to borrow, local government units are required to obtain ex ante approval that their plans are within this prudent cap. In practice, overall levels of LGU debt are low, averaging 1.4 percent of the total outstanding loans and investments from 2002-2009,<sup>27</sup> and most local government units borrow significantly below their potential maximum entitlement.



3.61. The local government units are audited by the Commission on Audit annually per Section 41 (1) of Presidential Decree 1445. However, the Annual Financial Report disclosed that the barangays are audited on a cyclical basis and only about 33 percent of the consolidated financial statements were audited. Per internal revenue allotment allocation, 20 percent of the total budget allocation to local government units goes to the barangays, thus the consolidated LGU report only accounts to around 87 percent audited financial information.

3.62. Tables 3.15 and 3.16 summarize the number of auditees and respective number of financial statement submissions for 2012 and 2013, respectively.

**Table 3.9: Number of Auditees and Financial Statements Submitted, 2012**

	<i>Provinces</i>	<i>Cities</i>	<i>Municipalities</i>	<i>Barangays</i>
Total number of auditees	80	143	1,491	42,028
Total number of financial statement submitted	80	143	1,462	29,673
Percentage of financial statement submission	100	100	98	71
Average % of financial statement submission	92			

Source: CoA 2012 Annual Financial Report for LGUs.

**Table 3.10: Number of Auditees and Financial Statements Submitted, 2013**

	<i>Provinces</i>	<i>Cities</i>	<i>Municipalities</i>	<i>Barangays</i>
Total number of auditees	81	144	1,490	42,028
Total number of financial statement submitted	79	144	1,446	29,947
Percentage of financial statement submission	98	100	97	71
Average % of financial statement submission	92			

Source: CoA 2013 Annual Financial Report for LGUs.

3.63. The Annual Financial Report for local government units also includes information on the summary of barangays, which submitted their financial statements to the Commission on Audit. A summary is presented in Table 3.17.

**Table 3.11: Number of Barangays with Financial Statements, 2011-2013**

<i>Year</i>	<i>Number of barangays with financial statement</i>	<i>Total number of barangays</i>	<i>% of submission</i>
2011	29,069	42,026	69.17
2012	29,673	42,028	70.60
2013	29,947	42,028	71.25

Source: CoA Annual Financial Reports for LGUs.

3.64. As an alternative source of LGU fiscal data, BESF includes a section on LGU statement of receipts and expenditures for the previous, current, and next fiscal years. Given the time lag in

fiscal data collection by the Bureau of Local Government Finance, the previous year's data reported in BESF are not final figures (as compared to CoA Annual Financial Report). The expenditures are reported by sector, but only at a high level of aggregation.

3.65. The Commission on Audit issues annual audit reports for the local government units and publishes these on its website. A majority and not most of the audit reports for 2014 were issued within nine months, and the score for Dimension 10.2 is thus assessed at "C".

### ***Dimension 10.3 Contingent liabilities and other fiscal risks***

3.66. The Government's Development Budget Coordination Committee has since 2012 published a Fiscal Risk Statement to provide a comprehensive view of the country's exposure to fiscal risks emanating from fiscal projections and turnouts, public debt, and contingent liabilities associated with the financial sector, GOCCs, public-private partnerships, local government units, and natural disasters.<sup>28</sup> The report also includes reforms and risk mitigation efforts. It covers sensitivity analysis on the impact of changes in key macro-economic variables to the fiscal position and also assesses fiscal risks in other sectors and areas, including the financial sector, contingent liabilities associated with public-private partnerships, local government units, and GOCCs.

3.67. The Fiscal Risk Statement provides a clear overview regarding significant risks. The Fiscal Risks Statements from 2013 to 2016 clearly meet requirements of quantification and consolidation for all "significant" explicit contingent liabilities and other fiscal risks and report publication,<sup>29</sup> thus, the score for Dimension 10.3 is assessed at "A".

### **PI-11 Public investment management**

3.68. Public investments are viewed as a key prerequisite to achieve and sustain economic growth, achieve strategic policy objectives, and address national service delivery needs. This indicator assesses economic appraisal, selection, costing, and monitoring of public investment projects by the government with an emphasis on the most significant projects.

<i>Indicator / Dimension</i>	<i>Score</i>	<i>Brief explanation</i>
<b>PI-11 Public investment management</b>	<b>A</b>	Overall rating based on M2 methodology.
11.1 Economic analysis of investment proposals	A	List of projects approved by the NEDA Board; ICC is posted in NEDA website. ICC reviews all major capital projects that are above PhP 1 billion. The review includes evaluation of technical, financial, economic, environmental, institutional, social, and sensitivity analysis. <sup>/a</sup>
11.2 Investment project selection	A	NEDA published the Public Investment Program and Comprehensive and Integrated Infrastructure Program (CIIP)

<i>Indicator / Dimension</i>	<i>Score</i>	<i>Brief explanation</i>
		list and applies standard criteria for prioritization.
11.3 Investment project costing	A	NEDA guidelines require all investment capital and recurrent costs to be identified.
11.4 Investment project monitoring	B	The Budget Call for 2016 introduced a results-based M&E system. Projects are monitored by the implementing agencies and the implementation status is published quarterly as prescribed by the transparency seal provision.

<sup>a/</sup> The DBCC and DBM review investment proposals based on cost, (i.e., the DBCC-SC-PPA for those costing PhP 300 million or more, and the DBM for those costing below PhP 300 million).

3.69. The indicator spans all types of PFM systems, including those with separate recurrent and capital budget management processes and institutions. Moreover, the term “major investment project” includes investments implemented through structured financing instruments such as public-private partnerships.

#### ***Dimension 11.1 Economic analysis of investment proposals***

3.70. Major investment projects as of December 2015 are shown in Table 3.12.

**Table 3.12: Major Investment Projects**

	<i>Project title</i>	<i>Estimated cost (PhP billion)</i>	<i>Implementation period</i>
1	LRT Line 1 South Extension Project	64.92	3 <sup>rd</sup> Qtr 2015 - 1 <sup>st</sup> Qtr 2019 construction period
2	MRT Line 7 Project	62.70	4 years with 25-years concession period
3	North-South Railway Project (NSRP) - South Line	170.699	2016-2019 construction period
4	Iloilo, Bacolod, and Davao Airport Development, Operations and Maintenance Projects	91.23 Iloilo (30.40); Bacolod (20.26) Davao (40.57)	30 years (2016-2045)
5	LRT Line 6 Project	64.71	Over a concession period of 30 years and design and construction period of 5 years
6	LRT Line 4 Project	50.15 (original proposal); 42.89 (the reserve price basis following the LRT Line 6 costing per km)	Over a concession period of 34 years, including design and construction period of 4 years
7	Laguna Lakeshore Expressway Dike Project	122.81	Over a concession period of 37 years (7 for design and 30 for operations and maintenance)
8	North-South Commuter Railway (NSCR) Project, Phase 1	105.31	2015-2021

	<i>Project title</i>	<i>Estimated cost (PhP billion)</i>	<i>Implementation period</i>
9	Regional Prison Facilities Project	50.204	20 years exclusive of a three year construction period.

Source: NEDA.

3.71. Review of project investments starts when the implementing government agency or local government unit submits the project proposal<sup>30</sup> to the Investment Coordination Committee (ICC).<sup>31</sup> The scope of ICC review covers major capital projects costing PhP 1 billion and above per project,<sup>32</sup> as well as projects covered by the Build-Operate-Transfer (BOT) Law,<sup>33</sup> projects that require national government borrowing or guarantee covered by the Foreign Borrowings Act (Republic Act No. 4860) and the Official Development Assistance Act (Republic Act No. 8182), and joint venture projects as provided in Section 7.2b of the Revised Guidelines and Procedures for Entering into Joint Venture Agreements Between Government and Private Entities.<sup>34</sup> The NEDA Secretariat serves as Secretariat to the ICC Technical Board and Cabinet Committee. As such, it provides technical staff support to ICC in evaluating projects in terms of their economic, financial, technical, social, environmental, and institutional viability, among others.<sup>35</sup> For PPP projects, the PPP Center, which acts as the ICC Secretariat, is responsible for the initial project review and project circulation to the ICC Technical Working Group<sup>36</sup> for appraisal and evaluation. The NEDA Secretariat as part of the ICC Technical Working Group undertakes the assessment of the socio-economic aspects of the project as well as appraises each project in terms of its alignment and contribution to the Philippine Development Plan and compliance with existing laws, rules, and regulations. The ICC evaluation includes the project's financial, economic, technical, environmental, institutional, social, and sensitivity analysis.<sup>37</sup> The list of NEDA Board-confirmed and ICC-approved projects is posted in NEDA website.<sup>38</sup> The score for Dimension 11.1 is assessed at "A".

### ***Dimension 11.2 Investment project selection***

3.72. Per ICC Guidelines, projects lined up for ICC discussions should be drawn primarily from the Public Investment Program of the proponent government unit in order of their relative priority, target commencement schedule, and complementation with other priority projects. First, priority will be given to projects whose implementation is targeted for the first and second years of the Public Investment Program and whose loan negotiations are forthcoming. The concerned proponent agencies will ensure ICC clears, as necessary, those projects under the Public Investment Program that are scheduled for implementation in the current year.

3.73. The ICC Secretariat ensures the completeness of submission of ICC requisite documents that form the basis of project evaluation. The proponent agency is required to submit to the ICC Secretariat with copies to DBM, DoF, and those pertinent documents and information on the project to facilitate simultaneous evaluation of financing terms and external financing requirements by oversight agencies. Proponent should secure a DBM certification of the availability of budget cover for new requests related to ongoing projects before submitting such for ICC action.

3.74. Projects under build-operate-transfer and its variant schemes should adhere to the ICC review and approval process provided in RA 7718, the Philippine BOT Law, and its implementing rules and regulations.

3.75. The ICC approval should be secured before the program appraisal by foreign funding agencies and prior to the issuance of approval-in-principle by the Monetary Board as well as negotiation of loan terms and project documents. The projects approved by the ICC are elevated to the NEDA Board for confirmation as may be required under existing rules and regulations. The ICC-approved cost and other NEDA Board conditions on projects will be reflected in the NEDA Board resolutions which serve as the basis for loan negotiations, the compliance of which will be monitored and reported. Considering the procedures in place for the selection of projects, the score for Dimension 11.2 is assessed as “A”.

### ***Dimension 11.3 Investment project costing***

3.76. The Department of Budget and Management issues the budget priorities framework, which takes into account the program priorities of the current administration and level of investment consistent with growth targets. This framework includes the prioritized infrastructure projects comprising of the Public Investment Program and the Comprehensive and Integrated Infrastructure Program (CIIP). The Public Investment Program consists of priority programs and projects across all sectors that are expected to contribute toward achievement of the country’s development objectives stated in the Philippine Development Plan as well as the outcomes indicated in the Results Matrices. The CIIP, on the other hand, comprises the infrastructure projects funded by the Government through different sources. The main objective of CIIP is to provide the entire view of Philippine investment in public infrastructure ranging from start to completion (including the projects’ maintenance costs). The CIIP is updated<sup>39</sup> annually to reflect revision<sup>40</sup> in the investment requirement of the ongoing infrastructure projects. The updated CIIP includes both ongoing and proposed public infrastructure projects of all government agencies, including public infrastructure projects of the national government agencies, GOCCs, and those national government-supported LGU projects as well as those projects that are implemented through public-private partnerships, joint venture agreements, and/or those which are financed by the private sector.

3.77. The IMF’s Philippine Fiscal Transparency evaluation also reported that the budget details each investment and provides information on the annual spending for each project.<sup>41</sup> The responsibility of accounting for the recurrent cost on the general operations as well as the maintenance and operating cost resides with the respective implementing agencies and are considered in their annual budget expenditures. The Budget Call for 2016, introduced a results-based monitoring and evaluation (M&E) where it requires that each new program and project proposed for funding will be supported not only by project profile but also complemented with a credible M&E plan and robust baseline information for approval.<sup>42</sup> The memorandum also indicated that to complement the program, the ICC and the different clusters have also begun to require member agencies and corporations to develop rolling pipeline investment programs such as the three-year rolling infrastructure program and the pipeline of public-private partnership projects. Considering the procedures in place for comprehensive costing of projects, the score for Dimension 11.3 is assessed at “A”.

### ***Dimension 11.4 Investment project monitoring***

3.78. Executive Order No. 93, amending EO No. 376 (series of 1989) also known as “establishing the regional project monitoring and evaluation system and for other purposes”, provides a scheme for monitoring and evaluating projects at the national, regional, provincial/city, and municipal level. The main objective of regional project M&E system is to expedite implementation of the project and devolve project facilitation and monitoring and evaluation to the regional and sub-regional levels. The regional project M&E system was established to ensure continuous monitoring of funds earmarked for each activity,<sup>43</sup> and prescribed reports are to be accomplished by the monitoring units. Under NEDA, Regional Project Monitoring Committees<sup>44</sup> also prepare quarterly and annual accomplishment reports on the physical and financial status of ongoing government programs and projects. In addition, an annual Official Development Assistance Portfolio Review Report is submitted by NEDA to the Congress by June 30, and also published on the NEDA website. The PPP Center also monitors the implementation of PPP projects as mandated under Section 14.1 of the BOT Law Implementing Rules and Regulations; and the PPP governing board has approved a policy circular on PPP monitoring framework and protocols.

3.79. The transparency seal<sup>45</sup> also requires each agency to disclose the status of implementation and program/project evaluation and/or assessment reports on quarterly basis as well as the major programs/project categorized in accordance with the five key results areas as required in EO No. 43, series 2011.<sup>46</sup> Agencies are also mandated by the National Economic and Development Authority to update information in CIIP. Compliance with these requirements is generally done but with delays. The score for Dimension 11.4 is assessed at “B” as monitoring for major projects exists, standard rules are in place, and information on implementation is at least published annually.

### **PI-12 Public asset management**

3.80. This indicator assesses the management and monitoring of government assets and the transparency of asset disposal.

<i>Indicator / Dimension</i>	<i>Score</i>	<i>Brief Explanation</i>
<b>PI-12 Public asset management</b>	<b>C+</b>	Overall rating based on M2 methodology.
12.1 Financial asset monitoring	C	Reports in varying frequencies and registers are prepared for monitoring purposes. However, CoA audit reports include substantial observations pointing to absence of up to date and complete financial asset registers.
12.2 Non-financial asset monitoring	C	Fixed asset registers exist but comprehensive management and statistical reports are not published annually.

<i>Indicator / Dimension</i>	<i>Score</i>	<i>Brief Explanation</i>
12.3 Transparency of asset disposal	B	The procedures for competitive and transparent sale, transfer or disposal of assets and usage rights are established in legislation and generally respected. This information is included in financial statements but not reported to legislature.

### ***Dimension 12.1 Financial asset monitoring***

3.81. Financial assets can be diverse, including cash, securities, loans and receivables owned by the government; and foreign reserves and long-term funds such as sovereign wealth funds and equity in state-owned and private sector institutions. The Treasury acts as principal custodian of the financial assets of the national government. Categories of assets held and their value is disclosed in the Annual Financial Report.

3.82. For monitoring the stock and performance of the financial assets, several reports in varying frequency are prepared and appropriate subsidiary ledgers kept. However, the Commission on Audit has consistently raised substantive audit findings and observations that indicate ineffective monitoring schemes resulting in a qualified audit opinion. For example, these observations include discrepancies in the balances, dormant accounts, non-recognition of interest income, and investments without stock certificates casting doubts on their existence. In addition, the Commission on Audit commented that subsidiary ledgers for investments stated in foreign currencies were not maintained.

3.83. While records are maintained, these are not considered up to date or complete in view of the audit observations in this regard; and the score for Dimension 12.1 is assessed as “C”.

### ***Dimension 12.2 Non-financial asset monitoring***

3.84. All economic assets other than financial assets are classified as non-financial assets. Non-financial assets may come to existence as outputs from production, be naturally occurring, or be constructs of society. Most non-financial assets provide benefits either through their use in the production of goods or services or in the form of property income.

3.85. Each agency manages their respective non-financial assets, which are carried separately in the agency books. The Commission on Audit consolidated the available information and showed in its 2013 Annual Financial Report the corresponding balances of the different non-financial assets maintained by the various agencies. However, given that the underlying information were not adjusted and that several audit observations were raised, the accuracy and validity of these balances are doubtful.

3.86. The New Government Accounting System prescribes agencies to maintain different subsidiary ledgers and registries to record and track their respective non-financial assets. Subsidiary ledgers are books of final entry containing the details or breakdown of the balance of the controlling account appearing in the general ledger. These subsidiary ledgers are the

Property, Plant and Equipment Ledger Card, Supplies Ledger Card; and Construction in Progress Ledger Card. In addition, three registries must be maintained: Registry of Public Infrastructures,<sup>47</sup> Registry of Reforestation Projects,<sup>48</sup> and Registry of Public Infrastructures-Summary.<sup>49</sup>

3.87. The New Government Accounting System further prescribes that a physical count of supplies and property, plant, and equipment be conducted. However, based on CoA observations, physical count is not consistently performed. Fixed asset registers thus exist but information on usage and age is not substantially complete. Wherever fully implemented, useful life of property, plant and equipment is tracked in eNGAS. Score for Dimension 12.2 is assessed at “C”.

### ***Dimension 12.3 Transparency of asset disposal***

3.88. In accordance with EO No. 285, dated July 25, 1987, responsibility for disposal of supplies, equipment, and materials, which are obsolete, forfeited, abandoned, and surplus to their needs, was transferred to the different line departments and agencies subject to guidelines developed by DBM’s Systems and Procedures Bureau and existing laws. A Manual of the Disposal of Government Property was developed and issued through National Budget Circular No. 425, dated January 28, 1992. The Manual was prepared taking into consideration existing laws and policies governing disposal, guidelines issued by the defunct Supplies Coordination Council, and pertinent rules and regulations of the Commission on Audit.

3.89. The CoA rules and regulations are outlined in Section 79 of Presidential Decree 1445, which relates to destruction or sale of unserviceable property. There were no noted CoA audit findings referring to non-compliance with the prescribed rules and regulations relating to sale, transfer, and disposal of non-financial assets.

3.90. The required procedures are established in legislation, which does not include requirement for information to be submitted to the legislature, and no major observations on non-compliance are included in the audit reports. The score for Dimension 12.3 is assessed at “B”.

### **PI-13 Debt management**

3.91. This indicator assesses the management of domestic and foreign debt and guarantees. It seeks to identify whether satisfactory management practices, records, and controls are in place to ensure efficient and effective arrangements.

<i>Indicator / Dimension</i>	<i>Score</i>	<i>Brief Explanation</i>
<b>PI-13 Debt management</b>	<b>B</b>	Overall rating based on M2 methodology.
13.1 Recording and reporting of debt and guarantees	A	Detailed debt data (domestic and foreign) is published on the BTr website. The data is updated monthly and presented two months from the reference period.



13.2 Approval of debt and guarantees	A	Legislation provides clear authorization to DoF to review, approve and manage debt. Ceilings are prescribed in law. Debts are also contracted following the fiscal target and the prescribed law.
13.3 Debt management strategy	D	Medium-term debt strategy in the form of strategic guidelines is in place, however this document is not publicly available.

### ***Dimension 13.1 Recording and reporting of debt and guarantees***

3.92. The Department of Finance, through the Fiscal Planning and Policy Office and the Treasury, collects and compiles fiscal data for the public sector. Outstanding public sector debt<sup>50</sup> and the national government outstanding debt stock and other debt-related reports and tables are published by Finance and Treasury Departments.

3.93. The BTr website discloses the national government debt report on a monthly and annual basis.<sup>51</sup> The reports posted include the debt stock,<sup>52</sup> debt indicators, and interest type of the outstanding debt. The major component of the national government debt is government securities.

3.94. The DBCC mid-year reports also present information about the national government financing operations. The presented data includes actual debt stock as compared to the programmed debt service, debt ratios (i.e., as a percentage of GDP), interest rate mix, interest payments, debt average maturity, and debt cost and risk considerations. The information is reconciled with creditors on a monthly basis. As the management reports are produced monthly, the score for Dimension 13.1 is assessed at “A”.

### ***Dimension 13.2 Approval of debt and guarantees***

3.95. In the Philippines, the Department of Finance is mandated<sup>53</sup> to review, approve, and manage both domestic and foreign public sector debt. Under DoF supervision, the Bureau of the Treasury assists in the formulation of policies on borrowing, control, and servicing of public debt (foreign or domestic), issuance of government securities for the account of the national government as authorized by the President, administer the Securities Stabilization Fund to promote private investment in government securities, certify allowable debt and guarantee,<sup>54</sup> and prepare and submit reports<sup>55</sup> to the DoF.

3.96. Public debts are contracted by the national government, GOCCs, government financial institutions, or local government units as debtors. The LGU debts under the Local Government Code are recorded in their respective books of accounts. Contracted foreign loans are managed by the DoF, through the Municipal Development Fund Office. For GOCCs, the proceeds of the loans are booked in the GOCC book of accounts, those guaranteed GOCC loans are disclosed in the BTr notes to financial statement. For national government debt, the loan proceeds are booked by the BTr National Government Debt Accounting Division.

3.97. Since the 2010 PEFA assessment, there is minimal change in the system for contracting loans<sup>56</sup> and issuance of guarantees except for the creation of the Debt and Risk Management Division under the BTr in 2010.<sup>57</sup> The Debt and Risk Management Division serves as a middle office responsible for policy institutionalization and debt strategy formulation to manage public sector debt and to monitor, report, and ensure compliance with debt management policies. Ceilings for foreign borrowings and guarantees are provided in Republic Act (RA) 4860. Since all criteria are fulfilled, the score for Dimension 13.2 is assessed at “A”.

### ***Dimension 13.3 Debt management strategy***

3.98. While a medium-term debt strategy in the form of strategic guideline is already in place and has been disclosed to investors, credit rating agencies, and within the Cabinet, it is not a published document. The result of the Debt and Risk Management Division’s analysis revealed that the national government debt remains broadly sustainable. In addition, the national government debt is generally resilient even under severe interest rate shock.

3.99. The national government budget financing program and outstanding debt are part of the information presented by the Development Budget Coordination Committee to the President and the Cabinet for approval. The national budget financing program and outstanding debt is presented under BESF Table D.<sup>58</sup> A debt management strategy document is not published. The information in budget documentation for national government borrowing covers a three-year horizon. The score for Dimension 13.3 is assessed as “D”.

## **Pillar IV. Policy-Based Fiscal Strategy and Budgeting**

### **PI-14 Macroeconomic and fiscal forecasting**

3.100. A credible fiscal strategy should support the achievement of the Government’s fiscal policy objectives. This indicator measures the ability of a country to develop robust macroeconomic and fiscal forecasts, which are crucial to developing a sustainable fiscal strategy and ensuring greater predictability of budget allocations. It also assesses the Government’s capacity to estimate the fiscal impact of potential changes in economic circumstances.

<i>Indicator / Dimension</i>	<i>Score</i>	<i>Brief Explanation</i>
<b>PI-14 Macroeconomic and fiscal forecasting</b>	<b>A</b>	Overall rating based on M2 methodology.
14.1 Macroeconomic forecasts	A	Macroeconomic projections are prepared and used in the annual budget preparation. The forecast covers the budget year and the two following fiscal years. Forecasts are updated in the DBCC mid-year report.

<i>Indicator / Dimension</i>	<i>Score</i>	<i>Brief Explanation</i>
14.2 Fiscal forecasts	B	The forecasts of the main fiscal indicators are presented in the BESF covering the proposed budget year and the two succeeding years.
14.3 Macro-fiscal sensitivity analysis	A	Forecasts of the budget sensitivity analysis and debt sustainability are published.

### ***Dimension 14.1 Macroeconomic forecasts***

3.101. Every year, the Department of Budget and Management issues a budget call and budget priorities framework through the National Budget Memorandum to guide all departments/agencies in their budget preparation. A DBM-prepared and DBCC-approved three-year fiscal position and macro-economic assumptions are presented in the Memorandum. The three-year projection only started with the 2015 budget preparation and was continued for the 2016 budget process with inputs from NEDA and Bangko Sentral ng Pilipinas.

3.102. This macroeconomic forecast together with fiscal performance is updated by the Development Budget Coordination Committee in its mid-year report published on the DBM website, thus Dimension 14.1 scores “A” under the assessment framework.

### ***Dimension 14.2 Fiscal forecasts***

3.103. The BESF presents the three-year projection of the main fiscal indicators,<sup>59</sup> including revenues that are generated based on the underlying macro-economic assumptions<sup>60</sup> and budget sensitivity to key macro-economic variables,<sup>61</sup> the aggregate expenditures, and the budget balance that in this case is a deficit. The budget technical notes and the People’s Budget Proposals<sup>62</sup> explain the estimates as well as the underlying macro-economic assumptions.

3.104. Forecast of the main fiscal indicators as presented in BESF covers the fiscal year and the two subsequent years, thus this qualifies Dimension 14.2 for a rating of “B” under the assessment framework.

### ***Dimension 14.3 Macro-fiscal sensitivity analysis***

3.105. The information in the BESF includes all the major economic aggregates, aggregate case scenarios (both high and low), and the risk to fiscal variables in the form of a sensitivity analysis. The budget sensitivity to key macroeconomic variables is shown in BESF Table A.6. While the debt sustainability analysis is available in the published Fiscal Risks Statements, Dimension 14.3 qualifies for an “A” score.

**Table 3.13: National Government Fiscal Position**

Particulars	2014	2013	2012
Revenue ( <i>PhP millions</i> )	1,908,527	1,716,093	1,534,932
Expenditures ( <i>PhP millions</i> )	1,981,619	1,880,155	1,777,759
<b>Deficit</b> ( <i>PhP millions</i> )	<b>73,092</b>	<b>164,062</b>	<b>242,827</b>
Nominal GDP ( <i>PhP millions</i> )	12,642,736	11,548,191	10,564,886
Deficit ( <i>% of GDP</i> )	0.6	1.4	2.3

Source: BTr.

### PI-15 Fiscal strategy

3.106. This indicator provides an analysis of the capacity to develop and implement a clear fiscal strategy. It also measures the ability to develop and assess the fiscal impact of revenue and expenditure policy proposals that support the achievement of the Government's fiscal goals. The revenue budgeting process is not free of political interferences; thus having transparent and formalized processes in place is essential to ensure accountability for the revenue collection function.

<i>Indicator / Dimension</i>	<i>Score</i>	<i>Brief Explanation</i>
<b>PI-15 Fiscal strategy</b>	<b>B</b>	Overall rating based on M2 methodology.
15.1 Fiscal impact of policy proposals	A	Impact of proposed tax policy changes to major sources of revenue as well as major investments and programs on the government fiscal program are estimated for three years. President's Budget Message also discusses budget execution and the fiscal policy benefits. These documents are submitted to the legislature.
15.2 Fiscal strategy adoption	B	A fiscal strategy including mostly quantitative fiscal objectives is prepared for up to six years and the technical notes provide the narrative for these targets. These documents are submitted to Congress and published in the last two budget years.
15.3 Reporting on fiscal outcomes	C	DBCC publishes a mid-year and year-end report on Government's progress of its fiscal strategy but these are not submitted to the legislature.

#### *Dimension 15.1 Fiscal impact of policy proposals*

3.107. In the Fiscal Risks Statement, the quantification of the national government revenue fiscal program, as illustrated in Table 3.19, reflects the impact of the recent and proposed tax policy changes to major sources of revenue. The BESF presents the three-year projection of revenues, which are generated based on the underlying macro-economic assumptions (defined in BESF Table A.1) and budget sensitivity to key macro-economic variables (shown in BESF Table A.6). The budget technical notes and the People's Budget Proposals<sup>63</sup> explain the estimates, and the details of the different programs and sectors to be funded under the budget as well as the underlying macro-economic assumptions. The President's Budget Message discusses plans on how the budget will be spent and the gains of the fiscal policy. This document is included in the proposed budget document to the legislature.

3.108. As previously discussed in PI-3, the Development Budget Coordination Committee assesses the reliability of the revenue estimates using the macro-economic assumptions and sensitivity of key fiscal variables to these assumptions (i.e., risk analysis). This forecast as presented in the BESF covers the fiscal year and the two subsequent years. Similarly the impact of major new investments and other expenditure policy decisions is estimated for the fiscal year and two subsequent years. This qualifies Dimension 15.1 for a rating of "A" under the assessment framework.

#### ***Dimension 15.2 Fiscal strategy adoption***

3.109. The budget priorities framework presents the Government's fiscal strategy. The presentation of the three-year fiscal position only started in 2014 to prepare for the 2015 budget. The budget submission to the legislature is comprehensive, based on the set quantitative targets of the fiscal objectives and the key variables such as the revenue, expenditure, deficit, and debt. The fiscal objectives are largely quantitative and cover a period of up to six years. The technical notes for the 2016 proposed budget supplement the presented quantitative budget information. Rating for Dimension 15.2 is assessed as "B".

#### ***Dimension 15.3 Reporting on fiscal outcomes***

3.110. The mid-year and year-end DBCC reports provide a substantive discussion on progress achieved in comparison to the budget estimates and provides updates on programs and activities for revenues, expenditures, financing, and debt. These reports examine the year-to-date performance relative to macroeconomic and fiscal objective targets initially adopted. While the reports are published on the DBM website, these are not formally submitted to the legislature. Under the assessment framework, this qualifies Dimension 15.3 for a "C" rating.

#### **PI-16 Medium-term perspective in expenditure budgeting**

3.111. Expenditure policy decisions have multi-year implications and should be aligned with the availability of resources in the medium-term perspective. The resulting medium-term expenditure estimates should be reconciled with fiscal aggregates determined through a fiscal strategy. This indicator examines the extent to which expenditure budgets are developed for the medium term within explicit medium-term budget expenditure ceilings.

<i>Indicator / Dimension</i>	<i>Score</i>	<i>Brief Explanation</i>
<b>PI-16 Medium-term perspective in expenditure budgeting</b>	<b>A</b>	Overall rating based on M2 methodology.
16.1 Medium-term expenditure estimates	A	Government prepares a three year rolling budget allocated by administrative, economic and program classification.
16.2 Medium-term expenditure ceilings	A	Budget ceilings based on the agencies' forward estimates are reviewed and discussed by Cabinet. These are issued as part of the pre-budget statement.
16.3 Alignment of strategic plans and medium-term budgeting	B	Majority of agencies align their activities to the priority program of the Government. The three-year plans include cost information.
16.4 Consistency of budgets with previous year's estimates	A	Deviation from the previous forecasted budget is minimal and any changes are explained in the People's Budget.

### ***Dimension 16.1 Medium-term expenditure estimates***

3.112. The budget preparation guideline prescribes key programs and mandates all departments and agencies to identify programs, activities, and projects in support of the five key results areas<sup>64</sup> of the President's Social Contract with the Filipino People<sup>65</sup> and to the goals and objectives set under the Philippine Development Plan 2011-2016. This program budgeting<sup>66</sup> sets the need to prioritize those identified programs<sup>67</sup> as well as the related cost (recurrent and investment)<sup>68</sup> to attain the desired outcomes for the 2014-2016 period in line with the Philippine Development Plan.

3.113. The budget preparation continues to use the medium-term expenditure framework (MTEF),<sup>69</sup> which was noted in the 2010 assessment. Under MTEF, each agency and department prepares a three-year rolling budget. The MTEF ensures that the next year's budget takes into account the decisions from the previous year and provides agencies with a three-year baseline budget that is considered and decided in a consultative manner.

3.114. The NEP provides detailed information by operating departments and by program, activities, and projects, while BESF shows the aggregate information by operating department by object and the detailed expenditure programs by sectors. The score for Dimension 16.1 is assessed at "A".

### ***Dimension 16.2 Medium-term expenditure ceilings***

3.115. The Department of Budget and Management provides the hard budget ceiling that is derived from the forward estimates of each department/agency for the budget year. Keeping in line with the fiscal program and expenditure framework for each department/agency the budget proposals are prepared in accordance with these indicative budgets ceiling. As a consequence,

there is limited deviation from the prescribed budget ceiling. In 2016 budget preparation, the forward estimates (hard budget ceilings) were formulated, reviewed through technical hearings with the agencies and approved by the DBM prior to issuance to agencies.

3.116. The budget ceiling for the ongoing projects of line agencies were part of the Budget Priorities Framework issued through National Budget Memorandum 124, dated March 30, 2015. This framework is part of the budget call issued through National Budget Memorandum 123 in January 28, 2015, which serves as a guide to line agencies for their whole budget preparation process. The score for Dimension 16.2 is thus assessed as “A”.

### ***Dimension 16.3 Alignment of strategic plans and medium-term budgets***

3.117. The budget guideline requires output targets, strategies, and indicative participation/contribution of each agency to the specific component programs, activities, and projects, and includes key annual targets and funding needs. For the 2014 budget, the Department of Budget and Management issued guidance to all departments and agencies in focusing their budget proposals on specific objectives and programs to continue the program budgeting approach started in 2013. The Department presented the sector budget using the COFOG concentrating on five vital sectors: social protection, health, education, economic affairs, and housing and community amenities.

3.118. For both the 2015 and 2016 budgets, 64 percent of the budget was allocated to social services and economic services to address the sector strategies initiated in 2014. The Department of Education received the highest share to invest in improving school completion and student achievement rates and to help the Basic Education Reform Program. The Departments of Health and Social Welfare and Development were strongly supported to strengthen health services to the most vulnerable, including the elderly and the youth, through social protection packages.

3.119. Budgeting is conducted using the program (activities and projects) classification, specifically aligned with the government’s priorities; and the plans include costing information for most of the ministries. The score for Dimension 16.2 is assessed at “B”.

### ***Dimension 16.4 Consistency of budgets with previous year’s estimates***

3.120. Per 2016 budget call,<sup>70</sup> the 2015-2016 budget amounts for the existing or ongoing projects are based on program plans/profiles. The budget level is adjusted considering the latest actual obligations and payments of agencies for 2014. Thus, the budget level for 2015-2018 represents the forecasts of the likely obligations/contracting and payment requirements of the agencies for each program, activity, and project. Table 3.20 highlights the minimal difference between proposals and ceilings.

**Table 3.14: Variance between budget proposals and ceilings based on projected estimates**

Economic classification	2013 (PhP billions)		2014 (PhP billions)		2015 (PhP billions)	
	Proposed	Adjusted	Proposed	Adjusted	Proposed	Adjusted

Economic classification	2013 (PhP billions)		2014 (PhP billions)		2015 (PhP billions)	
	Proposed	Adjusted	Proposed	Adjusted	Proposed	Adjusted
Agriculture and agrarian reform	109.28	111.14	116.58	112.09	109.27	114.46
Infrastructure	197.57	203.77	253.13	260.53	339.44	340.16
Education, culture and human resource development	329.40	330.18	389.52	383.08	450.21	453.01
Social security, welfare and employment	169.28	169.46	214.92	218.01	261.37	246.74
Public order and safety	124.39	124.28	134.53	134.40	141.89	143.04
<b>Total</b>	<b>929.92</b>	<b>938.83</b>	<b>1,108.68</b>	<b>1,108.11</b>	<b>1,302.18</b>	<b>1,297.41</b>
<b>Variance</b>	<b>0.96%</b>		<b>(0.05%)</b>		<b>(0.37%)</b>	

Source: BESF.

3.121. As noted in Table 3.20, deviation from the proposed budget is minimal due to continued use of MTEF. The mid-year report discloses that in 2014 the national budget tightly linked performance targets to the budget allocations, and in 2015 the national budget affirms the Administration's promise that each peso spent must result in direct and measurable results for the people to ensure agencies deliver their commitments in exchange. The highlight of all changes to budgets at the sectors level is available in the proposed People's Budget (i.e. in the budget documents). Score for Dimension 16.4 is assessed at "A".

### PI-17 Budget preparation process

3.122. A well-planned, well-executed budgeting process is vital for ensuring that the budget – as a policy statement that applies relative spending levels for a variety of programs and activities – reflects the intended fiscal and sector policies of the government.

<i>Indicator / Dimension</i>	<i>Score</i>	<i>Brief Explanation</i>
<b>PI-17 Budget preparation process</b>	<b>A</b>	Overall rating based on M2 methodology.
17.1 Budget calendar.	A	A clear annual budget calendar exists, which allows national government agencies more than 10 weeks to complete their detailed estimates.
17.2 Guidance on budget preparation	A	The National Budget Memoranda for budget preparation are clear and comprehensive. They include the approved "hard" budget ceilings per department and agency.
17.3 Budget submission to the legislature	A	The President has in each of the last three years submitted the budget proposal to Congress more than five months before the start of the fiscal year.



### ***Dimension 17.1 Budget calendar***

3.123. The 2016 annual budget process started with Department of Budget and Management issuing a National Budget Memorandum (January 28, 2015) with the 2016 Budget Call to all entities covered by the Government budget. The purpose of this issuance is to introduce the two-tier budgeting approach,<sup>71</sup> communicate the overall macroeconomic and fiscal policy framework and priority thrusts for the coming budget year; prescribe the guidelines and procedures in the preparation of the agency budget; and set the schedule of budget preparation activities. The detailed guidelines, budget preparation forms, and a budget preparation calendar are also included. Another National Budget Memorandum on budget priorities framework followed for the 2016 preparation of agency budget proposals under Tier 2 of the two-tier budgeting approach.<sup>72</sup> All documents are posted on the DBM website.<sup>73</sup>

3.124. The 2016 budget calendar clearly specifies the planned dates for various preparation activities. The planned and actual dates for the 2016 budget process are shown in Table 3.21.

**Table 3.15: Activity Deadlines for 2016 Budget Process**

Activity	Planned date in 2015	Actual date in 2015
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Activity	Planned date in 2015	Actual date in 2015
1. Issuance of Budget Call.	January 28	January 28
2. Budget Forum: i. DBM officials and staff. ii. National government agencies. iii. Corporate Budget Forum.	February 10 February 11-17 February 18	February 10 February 11-17 February 18
3. DBM-RO/Agency-RO Budget Forum on the 2016 National Budget.	February 12	February 12
4. Consultations on agencies' on-going programs and projects with: i. Regional Development Councils. ii. Civil Society Organizations. iii. Other stakeholders under Bottom-Up Budgeting.	January to February	January to February  February 24
5. Submission of B.P. Form No. 201 A, B, C – Past year's actual obligation and current year appropriation (through OSBP)	February	February to May 5
6. Formulation of Forward Estimates (Hard Budget Ceiling)	January to February	January to February 20
7. Technical Budget hearings with Agencies (Forward Estimates)	February 9-27	February 17 to March 10
8. Updating of GMIS		February 21 to March 7
9. DBM Budget Review	March 2-6	March 9-19
10. Sending of confirmation letters to agencies.	March 9-10	March 23-26
11. Issuance of Ceiling and Budget Priorities Framework	March 20	March 30
12. Budget Forum a. National Government Agencies Batch 1 Batch 2 b. Corporate Budget Forum	March 23 March 24 March 25	April 13-17
13. RDC consultation/dialogue with selected agency central offices	March 26 to April 1	March 30 to April 1
14. Encoding in OSBPS of 2016 Budget Proposals (New Spending Proposals) and Details of Forward Estimates (Hard Budget Ceiling)	April 2-27	April 13 to May 15
15. Deadline of Submission (thru OSBPS) of 2016 Budget Proposals (New Spending Proposals and Hard Budget Ceiling)	April 27	June 1
16. Technical Budget Hearing on New Spending Proposals	May 4-22	May 18 to June 9

Activity	Planned date in 2015	Actual date in 2015
17 Updating of GMIS		June 15
18 Transfer of files from GMIS database to BPMS Conduct of SC-PPA Meeting		June 16 June 10-19
19 Conduct of ERB – New Spending Proposals	June 1-12	June 23-26
20 Encode adjustments/corrections and budget levels per FERB - BTS		Up to June 26
21 Generate FERB level of the NEP for agency confirmation – BTS/BMBs		Up to June 26
22 Take up agency appeals and finalization of budget levels. Sending of Confirmation Letters to Agencies		June 23-26
23 Presentation of the 2016 Budget level to: CSOs, private sector, academe DBCC with key Department secretaries (Cabinet) Clusters General presentation President Cabinet	June 22	June 29 June 30 June 30 July 6 July 7
24 Generate, print and review of the 2016 NEP, BESF tables, Staffing Summary, President Budget Message 1 <sup>st</sup> Draft 2 <sup>nd</sup> Draft Finalization of NEP, BESF tables, camera-ready NEP, Details (Volume 1 & 2), BESF, President Budget Message, Staffing Summary	June 24 to July 3	July 10-22
25 Printing of 2016 Budget Documents Submission of President Budget Message Presentation to the President	July 6-22	July 10-22 July 24 July 24
26 Submission of 2016 Budget Documents to President.	July 26	July 24
27 Submission of the President's Budget to Congress.	July 28	July 28

Source: DBM

3.125. The budget calendar shows that while the key dates were generally met, there were some delays in the process as the budget preparation implements the two-tier budgeting approach for the first time. Specifically with regard to the time available for the national government agencies to prepare their detailed budget estimates, it is seen that the 2016 budget calendar allowed for 10 weeks from the issuance of the Budget Call to submission of the budget proposal. Score for Dimension 17.1 is assessed at “A”.

### ***Dimension 17.2 Guidance on budget preparation***

3.126. The DBM-issued National Budget Memoranda on the Budget Call provide clear and comprehensive instructions to national government agencies on how to prepare their budget proposals.

3.127. The 2016 budget preparation incorporated all the public financial management and public expenditure management reforms, including those previous initiative such as the MTEF<sup>74</sup> and the new initiatives like enhanced performance informed budgeting<sup>75</sup> and its associated organizational

performance indicator framework, zero-based budgeting,<sup>76</sup> program budgeting,<sup>77</sup> and bottom-up budgeting (formerly known as grassroots participatory budgeting).<sup>78</sup> The two-tier budgeting approach<sup>79</sup> was introduced to supplement the MTEF. These new processes are still in an early stage of development and are yet to be fully institutionalized.

3.128. Prior to 2016, the National Budget Memorandum on the budget priorities framework includes indicative budget ceilings per department and agency, but the Cabinet has not approved either the budget priorities framework or the ceilings prior to their issuance. In the 2016 budget preparation, the forward estimates (hard budget ceilings) were formulated, reviewed, and approved by the DBM Executive Review Board separately from the rest of the agency proposals on new and expanded programs, thereby simplifying the review of agency proposals. Score for Dimension 17.2 is assessed at “A”.

### ***Dimension 17.3 Budget submission to the legislature***

3.129. The annual budget is presented to Congress in July, and detailed discussions occur from then onwards. Since 2012, the Executive has consistently submitted the budget proposal to the House of Representatives at the end of July, usually a day after the President delivers his State of the Nation Address allowing Congress sufficient time to review and scrutinize it. Since the budget proposal has consistently been submitted five months before the start of the fiscal year for the last three years, the score for Dimension 17.3 is assessed at “A”.

### **PI-18 Legislative scrutiny of budgets**

3.130. The power to give the government authority to spend rests with the legislature and is exercised through the passing of the General Appropriations Act. If the legislature does not rigorously examine and debate the law, the power is not being effectively exercised and will undermine the accountability of the government to the electorate. This indicator considers the extent to which the legislature scrutinizes, debates, and approves the annual budget.

<i>Indicator / Dimension</i>	<i>Score</i>	<i>Brief Explanation</i>
<b>PI-18 Legislative scrutiny of budgets</b>	<b>B+</b>	Overall rating based on M1 methodology.
18.1 Scope of budget scrutiny.	B	The Legislature scrutinizes the budget proposal submitted which includes fiscal policies, aggregates and detailed estimates for revenue and expenditure. MTEF and priorities are not included in the budget document.
18.2 Legislative procedures for budget scrutiny.	A	Both Houses of Congress have established, comprehensive procedures that are respected.

<i>Indicator / Dimension</i>	<i>Score</i>	<i>Brief Explanation</i>
18.3 Timing of budget approval.	A	In each of the last three years, the Bicameral Conference Committee composed of representatives from both Houses of Congress approved the GAA before the start of the fiscal year.
18.4 Rules for budget adjustments by the executive.	B	Expansion of the total expenditure is not allowed but under EO 292, the President is authorized to reallocate among approved items of the budget to utilize savings and cover deficits in any line item.

### ***Dimension 18.1 Scope of budget scrutiny***

3.131. The Senate Finance Committee and the House (of Representatives) Appropriations Committee and their corresponding sub-committees review the budget proposal submitted by the Executive. The BESF includes an MTEF, but not a medium-term fiscal framework (MTFF). Budget priorities framework is published at the start of the budget process on the DBM website but is not subject to legislative review, which is limited to the documents submitted. However it is used for reference regarding priority programs, strategies and approach in formulation of the budget. Departments are required to appear before the committees to defend their budget proposal. Score for Dimension 18.1 is assessed as “B”.

### ***Dimension 18.2 Legislative procedures for budget scrutiny***

3.132. Both the House of Representatives and the Senate have well established and respected procedures for review of the budget law. The House of Representatives through the Appropriations Committee with its sub-committees, after receiving the budget proposal from the Executive, usually spends one month to review and conduct budget hearings before a General Appropriations Bill is endorsed for plenary deliberation until its approval. The Senate conducts simultaneous budget hearings but will only act on the approved the House of Representatives version. After the Senate approval, a Bicameral Conference Committee reconciles the difference between the House of Representatives and Senate versions. A Bicameral Conference Committee report is then ratified by both Houses. The enrolled copy of the general appropriations bill is finalized, printed, and sent to the President for signature.

3.133. To aid legislators during budget hearings, particularly in the House of Representatives, the Congressional Policy and Budget Research Department in August 2013 issued “A Legislator’s Guide in Analyzing the National Budget” that contains the framework and guide questions for budget analysis. Agency Budget Notes containing pertinent information about the department or agency under review are prepared and distributed by the Congressional Policy and Budget Research Department. In addition, the Congressional District Representatives usually meet with their constituents to gather relevant information for budget deliberation.

3.134. The procedures remain firmly established, comprehensive, and respected. The score for Dimension 18.2 is assessed at “A”.

### ***Dimension 18.3 Timing of budget approval***

3.135. As shown in Table 3.22, the House of Representatives in the past three years has approved the budget proposal in October followed by Senate’s approval in November. After which the Bicameral Conference Committee has approved the budget well in time for the President to complete the process before the start of the fiscal year. Score for Dimension 18.3 is thus assessed at “A”.

**Table 3.16: Submission and Approval Dates of Budget Bills**

<b>Fiscal Year</b>	<b>Budget proposal</b>	<b>House approval</b>	<b>Senate approval</b>	<b>Bicameral approval</b>	<b>President’s approval</b>	<b>Republic Act</b>
2012	July 26, 2011	Oct.12, 2011	Nov. 22, 2011	Nov. 29, 2011	Dec. 15, 2011	RA 10155
2013	July 24, 2012	Oct. 15, 2012	Nov. 28, 2012	Dec. 5, 2012	Dec. 19, 2012	RA 10352
2014	July 23, 2013	Oct. 22, 2013	Nov. 26, 2013	Senate: Dec. 11, 2013 House: Dec. 16, 2013	Dec. 20, 2013	RA 10633
2015	July 30, 2014	Oct. 29, 2014	Nov. 26, 2014	Senate: Dec. 11, 2014 House: Dec. 15, 2014	Dec. 23, 2014	RA 10651
2016	July 28, 2015	Oct. 09, 2015	Nov. 26, 2015	Senate: Dec. 14, 2015 House: Dec. 16, 2015	Dec. 22, 2015	RA 10717

Source: House Committee on Appropriations and [www.senate.gov.ph](http://www.senate.gov.ph).

3.136. At the time of the 2010 PEFA assessment, there was a trend for budgets not to be passed by Congress prior to the start of the fiscal year. This however has not been a feature in recent years with the budget passing on time in each of the last three years. This partly reflects efforts of the Government of the Philippines to bring forward the budget preparation timetable to ensure that both houses of Congress have adequate time for full consideration of their proposal.

### ***Dimension 18.4 Rules for budget adjustments by the executive***

3.137. The Administrative Code [Section 1 (6) of Book VI] authorizes the President to augment any item in the General Appropriations Act from savings in other items. This is further supported by Section 39, which states that any savings in the regular appropriations authorized in the General Appropriations Act for programs and projects of any department, office, or agency may, with the approval of the President, be used to cover a deficit in any other item of the regular appropriations. These provisions give the President the flexibility to reallocate budgets within the Executive as long as total appropriations do not exceed the levels prescribed in the General Appropriations Act. In addition, the Executive determines the final utilization of any lump sum appropriations as allocation to various line departments. The Executive is required to seek

approval of the Congress for increase in the total appropriations (i.e., supplemental appropriations). Score for Dimension 18.4 is assessed at “B”.

3.138. The flexibility allowed to the Executive has been used extensively in previous administrations often for political purposes, which combined with the prevalence of lump-sum appropriations and the lack of monitoring through timely in-year reports led to absence of transparency in the budget adjustments. In 2011 the Department of Budget and Management introduced the Disbursement Acceleration Program<sup>80</sup> as a reform intervention to accelerate public spending and to boost economic growth. It was not a fund but a mechanism to support high-impact priority programs and projects using savings and un-programmed funds. In July 2014 the Supreme Court declared the program unconstitutional for being in violation of Section 25(5), Article VI of the 1987 Constitution and the doctrine of separation of powers, namely (a) the withdrawal of unobligated allotments from the implementing agencies, and the declaration of the withdrawn unobligated allotments and unreleased appropriations as savings prior to the end of the fiscal year without complying with the statutory definition of savings contained in the General Appropriations Acts; and (b) the cross-border transfers of the savings of the Executive to augment the appropriations of other offices outside the Executive. The Court further declared as void the use of unprogrammed funds in the absence of a certification by the National Treasurer that the revenue collections exceeded the revenue targets, which was in non-compliance with the conditions provided in the relevant General Appropriations Act.

## Pillar V. Predictability and Control in Budget Execution

### PI-19 Revenue administration

3.139. A government’s ability to collect revenues when due is an essential component of any PFM system. It is also an area where there is direct interaction between individuals and enterprises on the one hand and the state on the other. This indicator relates to the entities that administer central government revenues (Table 3.23). It also covers agencies administering revenues from other significant sources such as natural resources extraction.

<i>Indicator / Dimension</i>	<i>Score</i>	<i>Brief Explanation</i>
<b>PI-19 Revenue administration</b>	<b>B</b>	Overall rating based on M2 methodology.
19.1 Rights and obligations for revenue measures	B	BIR provides easy access to comprehensive and up-to-date information about taxpayers’ rights, obligations, and procedures including right to redress. For BoC, information is also available in their website and new registrants can seek assistance.

<i>Indicator / Dimension</i>	<i>Score</i>	<i>Brief Explanation</i>
19.2 Revenue risk management	B	BIR has created a comprehensive end-to-end compliance improvement strategy for its risk management. The DoF Fiscal Intelligence Unit has expanded the previous post-entry audit scope of the BoC Post-Entry Audit Group.
19.3 Revenue audit and investigation	A	BIR sets its policies and guidelines for its annual audit and the investigation and prosecution of cases under the Run-After-Tax-Evaders (RATE) program. For BoC, it is Run-After-The-Smugglers (RATS) and creation of DoF Fiscal Intelligence Unit to eliminate smuggling. Target outputs are exceeded.
19.4 Revenue arrears monitoring	D	In 2014, the stock of revenue arrears is less than 10% of the total revenue collection and those arrears older than 12 months are more than 75% of the total revenue arrears.

**Table 3.17: National Government Revenues**

	2012		2013		2014	
	(PhP millions)	%	(PhP millions)	%	(PhP millions)	%
BIR	1,057,916	68.92	1,216,661	70.90	1,334,762	69.94
BoC	289,866	18.88	304,925	17.77	369,277	19.35
Other offices	13,291	0.87	14,112	0.82	14,947	0.78
<b>Total tax revenue</b>	<b>1,361,073</b>	<b>88.67</b>	<b>1,535,698</b>	<b>89.49</b>	<b>1,718,986</b>	<b>90.07</b>
Non-tax revenue	173,760	11.32	180,074	10.49	189,308	9.92
Grants	99	0.01	321	0.02	233	0.01
<b>Total revenue</b>	<b>1,534,932</b>	<b>100.00</b>	<b>1,716,093</b>	<b>100.00</b>	<b>1,908,527</b>	<b>100.00</b>

Source: BTr.

### *Dimension 19.1 Rights and obligations for revenue measures*

3.140. Transparency of taxpayer obligations and liabilities aids not only the tax administrators who collect taxes but also taxpayers willing to comply with their tax obligations. Actual and potential taxpayers can easily access Internet-based information on taxation laws, regulations, and procedures, including the taxpayers' right to redress.<sup>81</sup> The information is updated and amended through revenue issuances of regulations, memorandum circulars, and memorandum orders. The BIR website also provides a basic eight-page guide on business taxpayer obligations and liabilities for professionals. The Bureau of Internal Revenue also created the Register, File



and Pay website to disseminate information to the taxpayer to comply with his obligation of “paying right taxes”.<sup>82</sup> In addition, the Bureau of Internal Revenue has recently launched the Electronic Filing and Payment System (eFPS) to facilitate online filing and payment.

3.141. Customs information is available on the Internet though these documentation requirements are not user-friendly to new registrants. According to interviews, a new registrant may seek advice from the importation business community group about all documentary requirements. Since BIR, as the major revenue collector, provides easy access to updated and comprehensive information, the score for Dimension 19.1 is assessed at “B”.

### ***Dimension 19.2 Revenue risk management***

3.142. The Bureau of Internal Revenue created the Compliance Improvement Strategy Council with a mandate for principal decision-making in risk management. Its main role is to identify compliance risks (e.g., registration, filing and reporting, underreporting and payment), including new and emerging risks; to prioritize significant risks for ensuring effective mitigation of significant risks; and escalate any significant unmitigated risk to the appropriate forum/business owner in case there is a broader impact to the Bureau. The creation of the Compliance Improvement Strategy Council is to provide a comprehensive end-to-end compliance improvement strategy for taxpayers to effectively manage the risks.

3.143. As for the Bureau of Customs, President Aquino issued EO No. 155 toward the end of 2013, which effectively dissolved the BoC Post-Entry Audit Group and transferred its post-entry audit functions to the DOF Fiscal Intelligence Unit, in an effort to institute reforms. The Department of Finance issued several department orders to implement EO No. 155. The issued departmental orders include the prescription of new general post-entry audit guidelines and procedures to be adopted by the Fiscal Intelligence Unit and audit selection through a computer-aided risk management system.<sup>83</sup> Departmental Order No. 11-2014 introduced many changes designed to strengthen post-entry audits such as the coverage<sup>84</sup> and retains provision for Customs Administrative Order on the list of records to be kept by importers, mode of selection of importers to be audited, as well as the imposable penalties for deficiency customs duties and taxes.

3.144. Considering the processes in place for both Bureau of Internal Revenue and Bureau of Customs, the score for Dimension 19.2 is assessed at “B”.

### ***Dimension 19.3 Revenue audit and investigation***

3.145. The BIR National Office sets the annual audit program and coverage through Revenue Memorandum Order (RMO)<sup>85</sup> to guide all its revenue officers in the respective revenue jurisdictions in their conduct of audit/investigation. The Bureau of Internal Revenue performs its audits in a decentralized manner whereby regional directors have been given complete authority over the conduct of audits in their jurisdictions and the responsibility of audit and investigation is with the assigned revenue officers.

3.146. The identified risks, based on the investigation report of the revenue officers, are escalated to the appropriate management (Regional District Officers or the National Office) to check if the risk has a broader BIR implication or will generate maximum effect to the taxpayers by prosecuting high-profile tax evaders. For identified tax evasion and fraud cases, the National Office through the Commissioner of Internal Revenue refers these cases to the Department of Justice for preliminary investigation.

3.147. The RMO 24-2008 prescribes the policies and guidelines for development, investigation, and prosecution of cases under the Run After Tax Evaders (RATE) Program. It mandates the Bureau of Internal Revenue to investigate criminal violations of the National Internal Revenue Code of 1997 and assist in the prosecution of criminal cases that will generate the maximum deterrent effect, enhance voluntary compliance, and promote public confidence in the tax system in the Philippines. Audits and fraud investigations are being undertaken and outputs of the Electronic Letter of Authority Monitoring System (eLAMS)<sup>86</sup> are disclosed in the annual report.<sup>87</sup> The key performance indicators are monitored and evaluated quarterly. For 2014 the target of at least 36 cases filed was exceeded as the Bureau accomplished a total of 123 RATE cases filed with the Department of Justice with estimated tax liabilities amounting to PHP 20.44 billion.

3.148. The BoC Run-After-The-Smugglers (RATS) Program focuses on monitoring, profiling, case building, and prosecution of smugglers.<sup>88</sup> It is designed not only to collect taxes but also to ensure that importers comply with existing laws and regulations on tariff and customs that complement the post-audit power under RA No. 9135, Tariff and Customs Code of the Philippines.<sup>89</sup> Milestones and key performance indicators are published. The guideline for Post-Entry Audit under the Fiscal Intelligence Unit was also issued through the Customs Circular.<sup>90</sup> With the yearly target to file 24 cases, the target outputs were exceeded for 2013 (43 cases filed) and 2014 (35 cases filed). Score for Dimension 19.3 is assessed at “A”. The assessment of this dimension took into consideration that the combined revenue collection by BIR and BOC is 89 percent of the total revenue, and they both exceeded their target output.

#### ***Dimension 19.4 Revenue arrears monitoring***

3.149. The substantial increase of tax arrears in 2013 was attributable to the improved recording and monitoring process of the revenue arrears as prescribed by BIR’s internal memorandum.<sup>91</sup> For proper guidance, the Bureau issued a memorandum for policies, guidelines, and procedures in the periodic cleanup of accounts receivable or revenue arrear<sup>92</sup> and its amendments.<sup>93</sup> This is also supplemented by the BIR reform for Arrears Management<sup>94</sup> and the implementation of Accounts Receivable Management System<sup>95</sup> to enable the establishment of accurate Accounts Receivable/Delinquent Accounts database across all BIR offices.

3.150. The percentages of the total stock of arrears against the total revenue were 4 percent, 6 percent, and 6 percent for 2012, 2013, and 2014, respectively (Table 3.18). The score for the percentage of the total stock arrears in relation to the total 2014 revenue may have qualified for an “A” rating; however, the criteria must also satisfy the requirement on revenue arrears older than 12 months. In 2014, the BIR data on those revenue arrears older than 12 months was 89

percent of the total revenue arrears for the year. Thus, Dimension 19.4 is assessed as “D” under the assessment framework.

**Table 3.18: Collectible Tax Arrears as of Year-End**

Taxable year	No. of docketts	No. of cases	Collectible arrears older than 12 months (PhP billion)	Total collectible tax arrears (PhP billion)	% of tax arrears older than 12 months relative to total arrears	Total revenue (PhP billion)	% of tax arrears relative to total revenue
2012	38,457	54,020	36.91	61.64	60	1,534.932	4
2013	42,664	64,244	88.15	107.61	82	1,716.093	6
2014	41,988	66,560	108.49	121.88	89	1,908.527	6

Source: BIR.

## PI-20 Accounting for revenue

3.151. This indicator assesses procedures for recording and reporting revenue collections, consolidating revenue collected, and reconciling tax revenue accounts. It covers both tax and non-tax revenue collected by the central government.

<i>Indicator / Dimension</i>	<i>Score</i>	<i>Brief Explanation</i>
<b>PI-20 Accounting for revenue</b>	<b>A</b>	Overall rating based on M1 methodology.
20.1 Information on revenue collection	A	Monthly submission by the revenue generating agencies is consolidated and published by BTr covering all revenue.
20.2 Transfer of revenue collections	A	The BIR and BoC comply with the use of TSA System.
20.3 Revenue accounts reconciliation	A	The reconciliation with the BTr of the BIR and BoC collections is done monthly.

### *Dimension 20.1 Information on revenue collections*

3.152. The Department of Finance receives information by each revenue type from the revenue-generating agencies. This is consolidated monthly to keep track of the national government’s fiscal condition. The monthly consolidated revenue report<sup>96</sup> is posted on the BTr website within two months of reference period. Score for Dimension 20.1 is assessed at “A” since the published data includes all the national government revenue.

### *Dimension 20.2 Transfer of revenue collections*

3.153. The taxpayers and importers settle their tax dues and custom duties directly to the accounts controlled by the Treasury through authorized commercial depositary bank and authorized government depositary bank. To show compliance with TSA implementation, a memorandum of agreement among the signing bank, Bureau of the Treasury, and Bureaus of Internal Revenue and Customs covers remittances and reports of collection by the banks. Per the memorandum, the signing bank will remit all collections to the account of the BTr with Bangko Sentral ng Pilipinas not later than 10:00 AM of the succeeding banking day counted from date of collection; and the signing bank will submit to BTr a collection report comprising all BIR/BoC collection not later than 2:00 PM of the succeeding banking day counted from date of collection. Score for Dimension 20.2 is thus assessed at “A”.

### ***Dimension 20.3 Revenue accounts reconciliation***

3.154. The revenues collected by Bureau of Internal Revenue and Bureau of Customs amount to around 89 percent of the total revenue. This revenue data<sup>97</sup> is reconciled with the Bureau of the Treasury and Bangko Sentral ng Pilipinas on a monthly basis. Reconciliations are done every month from the 5<sup>th</sup> to 15<sup>th</sup> to reconcile the collections/receipts of the Bureau of the previous month with the transfers to the BTr account. Annual reconciliation for both bureaus is done before the end of the fiscal period as it customarily accounts for discrepancies and collection adjustments. Reconciliation of collections is also performed with the assessments and if applicable the arrears (opening and closing) in both Bureau of Internal Revenue and Bureau of Customs. Score for Dimension 20.3 is assessed at “A”.

### **PI-21 Predictability of in-year resource allocation**

3.155. This indicator assesses the extent to which the central Ministry of Finance is able to forecast cash commitments and requirements and to provide reliable information on the availability of funds to budgetary units for service delivery.

<i>Indicator / Dimension</i>	<i>Score</i>	<i>Brief Explanation</i>
<b>PI-21 Predictability of in-year resource allocation</b>	<b>B+</b>	Overall rating based on M2 methodology.
21.1 Consolidation of cash balances.	C	TSA is in place for revenue collected by BIR and BoC and is being rolled out for expenditure through eMDS. Accounts for foreign-funded projects and those trust accounts with legal basis remain outside the TSA.
21.2 Cash forecasting and monitoring.	A	Cash flow committee prepares a cash flow forecast and updates it twice a month for actual flows and changes in forecast.

<i>Indicator / Dimension</i>	<i>Score</i>	<i>Brief Explanation</i>
21.3 Information on commitment ceilings.	A	Since 2014, the GAA stands as the government's primary budget release document. Notices of cash allocation are issued for a semester and agencies are able to plan and commit for a six-month horizon.
21.4 Significance of in-year budget adjustments.	A	Any realignment requires a request by the concerned department or agency and should be approved by DBM. Adjustments involve the management of the department or agency.

### ***Dimension 21.1 Consolidation of cash balances***

3.156. In accordance with EO No. 55 (2011), the Bureau of the Treasury operates a treasury single account to receive remittance of collections of internal revenue taxes and customs duties from BIR- and BoC-authorized agent banks as well as other collections of national government agencies from authorized government depository banks. The treasury single account, maintained at Bangko Sentral ng Pilipinas, aligns the government policy of greater financial management and control of its cash resources and allows the unification of the structure of government bank accounts to enable consolidation and optimum utilization of government cash resources.

3.157. Spending agencies process payments through the Modified Disbursement System (MDS)<sup>98</sup> and as part of TSA implementation, Department of Budget and Management and Department of Finance, through Joint Administrative Order No. 2015-1 dated March 12, 2015, prescribe the adoption of the electronic MDS (eMDS). With the implementation of the eMDS, the government agency shall no longer submit the hardcopy of the documents as previously required in the MDS. In addition, the required MDS reports will be immediately available to the Bureau of the Treasury and concerned government agencies. The BTr replenishes the MDS account with government servicing banks with funds equivalent to the amount of negotiated checks presented to the government servicing banks by implementing agencies.

3.158. Special accounts of ODA funds and those trust accounts with legal basis that are maintained by the ministries, departments, and agencies implementing the projects are currently not covered in the treasury single account and hence are not included in the consolidated cash balances. All other balances are with the BTr and are consolidated. Score for Dimension 21.1 is assessed at "C".

### ***Dimension 21.2 Cash forecasting and monitoring***

3.159. The Bureau of the Treasury and Department of Budget and Management are both involved in the government's cash management function. The Department of Budget and Management manages allotments and cash releases to spending agencies through the issuance of Notices of Cash Allocation. The BTr, on the other hand, manages the government bank accounts.

The DBCC Cash Programming and Monitoring Committee regularly meets to assess the fiscal performance of the national government and to recommend to the Development Budget Coordination Committee the annual and quarterly cash budget programs of the government. These cash budget programs are closely monitored and updated from time to time to take into account significant fiscal developments and status of resources and expenditures. A Cash Flow Committee also monitors the cash flows prepared by Asset Management Service (AMS). This Committee meets twice a month before the conduct of bills and bonds options and reports the forecast on the level and direction of the yield rates for government securities to guide the Auction Committee composed of the Bureau of the Treasury, Department of Finance, and Bangko Sentral ng Pilipinas. The AMS updates the cash forecast daily based on actual flows, internal estimates and any adjustments or changes in forecast. Score for Dimension 21.1 is thus assessed at “A”.

### ***Dimension 21.3 Information on commitment ceilings***

3.160. In 2014 and 2015, the General Appropriations Act stands as the government’s primary budget release document. This means that all the disaggregated budget items in the General Appropriations Act are already considered released to their respective agencies, with the exception of lump-sum funds that have yet to be itemized and therefore require prior approval before release through issuance of the Special Allotment Release Order. Departments and agencies no longer need to secure the Special Allotment Release Orders to obligate funds (i.e., for initiating the procurement process and entering into contracts). Instead, an agency can begin obligating funds as soon as the General Appropriations Act is enacted.

3.161. For multi-year programs, activities, and projects that take more than one year to complete, a Multi-Year Obligational Authority must be requested from Department of Budget and Management prior to entering into contracts to cover the total project costs.

3.162. For budget year 2014 and 2015,<sup>99</sup> disbursement authorities such as Notice of Cash Allocation are released by Department of Budget and Management on the basis of the Budget Execution Documents, particularly the Monthly Disbursement Program, prepared and submitted by the agency to Department of Budget and Management. The Notice of Cash Allocation acts as a second level of control as recipients of allotments incur obligations but cannot make payments until they receive Notice of Cash Allocations, which are treated as authorizations to issue checks. An initial comprehensive Notice of Cash Allocation is issued directly to the operating units covering the first semester requirements (i.e., January to June), chargeable against the current year budget. Succeeding comprehensive Notices of Cash Allocations are issued to cover the 2<sup>nd</sup> semester regular requirements, subject to the submission of Budget and Financial Accountability Reports as at end of June and consistent with DBCC-approved Monthly Disbursement Program. In 2014 and 2015, this did not disrupt the operations of agencies and the receipt of Notice of Cash Allocations has been predictable allowing advance planning of expenditures for a horizon of six months. Score for Dimension 21.3 is thus assessed as “A”.

### ***Dimension 21.4 Significance of in-year budget adjustments***

3.163. In 2015, the Department of Budget and Management issued National Budget Circular No. 559 dated June 26, 2015, to provide guidelines in the realignment of funds under the FY2015 General Appropriations Act in which it states that realignment covers change in (a) object of expenditure within an allotment class; (b) implementing or operating units; (c) project modifications as authorized in the pertinent special provisions of certain agencies in the General Appropriations Act; or (d) one allotment class to another. Since any realignment requires a request by the concerned department or agency and should be approved by Department of Budget and Management, the score for Dimension 21.4 is assessed at “A”.

### PI-22 Expenditure arrears

3.164. This indicator measures the extent to which there is a stock of arrears, and the extent to which a systemic problem in this regard is being addressed and brought under control.

<i>Indicator / Dimension</i>	<i>Score</i>	<i>Brief Explanation</i>
<b>PI-22 Expenditure arrears</b>	<b>C+</b>	Overall rating based on M1 methodology.
22.1 Stock of expenditure arrears	B	The stock of expenditures arrears is no more than 6% of the total obligations incurred for the past three years.
22.2 Expenditure arrears monitoring	C	CoA requirement for the submission of year-end reports includes the aging of expenditure arrears

#### *Dimension 22.1 Stock of expenditure arrears*

3.165. The balance sheet for government in the annual financial report prepared by the Commission on Audit shows accounts payable of PhP 101.68 billion, PhP 119.61 billion, and PhP 107.91 billion that were due to external suppliers in the 2014, 2013 and 2012 accounts, respectively. These payables pertain to accounts that have been outstanding for over two years with no actual claims, administrative or judicial, being filed against them or are not covered by contracts which, under Section 98 of Presidential Decree 1445 or the Government Auditing Code of the Philippines, should be reversed. True arrears may in fact be only a part of this total amount. The Tables 3.19 and 3.20 show the decreasing trend of overstated and understated accounts payable findings drawn from the CoA financial audit reports.

3.166. The stock of payables in 2012 is 5 percent of the total obligations incurred, 5.4 percent of the total obligations incurred in 2013 and 4.59 percent of the total obligations incurred in 2014. The score for Dimension 22.1 is assessed at “B”.

**Table 3.19: Audit observations on Accounts payable as of December 31, 2014**

<b>Department</b>	<b>Overstatement and (Understatement) (PhP millions)</b>
Dangerous Drugs Board	(4.170)
Design Center of the Philippines	0.214

<b>Department</b>	<b>Overstatement and (Understatement) (PhP millions)</b>
Laguna State Polytechnic University	4.220
Philippine Army	23.828
Philippine Air Force	(1.458)
National Parks Development Committee	7.254
Intramuros Administration	(2.040)
Philippine Trade Training Center	(2.682)
<b>Total</b>	<b>25.166</b>

Source: CoA 2014 Annual Financial Report for National Government, Volume I.

**Table 3.20: Audit observations on Accounts payable as of December 31, 2013**

<b>Department</b>	<b>Overstatement (and Understatement) (PhP millions)</b>
Department of Transportation and Communication	22.786
Bureau of Internal Revenue	162.453
Department of Education	(514.890)
Department of Energy	914.835
Department of Environment and Natural Resources	67.424
Department of Social Welfare and Development	(562.397)
Metro Manila Development Authority	1,524.175
National Youth Commission	(1.408)
National Water Resources Board	0.301
Kalinga-Apayao State College	12.101
Philippine Merchant Marine Academy	1.100
Jose Rizal Memorial State University– Dipolog	(0.215)
Jose Rizal Memorial State University – Tampilisan	(0.228)
<b>Total</b>	<b>1,626.037</b>

Source: CoA 2013 Annual Financial Report for National Government, Volume I-B.

3.167. These accounts payable figures may be materially overstated. Interviews with DBM officials reveal that a large portion of these accounts payable were due to the recording of obligations as accounts payable using the definition of obligations under the old government accounting system. Under the old system, an obligation referred to contracts entered into whether or not goods or services were delivered. This definition of obligation was tightened with the introduction of the New Government Accounting System in January 2002. The new system defines obligations as “commitment by a government agency arising from an act of a duly authorized official which binds the government to the immediate or eventual payment of a sum of money in view of the delivery of goods or services”.

### ***Dimension 22.2 Expenditure arrears monitoring***

3.168. More reliable data on the stock of arrears is included in the budget proposal submissions by line departments to the Department of Budget and Management, but that data is not collated and analyzed. According to the Department of Budget and Management, a computerized system



to monitor outstanding claims and their settlement has been developed. Its full utilization should facilitate improved management of accounts payable.

3.169. The CoA Accounting Circular Letter 2007-001 for NGAs includes requirement for aging reports as part of the submission of year-end financial reports. Sample of aging reports of expenditure arrears for FY2015 submitted by various departments were provided for verification. The score for Dimension 22.2 is assessed as “C”.

### **PI-23 Payroll controls**

3.170. This indicator is concerned with payroll for public servants only: how it is managed, how changes are handled, and how consistency with personnel records management is achieved. Wages for casual labor and discretionary allowances that do not form part of the payroll system are included in the assessment of non-salary internal controls in PI-25.

<i>Indicator / Dimension</i>	<i>Score</i>	<i>Brief explanation</i>
<b>PI-23 Payroll controls</b>	<b>B+</b>	Overall rating based on M1 methodology.
23.1 Integration of payroll and personnel records	<b>B</b>	DBM maintains central-level GMIS used for budgeting; departments maintain personnel records and payroll data. Controls exist over hiring and promotion to ensure compliance with approved positions. Reconciliation of payroll with personnel records is conducted monthly.
23.2 Management of payroll changes	<b>B</b>	Personnel record and payroll are updated upon receipt of the required documentation within the month and in the case of DepEd, within a quarter. Retroactive adjustments are few.
23.3 Internal control of payroll	<b>B</b>	Control exists on the authority and basis for the changes to personnel records and payroll.
23.4 Payroll audit	<b>A</b>	While payroll audits are performed by CoA as part of their regular annual audit of the agency’s financial statements, the installation of biometric attendance systems in all national government offices has minimized the risk of ghost workers.

#### ***Dimension 23.1 Integration of payroll and personnel records***

3.171. The DBM-based Organization, Position Classification and Compensation Bureau maintains the Government Manpower Information System (GMIS). This database includes the total number of authorized positions for each organizational unit and the aggregate actual salaries of permanent positions, which are comprised of the actual salaries of the filled positions and the authorized salaries of the unfilled positions. The GMIS generates the list of filled and unfilled

positions as well as basic information, including the salary grade of personnel. The Bureau utilizes this information for budgeting.

3.172. Each line department and agency maintains their respective personnel records and payroll data either manually or in a computerized system. For instance, The Department of Education, having the largest human resource complement of 761,647 positions (711,472 filled and 50,175 unfilled as of February 29, 2016), adopts a decentralized system where regional offices as well as those secondary schools with fiscal autonomy manage their own records and data through a Regional Payroll Service Unit database.

3.173. Personnel records and payroll data are updated by the respective line agencies on receipt of required documentation in compliance with CoA guidance on documentary requirements.<sup>100</sup> Personal benefits include salary increases; step increment; incentives; other benefits and claims; and other forms of compensation, including payment for retirement gratuities, separation pay, and terminal leave benefit.

3.174. The list of approved positions is consulted prior to approval of staff promotion and hiring. The payroll data is validated with the personnel records on monthly basis as verified in Departments of Education, Trade and Industry, Social Welfare and Development, and Environment and Natural Resources. Score for Dimension 23.1 is assessed at “B”.

### ***Dimension 23.2 Management of payroll changes***

3.175. The authorized payroll staff in each line department record changes in payroll only after receiving required documentation to support salary differentials due to promotion and/or step increment, with changes made in the month these actions are received. Delays in receipt of the necessary documents leads to retroactive adjustments in a few cases. Tax adjustments are made annually at the end of the fiscal period.

3.176. While payroll processing as such is decentralized in the Department of Education, delays still occur in updating changes in personnel records and payroll data, but these are made within a quarter. The CoA audit reports regularly identify instances of delays in updating the personnel records and timely changes to payroll data in this Department. The status of implementation of prior year’s audit recommendation included in the annual audit report for calendar year 2014 reported these observations as only partially implemented. Score for Dimension 23.2 is assessed at “B”.

### ***Dimension 23.3 Internal control of payroll***

3.177. Each line department and agency maintains their respective personnel records and processes payroll separately. Only authorized staff is allowed to make changes with an available audit trail. Timekeeping is facilitated through use of either Bundy clocks or biometrics, which becomes the input for payroll processing.

3.178. Payroll controls for preparation, validation, calculation, and segregation between the preparation and payment functions were found to be in place when reviewing sample

departments. Payrolls are prepared by the personnel service department based on the validated daily time records. Approved prepared payroll is then presented to the accounting department for budget verification and validation of payroll data and its calculation and computation of deductions. Verified payroll information are processed and forwarded to the bank for payment

3.179. The CoA audit reports note some instances of errors in the payroll data update; but despite weaknesses in implementation of some controls, the overall level of compliance for payroll is considered sufficient for ensuring integrity of the payroll data. Score for Dimension 23.3 is assessed at “B”.

#### ***Dimension 23.4 Payroll audit***

3.180. Biometric attendance systems have been installed in all national government offices thereby minimizing the risk of existence of ghost employees. This was verified in the sample departments visited as well as through certifications from several departments and validations by assigned auditors. The Commission on Audit includes, as part of their regular annual audit of an agency’s financial statements, procedures to attest management’s assertion on the accuracy and validity of the payroll accounts, including controls in place to prevent ghost workers. Score for Dimension 23.4 is assessed as “A”.

#### **PI-24 Procurement**

3.181. Significant public spending takes place through the public procurement system. This indicator examines key aspects of procurement management. It focuses on transparency of arrangements, emphasis on open and competitive procedures, monitoring of procurement results, and access to appeal and redress arrangements. The scope of the indicator covers the entire central government and all procurement of goods, services, and civil works whether classified as recurrent or capital investment expenditure (e.g., including civil works and major equipment investments).

<i>Indicator / Dimension</i>	<i>Score</i>	<i>Brief Explanation</i>
<b>PI-24 Procurement</b>	<b>C+</b>	Overall rating based on M2 methodology.
24.1 Procurement monitoring	B	The procurement monitoring system of 15 national government agencies maintains data for contracts on what has been procured, value of procurement and who has been awarded contracts. The data are accurate and complete for most (about 80% by value) of the contracts procured using different methods for goods, services and works.
24.2 Procurement methods	B	The total value of contracts awarded through competitive methods in 2014 was PhP 35.4 billion for central government agencies and PhP 26.2 billion or 74% was done through competitive bidding.

24.3 Public access to procurement information	B	5 of the 6 key procurement information elements are complete and reliable for national government agencies representing 75% of procurement operations (by value) and are made available to the public in a timely manner through appropriate means.
24.4 Procurement complaints management	D	There is no independent administrative procurement complaints system provided for under GPRA.

### ***Dimension 24.1 Procurement monitoring***

3.182. The PEFA assessment covered 15 national government agencies that awarded contracts in 2014 in the amount of PhP 35.4 billion, comprising goods, works, and services using different procurement methods. The records for these contracts are maintained for each step of the process from pre-procurement conference; advertisement; bid submission; bid evaluation; notice to the awardee; and contract preparation, finalization, and signing.

3.183. Documents are filed and maintained by the Procurement Unit of each national government agency. Relevant data are captured in a procurement monitoring report that is periodically submitted, together with the approved procurement plan to the Government Procurement Policy Board, as mandated by the implementing rules and regulations of the Government Procurement Reform Act (GPRA).

3.184. The GPPB-issued Agency Procurement Compliance and Performance Indicator (APCPI) system is the standard for monitoring and the annual performance measurement of procuring entities' procurement systems (GPPB Resolution No. 2012-026, July 2012). The APCPI system has been rolled out to 18 national government agencies and some GOCCs and local government units. The Philippine Government Electronic Procurement System (PhilGEPS) publishes invitation to bids and contract awards of all procuring entities. The score for Dimension 24.1 is assessed at "B".

### ***Dimension 24.2 Procurement methods***

3.185. This dimension analyzes the percentage of total value of contracts awarded with and without competition. A good procurement system uses competitive method as the default mode. In 2014, the 15 national government agencies awarded contracts worth PhP 35.4 billion using different procurement methods. Out of this amount, PhP 26.2 billion (or 74 percent of the total value of contracts) was procured through competitive method. Score for Dimension 24.2 is thus assessed as "B".

### ***Dimension 24.3 Public access to procurement information***

3.186. At least five of the six key procurement information elements are complete and reliable for national government agencies representing most (75 percent or better) of procurement operations (by value) and made available to the public through appropriate means. The

Philippine public procurement system makes available to the public (a) the legal and regulatory framework as published on GPPB website ([www.gppb.gov.ph](http://www.gppb.gov.ph)); (b) the government procurement plans in each NGA website; (c) the bidding opportunities in PhilGEPS ([www.philgeps.gov.ph](http://www.philgeps.gov.ph)); (d) contract awards with purpose, contractor, and value in PhilGEPS on each NGA website; and (e) data on resolution of complaints in GPPB website. It is not publishing yet the data on annual procurement statistics. Score for Dimension 24.3 is assessed at “B”.

#### ***Dimension 24.4 Procurement complaints management***

3.187. While the Government Procurement Reform Act provides a protest mechanism, there is no provision for an independent administrative procurement complaints body. Moreover, the protest mechanism requires payment of fees that may discourage aggrieved parties. Scores for Dimension 24.4 is assessed at “D”.

#### **PI-25 Internal controls on non-salary expenditure**

3.188. This indicator measures the effectiveness of general internal controls for non-salary expenditures. Specific expenditure controls on public service salaries are considered in PI-23.

<i>Indicator / Dimension</i>	<i>Score</i>	<i>Brief explanation</i>
<b>PI-25 Internal controls on non-salary expenditure</b>	<b>B+</b>	Overall rating based on M2 methodology.
25.1 Segregation of duties	A	Segregation of duties is prescribed throughout the process.
25.2 Effectiveness of expenditure commitment controls	B	Controls exist for limiting commitments to budget allocations and cash allocations. Effectiveness is limited by continuing appropriations and weak systems for recording and reporting commitments and expenditures by year of budget allocation.
25.3 Compliance with payment rules and procedures	B	CoA audit reports raise observations on instances of non-compliance and most departments are issued a modified opinion. However, most payments comply with regular payment procedures and the instances of non-compliance are not the main reason for qualified opinions in a majority of cases.

#### ***Dimension 25.1 Segregation of duties***

3.189. The NGICS provides that key duties and responsibilities need to be divided or segregated among different people to reduce the risk of error or fraud. This includes separating the assignment of responsibilities for processing, reviewing, recording, custody, and approval/authorization of certain transactions. The organization of national government agencies ensures that duties are delegated and any conflicting responsibilities are segregated. The Accounting Division in charge of the recording and keeping the books is usually under the Financial Management Service, separate from the Administrative Service that normally handles

the cashiering function. Procurement is also a separate function that works alongside the Bids and Awards Committee.

3.190. The implementation of reforms in budgeting, cash/treasury management, accounting (e.g., adoption of Philippine Public Sector Accounting Standards or PPSAS and the revised chart of accounts), and auditing necessitated the updating of rules, regulations, guidelines, and manuals. Hence, the Commission on Audit developed and prescribed the Government Accounting Manual for National Government Agencies through CoA Circular No. 2015-007 dated October 22, 2015. The Manual, which took effect on January 1, 2016, replaces the NGAS Manual, which is no longer in harmony with existing financial management processes. The Government Accounting Manual for NGAs presents the basic accounting policies and principles in accordance with the PPSAS adopted through CoA Resolution No. 2014-003, dated January 24, 2014; other pertinent laws, rules, and regulations; the revised chart of accounts prescribed under CoA Circular No. 2013-002, dated January 30, 2013, as amended; accounting procedures, books, registries, records, forms, reports, and financial statements; and illustrative accounting entries. Delineation of responsibilities over government transactions and the detailed activities to be performed by each area of responsibility are detailed in Volume I of both the NGAS Manual and Government Account Manual for NGAs. Score for Dimension 25.1 is thus assessed as “A”.

#### ***Dimension 25.2 Effectiveness of expenditure commitment controls***

3.191. Procedures for incurring expenditure commitments consist of a series of prior approvals and clearances from the Department of Budget and Management. In 2014, the Department of Budget and Management initiated the use of the General Appropriations Act as a release document, which means that the budgets – except for those included in the negative list – are considered released when the General Appropriations Act is enacted. Disbursement authorities (i.e., notice of cash allocation, non-cash avialment authority, and cash disbursement ceiling) are still issued, as the case may be, to settle the obligations of agencies. The scheme intends to speed up budgetary releases as agencies can immediately initiate procurement processes. The Special Allotment Release Order is applicable to those in the negative list only.

3.192. There are controls in place to ensure that expenditures are within the allotments, and allotments are within the appropriations. For instance, budget divisions/units are required to approve obligation requests, maintain registries, and submit financial accountability reports to track releases of allotments, commitments, and obligations. No contract involving the expenditure of public funds by any government agency shall be entered into or authorized unless the concerned agency accounting official has certified that duly appropriated funds are available to cover the proposed contract for the current fiscal year. Thus the score for Dimension 25.2 is assessed at “B”.

#### ***Dimension 25.3 Compliance with payment rules and procedures***

3.193. Both the NGAS Manual, Volume 1, and Government Accounting Manual for NGAs outline procedures for disbursement, either by cash or by check. The payment process includes sufficiently strong internal controls. The CoA audit reports raise observations on instances of non-compliance and most audit opinions are modified (i.e., qualified or adverse). However, most

payments comply with regular payment procedures, and in a majority of cases the instances of non-compliance are not the main causes of the qualified opinions. The score for Dimension 25.3 is assessed at “B”.

### **PI-26 Internal audit**

3.194. This indicator assesses the standards and procedures applied in internal audit.

<i>Indicator / Dimension</i>	<i>Score</i>	<i>Brief Explanation</i>
<b>PI-26 Internal audit</b>	<b>C+</b>	Overall rating based on M1 methodology.
26.1 Coverage of internal audit	A	Internal Audit Service or Internal Audit Unit has been established in all national government agencies covering revenue and expenditure.
26.2 Nature of audits and standards applied	B	Under the Philippine Government Internal Audit Manual, the internal audit function conducts compliance, operations, and management audit. However, quality assurance process is not yet in place.
26.3 Implementation of internal audits and reporting	C	Audit programs are largely completed, but with delays. The report is submitted to the Secretary of the department but not to DBM or CoA.
26.4 Response to internal audits	B	In every internal audit report issued, Internal Audit Service and Internal Audit Unit provide recommendations that are presented to the head of the audited unit. Management response is solicited to indicate corresponding action plan, and a formal response is received in most instances within 12 months.

#### ***Dimension 26.1 Coverage of internal audit***

3.195. The institutionalization of the internal audit function is based on Philippine laws and statutes, the most recent of which is the DBM Circular Letter No. 2008-05 dated April 14, 2008, which provides guidelines in the organization of the Internal Audit Service or Internal Audit Unit, clarifying its functions and specifying the rank and salary grade of the head of the Internal Audit Service and Units. The head of the Internal Audit Service or Internal Audit Unit reports directly to the head of the agency or the secretary.

3.196. The Internal Audit Service or Internal Audit Unit have been formally established in all national government agencies. Since internal audit is operational for all central government entities, the score for Dimension 26.1 is assessed as “A”.

#### ***Dimension 26.2 Nature of audits and standards applied***

3.197. In accordance with the Administrative Code of 1987, and as emphasized in the NGICS, the functions of the Internal Audit Service or Internal Audit Unit include the following:

- Advise the Department Secretary and Head of Agency, or the governing body through the Audit Committee in the case of GOCCs and government financial institutions, on all matters relating to management control and operations audits;
- Conduct with department, agency, GOCC, and government financial institutions the management and operations audits of functions, programs, projects, activities with outputs, and determine the degree of compliance with their mandate, policies, government regulations, established objectives systems and procedures /processes and contractual obligations;
- Review and appraise systems and procedures, organizational structures, asset management practices, financial and management records, reports and performance standards of the department proper, bureaus and regional offices;
- Analyze and evaluate management deficiencies and assist top management by recommending realistic courses of action; and
- Perform such other related duties and responsibilities as may be assigned or delegated by the secretary or the governing board or as may be required by law.

3.198. Through Circular Letter No. 2011-5, dated May 19, 2011, the Department of Budget and Management issued the Philippine Government Internal Audit Manual, which contains guidelines that outline basic concepts and principles of internal audit; policies and standards that will guide government agencies in organizing, managing, and conducting an effective internal audit; and practices that provide user-friendly tools, techniques, and approaches in appraising the internal control systems against strategic objectives and in conducting management and operations audits.

3.199. According to the Philippine Government Internal Audit Manual, the Internal Audit Service or Internal Audit Unit performs three types of audit: compliance, management, and operations. In most agencies, it is organized to have two divisions – management audit and operations audit. Annual audit programs are prepared and recommendations for improvement in internal controls are provided. Formal quality assurance function within Internal Audit Units is not currently in place. Score for Dimension 26.2 is assessed at “B”.

### ***Dimension 26.3 Implementation of internal audits and reporting***

3.197. Each agency’s Internal Audit Service or Internal Audit Unit prepares and executes an annual audit program. The assessment considered a sample of large agencies, including DPWH, DSWD, DepEd, DoA, and DoF.

3.198. Audit programs are usually completed, but there are delays in completion often attributed to shortage of staff. Most units are able to complete and submit reports, but not as per planned timelines. These reports are submitted to the secretary of the department. Reports are not submitted to the Department of Budget and Management or Commission on Audit and a central (i.e., single) database of the reports is currently not present. Data on performance of the units i.e. full completion of approved audit plan, was consolidated by the Department of Budget and Management. This showed that majority of the audit plans are completed but delays are



common. Score for Dimension 26.3 is assessed at “C” due to delays and limited distribution of reports.

### ***Dimension 26.4 Response to internal audits***

3.200. In every final internal audit report issued, Internal Audit Service or Internal Audit Units provide recommendations that are presented to the head of the audited unit and the department secretary. Management response is solicited to indicate the corresponding action plan that will be undertaken.

3.201. The DPWH Internal Audit Service has developed a system in the conduct of audit follow-up that is being used to determine the degree of compliance of the audited unit to the recommendations. In DOTC, a clear process with timelines is prescribed for management response on the recommendations. The head of the audited unit submits a signed, written response within twelve months. Similar processes are in place in other departments. Score for Dimension 26.4 is assessed at “B”.

## **Pillar VI. Accounting and Reporting**

### **PI-27 Financial data integrity**

3.202. This indicator assesses the extent to which treasury bank accounts, suspense accounts, and advance accounts are regularly reconciled and how the processes in place support the integrity of financial data.

<i>Indicator / Dimension</i>	<i>Score</i>	<i>Brief explanation</i>
<b>PI-27 Financial data integrity</b>	<b>C+</b>	Overall rating based on M2 methodology.
27.1 Bank account reconciliation	D	While monthly Bank Reconciliation Statements are prescribed per law, issues of non-preparation / delayed submission and/or non-recording of reconciling items are substantial as per CoA audit reports which cite unreliable cash balances.
27.2 Suspense accounts	A	The revised chart of accounts does not provide for any suspense account.
27.3 Advance accounts	C	Advances are reconciled in that break-up of outstanding amounts is available. Despite repeated efforts, significant advances remain outstanding long after the prescribed periods for settlement.
27.4 Financial data integrity processes	C	While access to records is restricted, often without audit trail, the quality and reliability of financial reporting process is low due to use of spreadsheet that lacks controls for assuring financial data integrity.

### ***Dimension 27.1 Bank account reconciliation***

3.203. Timely comparison between all government bank account transaction data and government cashbooks should be undertaken on a regular basis, the results reported, and actions taken to reconcile any differences. Such reconciliation is fundamental to the integrity of the accounting records and financial statements.

3.204. Monthly bank reconciliation is required under Section 74 of Presidential Decree 1445 as well as CoA Circular No. 92-125A, dated March 4, 1992. Several agencies are preparing the bank reconciliations but with delays. CoA's 2013 audit of Bureau of the Treasury reported unreliable cash balance resulting from unreconciled cash sub-accounts and non-confirmation by banks of the balance. Common Audit Observations and Recommendations from the annual audit reports for national government agencies for 2013 included the following issues related to bank reconciliations: (a) non-preparation; (b) delayed submission; and (c) non-recording of the reconciling items. Deficiencies are considered substantial. The score for Dimension 27.1 is assessed at "D".

### ***Dimension 27.2 Suspense accounts***

3.205. Suspense accounts refer to unclassified debits and credits awaiting proper identification for classification. The revised chart of accounts does not provide for any suspense account. There is no need for reconciliation because the revised chart of accounts does provide for recording of any suspense account. Score for Dimension 27.2 is assessed at "A".

### ***Dimension 27.3 Advance accounts***

3.206. Under existing regulations, cash advances must be liquidated within the prescribed periods depending upon the nature and purpose of the advance (e.g., for salaries and wages); petty and field operating expenses; and local and foreign travel. Included among operating expenses are cash advances for the payment of honoraria and similar payments to officials and employees; operating expenditures for special projects and activities like anniversary celebrations; and special purpose and time-bound activity like cultural and athletic activities. These must be liquidated within 20 days from accomplishment of the purpose.

3.207. The Commission on Audit, through Circular No. 2012-004, dated November 28, 2012, demanded for immediate liquidation and settlement of all outstanding cash advances as of December 31, 2011. Despite such demand, the audit of national government agencies revealed that there remained significant balances of unliquidated cash advances. Listing of these advances is available with concerned agencies.

3.208. Based on CoA Annual Financial Report for 2014, only PhP 13.49 billion out of the total cash advance of PhP 31.43 billion granted during FY2014 or 43 percent had been liquidated; therefore, the unliquidated balance at year-end totaled PhP 17.94 billion or 57 percent. Further, out of the PhP 35.29 billion cash advance granted in prior years, only PhP 6.90 billion or 20 percent had been liquidated in FY2014. Therefore, there had been an unliquidated balance from prior years totaling PhP 28.38 billion or 80 percent of the outstanding balance. While cash advances were not liquidated within the prescribed period, a reconciliation of these accounts is

prepared annually with full details, within two months of the end of the fiscal year. The score for Dimension 27.3 is thus assessed at “C”.

#### ***Dimension 27.4 Financial data integrity processes***

3.209. The eNGAS, a CoA-crafted computerized system, was rolled out to national government agencies in 2003. It specifically addresses the computerization of the government’s accounting system and automatic generation of required financial statements and reports. Embedded in eNGAS are access controls and an audit trail. The Commission on Audit commenced the rollout for eNGAS, Version 1.2.0, in 2003, with CoA Central Office as the pilot agency. The Commission, in an effort to resolve implementation issues/concerns in the system reported by users, came up with version 1.2.2 of the eNGAS. Thus, through CoA Resolution No. 2010-010, dated November 15, 2010, the Commission on Audit resumed the rollout of eNGAS. As of November 2012, eNGAS was rolled out in 406 agencies, of which 206 are DPWH (central, regional, and district) offices. However, the system rolled out to 389 offices was version 1.2.1. Only 17 offices received version 1.2.2. The eNGAS version 1.2.1 includes some features for consolidation but these could not be operationalized. Consolidation of data at regional and then central offices, essential for submitting required financial reports for departments or agencies, is done on spreadsheets. Additionally, the agencies lacking eNGAS are using manual record-keeping with appropriate segregation of duties and restrictions but still resort to spreadsheet for preparing financial reports. As reported by CoA, an enhanced version of eNGAS (v 2.0.0) was implemented starting September 2014. As of December 31, 2015, training has been provided to 210 offices of national government agencies.

3.210. Audit opinions from the Commission on Audit are seldom unqualified as shown in Tables 3.27 and 3.28. As indicated in the audit reports, reasons for modified opinions are due to misstatements/inaccuracies in the financial statements. The score for Dimension 27.4 is assessed at “C” because, although access to basic records is restricted, changes in spreadsheets used for consolidating financial reports are without an audit trail and quality of data in financial reports may not be considered reliable.

**Table 3.21: Tally of Audit Opinions**

Type of Audit Opinion	2014	2013	2012	2011
Unqualified	2	3	2	2
Qualified	19	17	15	18
Adverse	4	8	12	7
Disclaimer	-	1	-	2
No annual audit report, only ML	4	-	-	-
<b>TOTAL</b>	<b>29</b>	<b>29</b>	<b>29</b>	<b>29</b>

Source: CoA

Note: Data as of February 24, 2016

**Table 3.22: CoA Audit Opinions rendered to Selected Departments and Agencies**

Agency	2014	Issue date	2013	Issue date	2012	Issue date	2011	Issue date
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	Agency	2014	Issue date	2013	Issue date	2012	Issue date	2011	Issue date
1	Department of Agrarian Reform	Q	Oct 30, 2015	A	Oct 28, 2014	A	Aug 29, 2013	A	Nov 13, 2012
2	Department of Agriculture	A	July 6, 2015	A	Oct 20, 2014	A	Sep 18, 2013	A	Nov 14, 2012
3	Department of Budget and Management	Q	Aug 28, 2015	Q	Jun 30, 2014	Q	Jun 25, 2013	Q	May 30, 2012
4	Department of Education	Q	Jun 15, 2015	Q	Oct 15, 2014	Q	Jul 31, 2013	Q	Jun 30, 2012
5	Department of Energy	Q	Oct 30, 2015	Q	Sep 10, 2014	Q	Feb 28, 2013	Q	Feb 28, 2012
6	Department of Environment and Natural Resources	Q	Jun 4, 2015	A	Jun 30, 2014	A	May 31, 2013	A	Jun 11, 2012
7	Department of Finance	Q	Jun 16, 2015	UQ	Apr 15, 2014	Q	Mar 22, 2013	Q	Apr 20, 2012
8	Department of Foreign Affairs	Q	Jul 30, 2015	Q	Aug 22, 2014	Q	Jun 17, 2013	Q	May 31, 2012
9	Department of Health	Q	Apr 10, 2015	Q	Oct 3, 2014	Q	Jul 31, 2013	Q	May 31, 2012
10	Department of Justice	A	Jun 29, 2015	A	Jun 30, 2014	A	Jun 20, 2013	Q	Feb 28, 2012
11	Department of Interior and Local Government	Q	Jun 11, 2015	Q	Jul 31, 2014	A	Jun 30, 2013	Q	Jun 1, 2012
12	Department of Labor and Employment	Q	Jun 29, 2015	Q	Jul 7, 2014	Q	Aug 8, 2013	Q	Jun 29, 2012
13	Department of National Defense	No AAR; only ML		Q	May 30, 2014	A	Apr 30, 2013	Q	Apr 30, 2012
14	Department of Public Works and Highways	A	Nov 5, 2015	Q	Apr 10, 2014	A	Nov 25, 2013	A	Oct 29, 2012
15	Department of Science and Technology	Q	Jun 30, 2015	Q	Nov 27, 2014	Q	Jun 17, 2013	Q	May 10, 2012
16	Department of Social Welfare and Development	Q	Jun 30, 2015	Q	Sept 4, 2014	Q	May 31, 2013	Q	Jun 30, 2012
17	Department of Tourism	Q	Jun 30, 2015	Q	Apr 10, 2015	Q	Jul 26, 2013	Q	Oct 29, 2012
18	Department of Trade and Industry	Q	Aug 28, 2015	A	Sep 5, 2014	A	Jul 10, 2013	A	Jul 31, 2012
19	Department of Transportation and Communication	Q	Oct 30, 2015	Q	Mar 30, 2015	A	Not dated	A	Nov 16, 2012
20	Metropolitan Manila Development Authority	Q	July 16, 2015	Q	Oct 22, 2014	Q	Aug 15, 2013	A	Feb 28, 2012
21	National Economic Development Authority	Q	May 29, 2015	Q	May 16, 2014	Q	Jun 15, 2013	Q	May 14, 2012
22	Philippine National Police	A	Jun 30, 2015	A	May 26, 2014	A	Apr 30, 2013	Q	Aug 15, 2012
23	BIR - National Government Books	No AAR; only ML		D	Apr 30, 2014	Q	Jun 15, 2013	Q	Jul 6, 2012
24	BIR - Regular Agency Books	No AAR; only ML		A	Apr 30, 2014	A	Jun 15, 2013	D	Jul 6, 2012

	Agency	2014	Issue date	2013	Issue date	2012	Issue date	2011	Issue date
25	Bureau of Customs	No AAR; only ML		A	May 2, 2014	A	May 23, 2013	D	Apr 30, 2012
26	Office of the President	Q	Apr 30, 2015	Q	Jul 15, 2014	Q	Not dated	Q	Apr 20, 2012
27	Office of the Vice-President	Q	Jun 16, 2015	UQ	Mar 30, 2014	UQ	Mar 1, 2013	UQ	Feb 24, 2012
28	House of Representatives	UQ	Apr 24, 2015	UQ	May 30, 2014	UQ	Apr 30, 2013	Q	Apr 23, 2012
29	Senate of the Philippines	UQ	May 18, 2015	Q	May 5, 2014	Q	May 21, 2013	UQ	May 15, 2012

Note: Q: Qualified opinion, UQ: Unqualified opinion, A: Adverse opinion, D: Disclaimer of opinion, No AAR: No Annual Audit Report, only Management Letter issued.

## PI-28 In-year budget reports

3.211. This indicator assesses the comprehensiveness, accuracy and timeliness of information on budget execution. In-year budget reports must be consistent with budget coverage and classifications to allow monitoring of budget performance and, if necessary, timely use of corrective measures.

<i>Indicator / Dimension</i>	<i>Score</i>	<i>Brief Explanation</i>
<b>PI-28 In-year budget reports</b>	<b>D+</b>	Overall rating based on M1 methodology.
28.1 Coverage and comparability of reports	A	Several reports on budget execution and accountability are required to be submitted by the departments and agencies to both CoA and DBM. Formats of these reports comprehensively cover expenditures and comparison with budget estimates.
28.2 Timing of in-year budget reports	D	Timely submission remains to be a challenge among a number of line departments and agencies. As of February 29, 2016, less than 20% of reports for second, third or fourth quarter were received.
28.3 Accuracy of in-year budget reports	C	The reports are prepared manually using spreadsheet. Although there is some level of data extraction from systems such as eBudget and eNGAS, not all agencies and departments have fully rolled out these systems. Despite limitations, these are used by DBM for planning and monitoring.

### *Dimension 28.1 Coverage and comparability of reports*

3.212. Several reports, as enumerated in Table 3.29, are required to be submitted by the line departments and agencies to both Commission on Audit and Department of Budget and Management. The Department of Budget and Management requires submission of various

Budget Execution Documents and Budget and Financial Accountability Reports on a monthly, quarterly, and annual basis. The DBM/CoA-issued Joint Circular No. 2014-1 dated July 2, 2014, provides guidelines prescribing the use of modified formats of Budget and Financial Accountability Reports. The scope and timing of submission of these reports are indicated in the Joint Circular and in Sections 31 and 32, Chapter 3, Volume I of the Government Accounting Manual for NGAs. Considering the scope and coverage of these reports, the score for Dimension 28.1 is assessed at “A”.

3.213. On the basis of the submissions of Budget and Financial Accountability Reports by line departments and agencies, the CoA-prepared 2014 Annual Report on Appropriations, Allotments, Obligations and Disbursements (ARAAOD), provides financial information on how the national budget was allocated to the different government departments and agencies by region, by province, and by cities; and on how these funds were expended by the agencies. Data on appropriations, allotments, obligations incurred, and disbursements made were presented by department/agency and by province/city.

**Table 3.23: Budget Execution Documents and Budget and Financial Accountability Reports**

<i>Report ID</i>	<i>Title</i>	<i>Description</i>
<b><i>Within 30 days after the end of each quarter</i></b>		
BAR No. 1	Quarterly Physical Report of Operations (QPRO)	QPRO shall reflect the department’s/agency’s actual physical accomplishments as of a given quarter in terms of the performance indicated its physical plan (BED No. 2)
FAR No. 1	Statement of Appropriations, Allotments, Obligations, Disbursements and Balances (SAAODB)	SAAODB shall reflect the authorized appropriations and adjustments; total allotments received, including transfers/adjustments, total obligations, total disbursements and the balances of unreleased appropriations; unobligated allotments; and unpaid obligations of a department/office/agency by fund cluster and by allotment class. It shall likewise be presented by (a) fund authorization; (b) major final output; (c) program, activity, and project (PAP); and (d) major programs/projects (identified by KRA).
FAR No. 1-A	Summary of Appropriations, Allotments, Obligations, Disbursements and Balances by Object of Expenditures (SAAODBOE)	SAAODBOE shall be prepared by fund cluster and shall reflect the summary of appropriations, allotments, obligations, disbursements, and balances detailed by object of expenditures consistent with the Revised Chart of Accounts per CoA Circular No, 2013-002, dated January 30, 2013, and the conversion from the Philippine Government Chart of Accounts to the Revised Chart of Accounts, additional accounts/revised description/title of accounts per CoA Circular No 2014-003, dated April 15, 2014.
FAR No. 1-B	List of Allotments and Sub-allotments (LASA)	LASA shall reflect allotments released by DBM and the sub-allotments issued by the agency central/regional office, their corresponding numbers, date of issuance, and amounts by allotment class and by fund cluster. The total allotments per LASA should be equal to the total allotments appearing in SAAODB (FAR No. 1).

<i>Report ID</i>	<i>Title</i>	<i>Description</i>
FAR No. 2	Statement of Approved Budget, Utilizations, Disbursements and Balances (SABUDB) (for Off-Budget Fund)	SABUDB shall reflect the approved budget, utilizations, disbursements, and balances of the agency authorized by law to use their income such as state universities and colleges, and approved by the Board of Trustee/Regents, and shall be prepared by fund cluster.
BFAR No. 2-A	Summary of Approved Budget, Utilizations, Disbursements and Balances by Object of Expenditures (SABUDBOE) (for Off-Budget Fund)	SABUDBOE shall reflect the details of the approved budget, utilizations, disbursements, and balances of the agency authorized by law to use their income presented by object of expenditures consistent with the CoA Revised Chart of Accounts, and shall be prepared by fund cluster.
FAR No. 5	Quarterly Report of Revenue and Other Receipts (QRROR)	QRROR shall reflect the report on actual revenue and other receipts of the agency/operating units for the current year presented by quarter, and by specific sources consistent with the CoA Revised Chart of Accounts.
<b><u>On or before 30th day following the end of the year</u></b>		
FAR No. 3	Aging of Due and Demandable Obligations (ADDO)	ADDO shall be prepared by the fund cluster and shall reflect the balance of unpaid obligations as indicated in the Obligation Request and the aging of due and demandable obligations as of year-end.
BED No. 4	List of Not Yet Due and Demandable Obligations	This report shall reflect the level of obligations/ expenditures charged against prior year's budget, for which goods/services/projects are not yet delivered/rendered/ completed and accepted as of the preceding year.
<b><u>On or before 30th day of the following month covered by the report</u></b>		
FAR No. 4	Monthly Report of Disbursements	This report shall reflect the total disbursements made by department, office, or agency and the operating unit by Fund Cluster from the following disbursement authorities: a) Notice of Cash Allocation; b) Notice of cash allocation for the BTr-issued Working Fund as an advance funding from loan/grants proceeds in favor of an agency; c) Tax remittance advice issued; d) Cash disbursement ceiling issued by departments with foreign-based agencies or units; e) Non-cash availment authority; f) Others, e.g. Customs, Duties and Taxes, BTr Documentary Stamps.
<b><u>On or before February 15 of every year</u></b>		
BED No. 1	Physical and Financial Plan (PFP)	PFP shall reflect the overall physical (targeted outputs) and financial (estimated obligations/expenditures) plan of the agency with their approved budget level for the year, broken down by quarters.
BED No. 2	Monthly Cash Program	This report shall reflect the monthly disbursement requirements of the agency, which is the basis for issuance of notice of cash allocation, cash disbursement ceiling, and other disbursement authorities.
BED No. 3	Estimate of Monthly Income	This report shall reflect estimated income for the year by source, as contained under the Budget Expenditures and Sources of financing of the given year.

***Dimension 28.2 Timing of in-year budget reports***

3.214. Line departments and agencies submit their reports through Online Submission of Budget Proposal System, which is then consolidated in the Unified Reporting System being managed by the DBM Information and Communications Technology and System Service. Monthly in-year reports such as the Report on Utilization of Cash Allocation and Status of Allotment Releases and the quarterly Statement of Allotment, Obligation, and Balances are published on the DBM website ([www.dbm.gov.ph](http://www.dbm.gov.ph)).

3.215. Timely submission remains a challenge. The status on submissions of Budget and Financial Accountability Reports generated from the DBM Unified Reporting System, as of February 29, 2016, for 2015 budget execution showed that less than 20 percent of line departments and agencies had submitted their reports for all the quarter ends. The report indicated non-submission or delay in compliance. The Commission on Audit also noted the same observations in most of departments' annual audit reports for calendar year 2014. Extensive delays in the submission undermine relevance of the information. Score for Dimension 28.2 is assessed at "D".

### ***Dimension 28.3 Accuracy of in-year budget reports***

3.216. The budget execution and accountability reports are prepared manually using spreadsheet. Although there is some level of data extraction from systems such as eBudget System and eNGAS, not all agencies and departments have fully rolled out these systems. Reliability of the information may be questionable considering the lack of appropriate control mechanisms to ensure accuracy and validity of financial data. As such, consolidation is entirely manual with supervisory review and authorization that does not fully mitigate the inherent risk of errors and omissions.

3.217. Despite the limitations in accuracy and completeness of the reports, different operation bureaus in Department of Budget and Management use these reports for planning and monitoring. Score for Dimension 28.3 is assessed at "C".

### **PI-29 Annual financial reports**

3.218. This indicator assesses the extent to which annual financial statements are complete, timely, and consistent with generally accepted accounting principles and standards. This is crucial for accountability and transparency in the public financial management system.

<i>Indicator / Dimension</i>	<i>Score</i>	<i>Brief explanation</i>
<b>PI-29 Annual financial reports</b>	<b>C+</b>	Overall rating based on M1 methodology.
29.1 Completeness of Annual Financial Reports	B	The Annual Financial Report includes information on revenue, expenditure, financial assets, financial liabilities, guarantees and long-term obligations. Comparison of budget with outturn is provided in ARAOD introduced in 1997 and enhanced to ARAAOD in 2014.



<i>Indicator / Dimension</i>	<i>Score</i>	<i>Brief explanation</i>
29.2 Submission of reports for external audit	C	Financial statements of major spending agencies included in the report are submitted for audit within nine months of end of the fiscal year.
29.3 Accounting standards	A	In 2014, CoA adopted 25 PPSAS based on IPSAS. In the previous years, NGAS was applied. The 2014 audited financial statements of national government agencies included disclosure on compliance with PPSAS in the notes to financial statements.

### ***Dimension 29.1 Completeness of annual financial reports***

3.219. The Philippine Constitution (Section 4, Article IX-D) mandates the Commission on Audit to submit to the President and Congress the Annual Financial Report of the Government. Further, Section 41 of Presidential Decree No. 1445 of the Government Auditing Code of the Philippines, requires that an annual report on the financial condition and results of operations of all agencies of the government, which shall include recommendations of measures necessary to improve their efficiency and effectiveness, will be submitted not later than September 30 of each year.

3.220. The Annual Financial Report is prepared to provide information on the total approved budget, total released allotments, obligations incurred, and the unused balance of the appropriations. It also provides vital information about the financial condition, cash inflows and outflows, and the results of operations of national government agencies. Among the financial information in the Annual Financial Report prior to FY2014 are as follows:

- a) Condensed Balance Sheet;
- b) Condensed Statement of Income and Expenses;
- c) Condensed Statement of Government Equity;
- d) Condensed Statement of Cash Flows;
- e) Notes to Financial Statements;
- f) Financial Analyses of Balance Sheet Assets, Liabilities and Equity;
- g) Financial Analyses of Statement of Income and Expenses;
- h) Financial Analyses of Cash Flows;
- i) National Government Debt; and
- j) Significant and Common Audit Observation and Recommendations.

3.221. With the adoption of 25 PPSAS through CoA Resolution No. 2014-003, dated January 24, 2014, the Commission on Audit renamed and reformatted the four financial statements prescribed under the NGAS and required two more financial statements to be submitted by government agencies. The Annual Financial Report for National Government Agencies for 2014 includes the following financial information:

- a) Statement of Financial Position, showing current and non-current assets and liabilities;
- b) Statement of Financial Performance;
- c) Statement of Cash Flows;

- d) Statement of Changes in Net Assets/Equity;
- e) Statement of Comparison of Budget and Actual Amounts;
- f) Notes to Financial Statements;
- g) National Government Debt;
- h) Significant and Common Audit Observations and Recommendations; and
- i) Summary of Audit Opinions.

3.222. The Bureau of the Treasury maintains the national government books. The financial data is taken from payment and collection reports from the authorized government depository banks and authorized agent banks. Under the NGAS, national government agencies maintained two sets of books (regular agency and national government books) and submitted two sets of financial statements, which were prepared by agency accountants in accordance with existing rules and regulations. Since UACS adoption in 2014, national government agencies maintain books of accounts by fund cluster. There are seven fund clusters provided in the UACS Manual. The financial data for the Annual Financial Report is taken from audited financial statements; the agency accountants prepare the reports in accordance with existing rules and regulations.

3.223. Misstatements identified during audit are discussed with management during audit exit conferences, usually through an Audit Observations Memorandum (AOM). Ideally, agency accountants adjust their books of accounts based on audit recommendations and submit adjusted financial statements. However, misstatements might be adjusted in the ensuing year particularly in cases when there is no time, due to submission deadlines of audit reports, to make adjustments and submit the adjusted financial statements to auditors. Misstatements that remained unadjusted are considered by the auditors in rendering opinion, other than unqualified opinion, on the fairness of the presentation of the financial statements. Many of these errors in the individual financial statements are material, resulting in qualified opinions and using them without the appropriate rectification leads to inaccurate reporting in the Annual Financial Report. Furthermore, the inter-agency balances are not adjusted, and thus the data is simply compiled rather than consolidated. The Commission on Audit does not provide an overall audit opinion on the Annual Financial Report. Due to the qualified opinions on the majority of individual agency financial statements, integrity and completeness of overall financial data may not be ascertained. Nevertheless, the Commission mentioned that previous experiences disclosed no material discrepancies that may adversely affect the integrity of the overall financial data.

3.224. Starting 2014, the Annual Financial Report includes a statement comparing the obligations with the original budget. However, pursuant to RA No. 7226 dated March 12, 1992, the Commission on Audit prepares a separate report named Annual Report on Allotments, Obligations and Disbursements (ARAOD). In 2014, the Commission prepared Annual Report on Appropriations, Allotments, Obligations and Disbursements (ARAAOD) in compliance with RA 7226 and Special Provision No. 6 on the Commission on Audit in the General Appropriations Act of 2014. The Budget and Financial Accountability Reports form the basis of this report as submitted to the Commission on Audit and Department of Budget and Management as outlined in the DBM/CoA Joint Circular No. 2014-1, dated July 2, 2014. The 2014 ARAOD was submitted to the President, Senate, and House of Representatives on April 30, 2015.

3.225. Considering the information contained in the Annual Financial Report and ARAAOD introduced in 2014, the score for Dimension 29.1 is assessed at “B”.

### ***Dimension 29.2 Submission of reports for external audit***

3.226. The annual financial statements of different departments and agencies are submitted to the Commission on Audit after close of the fiscal year. Based on records given by the Commission on some selected departments and agencies for 2014, the earliest agency to submit was the Philippine Racing Commission on January 14, 2015, while the last financial statements received were from the Construction Industry Authority of the Philippines on March 28, 2016. Submission of the financial statement of the major spending agencies fell within nine months of the end of the fiscal year. Score for Dimension 29.2 is assessed at “C”.

### ***Dimension 29.3 Accounting standards***

3.227. In CoA Resolution No. 2014-003, dated January 24, 2014, the Philippine Public Sector Accounting Standards were adopted shifting from the previously issued State Accounting Standards. The PPSAS are broadly consistent with the International Public Sector Accounting Standards (IPSAS) and are set by the Commission on Audit through its Public Sector Accounting Standards Board to harmonize the existing public sector accounting standards to the prevailing international standards. As part of PPSAS, the Commission issued Philippine Application Guidance where international standards are not applicable under the Philippine regulatory or legislative environment. Out of 32 IPSAS contained in the 2012 Edition of the Handbook of International Public Sector Accounting Pronouncements, 28 were found applicable in the Philippine setting, and 25 had already been implemented in 2014. The remaining 3 in the 2012 Handbook, as well as IPSAS in the 2015 Handbook, are being evaluated for possible implementation in 2017. Chart of accounts and the NGAS Manual were also revised in line with the change in accounting standards.

3.228. The CoA-issued audit reports include information on the basis of preparation of the financial statements. The disclosure on compliance to PPSAS and the revised chart of accounts is also included in the Notes to Financial Statements of the audited financial statements for CY2014. As indicated in the audit reports, reasons for modified opinions are due to misstatements/inaccuracies in the financial statements and not due to major departure in the prescribed accounting standards. Score for Dimension 29.3 is assessed at “A” since most IPSAS have been adopted and applied.

## **Pillar VII. External Scrutiny and Audit**

### **PI-30 External audit**

3.229. This indicator examines the characteristics of external audit.

<i>Indicator / Dimension</i>	<i>Score</i>	<i>Brief Explanation</i>
<b>PI-30 External audit</b>	C+	Overall rating based on M1 methodology.

<i>Indicator / Dimension</i>	<i>Score</i>	<i>Brief Explanation</i>
30.1 Audit coverage and standards	C	PPSSA, based on ISSAI, were adopted on January 29, 2013 and are applied for all audits. In 2011, a risk-based audit methodology was adopted. The scope of the audit covers the entire government but verification of revenues collected by BIR is not conducted pending approved guidelines in audit of tax assessment.
30.2 Submission of audit reports to the legislature	C	Audit reports are submitted to the head of the concerned department within 9 months of receipt of the financial reports for audit.
30.3 External audit follow-up	B	A formal response on recommendations is provided by management of audited entity, and action is taken on a majority of the recommendations.
30.4 Supreme Audit Institution (SAI) Independence	B	CoA's independence regarding appointment/ removal of the Head is laid down in the Constitution and is free from Executive's interference from the planning of audit engagement, arrangement for publicizing reports, and approval and execution of budget. While there is unrestricted access to information for expenditure, scope of audit for revenue collected by BIR (70% of revenues) is limited.

### ***Dimension 30.1 Audit coverage and standards***

3.230. The Commission on Audit performs financial and compliance audits of all national government agencies, local government units, and GOCCs. It also carries out value-for-money (performance audit), fraud and other special audits.

3.231. The audit is conducted according to Philippine Public Sector Standards on Auditing (PPSSA), which were adopted through CoA Resolutions No. 2013-007, 2014-011, and 2016-010, dated January 29, 2013, May 7, 2014 and May 10, 2016, respectively, to align with international standards. In 2011, the Commission on Audit shifted from the risk-based audit approach to the integrated results and risk-based audit methodology and formulated the Forensic Audit Manual; with this approach the Commission would be able to integrate its different types of audits into a holistic audit methodology that would take into consideration the projected and actual outputs and outcomes of programs, activities, and projects of government agencies. The Commission on Audit developed the Integrated Results and Risk-Based Audit Software, a computer-based tool that state auditors employ in conducting their audit. Training on this tool started in 2014 and is ongoing.

3.232. Scope of the audit covers the entire government expenditures. Executive Order 38, issued in 1998, requires the Department of Finance and Bureau of Internal Revenue to adopt certain measures and audit procedures in coordination with the Commission on Audit to facilitate the conduct of audit of assessments, revenues, and receipts.<sup>101</sup> Pending issuance of the required guidelines for implementation of this Executive Order, the revenue audit is limited to verification

of the collection and receipts, including remittances. The scope of audit conducted for the Bureau of Internal Revenue is therefore limited. Score for Dimension 30.1 is assessed at “C”.

### ***Dimension 30.2 Submission of audit reports to legislature***

3.233. The Commission on Audit submits the audit report to the secretary of the department or head of agency that is being audited. A copy is also submitted to the Speaker of the House of Representatives and Chair of the Senate. This is usually done within 9 months after the Commission on Audit receives its financial reports for audit. The score for Dimension 30.2 is assessed at “C”.

3.234. There is no legal requirement for submission of audit reports by Commission on Audit to the legislature. Both the 1987 Philippine Constitution and Presidential Decree 1445 require the Commission on Audit to only submit the Annual Financial Report, which does not include an audit opinion.

### ***Dimension 30.3 External audit follow-up***

3.235. The CoA audit observations and recommendations are presented to the management of the audited entity through Audit Observations Memorandum and an exit conference; a management response is solicited for inclusion in the CoA report. Responses are received in a timely manner to allow inclusion in the issued report. An agency action plan is also submitted, which becomes the basis for follow-up and monitoring. During the course of the current year’s audit, status of implementation of prior year’s recommendations is assessed. This report is also made part of the current year’s audit report. Based on CoA’s tally of the status of implementation of 2013 audit recommendations, most recommendations have been fully or partially implemented as summarized in Table 3.30. The score for Dimension 30.3 is assessed as “B”.

**Table 3.24: Status of Implementation of 2013 Audit Recommendations**

<i>Agency</i>	<i>No. fully implemented</i>	<i>No. partially implemented</i>	<i>No. not implemented</i>	<i>Without status report</i>	<i>Total</i>
Department of Agrarian Reform	10	32	78	-	120
Department of Agriculture	62	79	53	-	194
Department of Budget and Management	8	19	5	-	32
Department of Education	-	32	-	-	32
Department of Energy	10	16	11	-	37
Department of Environment and Natural Resources	24	86	10	24	144
Department of Foreign Affairs	10	14	31	-	55
Department of Finance	6	6	2	-	14
Department of Health	29	52	13	10	104
Department of Justice	5	13	2	-	20
Department of Interior and Local Government	2	13	2	-	17
Department of Labor and Employment	2	23	3	-	28
Department of National Defense	1	9	2	-	12
Department of Public Works and Highways	2	35	4	-	41

<i>Agency</i>	<i>No. fully implemented</i>	<i>No. partially implemented</i>	<i>No. not implemented</i>	<i>Without status report</i>	<i>Total</i>
Department of Science and Technology	53	83	28	-	164
Department of Social Welfare and Development	32	52	5	-	89
Department of Trade and Industry	28	38	13	-	79
Department of Transportation and Communications	12	19	2	-	33
Department of Tourism	4	18	1	-	23
Metropolitan Manila Development Authority	30	22	8	-	60
National Economic Development Authority	-	9	1	-	10
Philippine National Police	4	21	4	-	29
BIR-National Government Books	34	31	6	14	85
BIR-Regular Agency Books	21	45	8	-	74
Bureau of Customs	3	124	72	-	199
Office of the President	7	6	9	-	22
Office of the Vice-President	2	1	3	-	6
House of Representatives	3	-	1	-	4
Senate of the Philippines	1	5	-	-	6
<b>TOTAL</b>	<b>405</b>	<b>903</b>	<b>377</b>	<b>48</b>	<b>1,733</b>
	23%	52%	22%	3%	100%

Source: 2014 CoA Annual Audit Reports; CoA Website (<http://www.coa.gov.ph/index.php/national-government-agencies/2014>).

### ***Dimension 30.4 Supreme Audit Institution Independence***

3.236. The Commission on Audit has at its head a chairperson and two commissioners (together known as the Commission Proper). Each of these members of the Commission Proper is appointed by the President and subject to confirmation by the Commission on Appointments, which is composed of Members of Congress. Members of the Commission Proper each serve one, seven-year term; and cases requiring removal from office must be made by impeachment. Budget for the Commission on Audit is included in the General Appropriations Act, which undergoes legislative scrutiny. Budget execution is subject to the routine discipline of accounting and internal control rules. There have not been any recent instances of restrictions placed on CoA budget or funds flow. As provided in Article IX-A, Section 5 of the 1987 Philippine Constitution, CoA, being a constitutional commission, enjoys fiscal autonomy; thus, its approved annual appropriations shall be automatically and regularly released.

3.237. Independence is composed of two main important aspects: independence in fact (real independence) and independence in appearance (perceived independence). An auditor's objectivity must be beyond question. In this regard, there is a perceived conflict of interest in the function of the Commission on Audit being the auditor and accountant at the same time due to its Constitutional mandate (Article IX-D, of the 1987 Philippine Constitution) which provides that:

The Commission on Audit shall have the power, authority and duty to examine, audit, and settle all accounts pertaining to the revenue and receipts of, and expenditures or uses of funds and property, owned or held in trust by, or pertaining to, the Government, or any of its subdivisions, agencies, or instrumentalities, including government-owned or controlled corporations with original charters,

and on a post-audit basis: (a) constitutional bodies, commissions and offices that have been granted fiscal autonomy under this Constitution; (b) autonomous state colleges and universities; (c) other government-owned or controlled corporations and their subsidiaries; and (d) such non-governmental entities receiving subsidy or equity, directly or indirectly, from or through the Government, which are required by law or the granting institution to submit to such audit as a condition of subsidy or equity. However, where the internal control system of the audited agencies is inadequate, the Commission may adopt such measures, including temporary or special pre-audit, as are necessary and appropriate to correct the deficiencies. It shall keep the general accounts of the Government and, for such period as may be provided by law, preserve the vouchers and other supporting papers pertaining thereto. [Section 2 (1)]

No law shall be passed exempting any entity of the Government or its subsidiaries in any guise whatever; or any investment of public funds, from the jurisdiction of the Commission on Audit. (Section 3)

3.238. The Commission on Audit's independence regarding appointment and removal of the head is laid down in the Constitution. It is free from Executive interference from the planning of audit engagement, arrangement for publicizing reports, and approval and execution of budget. It has unrestricted access to information related to expenditures; but as mentioned in PI-30.1, there is a scope limitation for the BIR-collected revenue considering that the audit does not include the assessments of all national revenue taxes, fees and charges of the Bureau of Internal Revenue. Several efforts have been made by the Commission on Audit to address the limitation in revenue audit, but these have yet to come to fruition. Minimal CoA staff are involved in preparing the Annual Financial Report, which is a compilation of the financial statements prepared by the departments. The score for Dimension 30.4 is assessed at "B".

### PI-31 Legislative scrutiny of audit reports

3.239. This indicator focuses on legislative scrutiny of the audited financial reports of the national government, including institutional units, to the extent that either (a) they are required by law to submit audit reports to the legislature or (b) their parent or controlling unit must answer questions and take action on their behalf.

<i>Indicator / Dimension</i>	<i>Score</i>	<i>Brief explanation</i>
<b>PI-31 Legislative scrutiny of audit reports</b>	<b>D</b>	Overall rating based on M2 methodology.
31.1 Timing of audit report scrutiny	D	There is no formal scrutiny of audit reports by the legislature.
31.2 Hearings on audit findings	D	Not applicable considering PI-31.1. Observations from latest available audit reports are considered during review of budget proposals and legislative inquiries; there are no formal hearings for review of audit reports by the legislature.
31.3 Recommendations on audit by the legislature	D	There is no such process in place.
31.4 Transparency of legislative scrutiny of audit reports	D	Since legislative scrutiny of audit reports does not occur, there is no hearing or

	report to be made available to public.
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***Dimension 31.1 Timing of audit report scrutiny***

3.240. As indicated in PI-30.2, the Commission on Audit transmits a copy of the audit reports issued to departments and agencies and to both houses of Congress. There is no designated Committee in the form of a public accounts committee, which is specifically tasked to examine all these audit reports and question the audited entities regarding observations and issues raised therein. Score for Dimension 31.1 is assessed at “D”.

***Dimension 31.2 Hearings on audit findings***

3.241. The legislature does not conduct periodic committee hearings with CoA representatives to explain observations and findings nor the auditee department to seek their explanation and plans of action. The Commission on Audit is often invited to attend the budget hearings and other special investigations on an ad hoc basis where the latest available audit report is used as a resource. There is no regular process in place to systematically receive and scrutinize, audit reports. In the absence of a legal requirement, Dimension 31.2 is assessed at “D”.

***Dimension 31.3 Recommendations on audit by the legislature***

3.242. Since there is no formal review hearing for audit reports by either house of Congress, there are no recommended actions requiring follow-up for recommendation. Dimension 31.3 is assessed at “D”.

***Dimension 31.4 Transparency of the legislative scrutiny of audit reports***

3.243. Based on there being no committee hearing or committee report on scrutiny of audit reports, the issue of transparency of such function does not arise. Dimension 31.4 is assessed at “D”.



## Chapter 4. Conclusions of the Analysis of PFM Systems

4.1. Chapter 4 provides an integrated analysis on the basis of the information presented in the preceding Chapters 2 and 3 and states overall conclusions on the performance of PFM systems. In particular, the analysis assesses how the performance of PFM systems may impact the Government's ability to deliver intended fiscal and budgetary outcomes. The most important systemic weaknesses are identified in that respect.

### 4.1 Integrated assessment of PFM performance

4.2. This section shows the implications of the assessment for the seven pillars of PFM performance: budget reliability, transparency of public finances, management of assets and liabilities, policy-based fiscal strategy and budgeting, predictability and control in budget execution, accounting and reporting, and external scrutiny and audit.

4.3. **Pillar I, Budget reliability.** The extent to which the government budget is realistic and implemented as intended is measured by comparing actual revenue and expenditure with the original budget. At the overall-level aggregate revenue prediction proved to be reliable, but not for the individual taxes. There was substantial under-performance in collections for taxes on goods and services and taxes for income, profit, and capital gains. Unreliable revenue estimating has substantial effects for the Government's ability to deliver services and the indicator analysis showed that higher than budgeted collections for taxes on exports, and other non-tax proceeds, including remittances, provided balance for the revenue budget. This performance does not provide stability for confident revenue prediction and the revenue prediction processes in the Bureau of Internal Revenue and the Bureau of Customs merit further development.

4.4. Budget reliability at the overall level between budget allotments and obligations incurred was reasonable although the difference between allotments and obligations incurred increased through 2012, 2013, and 2014. For the Government's ability to pursue its policy objectives, as intended by the budget allotments for departments and agencies, performance was also less reasonable with expenditure outturn by function and by economic type varying substantially from budget. Using continuing appropriations that are difficult to identify separately in the accounting system reduces the clarity of the budget because the expenditures remaining are not disaggregated between those covered by the current year appropriations and those incurred against continuing appropriations from previous years. The present degree of budget reliability does not provide the Government with a budget that is reliable enough to provide fiscal discipline and for agencies to plan the effective provision of services. The budget preparation arrangements need to be reviewed against best practices for budget clarity.

4.5. **Pillar II, Transparency.** Information on public financial management is comprehensive, consistent, and accessible to users. This is achieved through comprehensive budget classification; transparency of all government revenue and expenditure, including intergovernmental transfers; publication of information on service delivery performance; and ready public access to fiscal and budget documentation. Transparency helps operations to take place within the government fiscal policy framework under adequate budget management and reporting arrangements. The Unified Accounts Code Structure initiated in 2014 is a major step

toward a classification system to track transactions through the budget cycle according to administrative, economic, and program categories as per GFS/COFOG standards. Currently, reporting by agencies is not yet fully compliant with the new system. The documentation provided to the legislature with the budget is sufficiently comprehensive to rate reasonably well on the PEFA indicator, but more information on fiscal risks and the budget implications of new policy initiatives and major new public investments will provide capacity for better fiscal discipline.

4.6. Any failures in reporting of government activities detract from efficient allocation of resources and fiscal discipline. The Government performs well on PFM indicators covering the extent to which government revenue and expenditure are reported outside central government financial reports and on the indicators covering transfers to subnational governments. The Government assures full reporting through Administrative Code Executive Order 292, which provides that all income and revenues of the government must accrue to the General Fund under the “one-fund” concept. The transactions are reported and disclosed in the annual audited reports of the national government agencies. Resources that are transferred to local government units are allocated according to clearly defined rules managed by the Department of Budget and Management. The year-end Annual Financial Report prepared by the Commission on Audit for submission to the President and the Congress consolidates the revenue and expenditure fiscal data.

4.7. Effective budget execution requires that the Government receive comprehensive and accurate information on service delivery as per the intentions of the budget. The PEFA performance indicator examines the extent to which information on resources received by service delivery units is collected, recorded, and reported in year-end reports. The indicator also looks for verification through performance audits or evaluations. This indicator focuses on the availability, coverage, and timeliness of performance information on the delivery of public services and on the extent to which such information is likely to promote improvements in the effectiveness and operational efficiency of those services. It is also important for the legislature, government officials, and the general public to know whether budget resources reach service delivery units as planned. There are substantial difficulties for agencies in achieving good results in this area because of manual reporting processes. Performance results are intended to be shown in the agency annual audit reports; but of the main service delivery functions, only Education presents performance results that are comparable to the targets. Delays in receipt of intended resources by service delivery units is not uncommon and is a fact noted in CoA audit reports. This is further exacerbated by the often incomplete and unreliable records in the field offices. The lack of an integrated computerized system contributes to the difficulty in consolidating and reporting information in a timely manner. Reconciliations between the records of the recipient unit and the downloading entity are often delayed. These deficiencies constitute a major continuing PFM impediment and can only be addressed through developing a comprehensive, distributed, integrated accounting and performance information system. Such an investment would provide substantial returns in improvements in fiscal discipline and efficient service delivery against government intentions for its programs. The need for a government integrated financial management information system (GIFMIS) has been under consideration by the Government since 2009 and a PFM Committee is continuing the process. A project was awarded in November 2015 for a Budget and Treasury Management System as a scaled-down version of

the eventual GIFMIS. It would be appropriate for continuing appraisals of the development of these systems to consider how the initial system and its extensions may rectify the deficiencies noted in this report.

4.8. Fiscal transparency also depends on whether information on government fiscal plans, positions, and performance is easily accessible to the general public. The Government makes available to the public all the five basic elements and additional four elements of information required by the PEFA indicator, but the desired timeframes for in-year and annual budget execution reports are not met. Accurate, comprehensive, in-year budget execution reports should routinely be made available to the public within one month of their issuance. Greater transparency on budget execution would be assisted by development of a more comprehensive accounting system.

4.9. **Pillar III, Management of assets and liabilities.** The Government has a number of arrangements in place for the effective management of assets and liabilities. Broadly, these are to ensure that public investments provide value for money; assets are recorded and managed; fiscal risks are identified; and debts and guarantees are prudently planned, approved, and monitored. Monitoring of the financial positions of subnational governments and public corporations is achieved through publication of audited annual financial statements on a reasonably timely basis, although of the large number of barangays (village, district, or ward) about 30 percent have not submitted financial statements for audit. The PEFA assessment found that the Government operates a number of coordinating agencies that provide effective monitoring of public investments by the central government, local government units, and GOCCs. Project investments above PhP 1 billion are reviewed by the Investment Coordination Committee; local government units are reviewed by a BLGF-operated financial performance monitoring system; and GOCCs are reviewed by the Governance Commission for GOCCs through annual performance review, quarterly monitoring of targets, and issuance of an audited annual report, generally within nine months of year end.

4.10. There are some deficiencies in central government monitoring of physical and financial assets. Procedures are in place but audits find that they are not respected adequately with an absence of adequate asset registers and reports. More stringent management controls need to be exercised, and accounting systems need to be re-developed to be more user-friendly and effective. The procedures for competitive and transparent sale, transfer or disposal of non-financial assets, and usage rights are established in legislation and generally respected. Management practices, records, and controls over domestic and foreign debt and guarantees were found to be effective, but there was a need for the publication of a medium-term debt management strategy.

4.11. **Pillar IV, Policy-based fiscal strategy.** The PEFA assessment found that the fiscal strategy and the budget are prepared with due regard to government fiscal policies, strategic plans, and adequate macroeconomic and fiscal projections. The policy basis for the budget is intended to ensure sustainability of the government's fiscal strategy. This framing of the budget is then supported by downstream budget execution practices that achieve the policy intent through a medium-term expenditure framework. Arrangements for legislative scrutiny of the

budget were found to work well but the mid-year and year-end reports on progress of the fiscal strategy are not submitted to the legislature.

**4.12. Pillar V, Budget execution.** Downstream budget implementation through well-supported execution processes requires a system of effective standards and internal controls ensuring that resources are obtained and used as intended. This area of the PEFA framework is the most critical to attaining the goals of desirable budget outcomes: aggregate fiscal discipline, strategic allocation of resources, and efficient service delivery. Administration and accounting procedures for revenue were found to be effective according to the PEFA performance criteria. On the expenditure side, the systems are in place for spending agencies to receive reliable information on the availability of funds within which they can control commitments and make payments for non-financial assets, goods, and services.

**4.13.** Controls over procurement, payroll expenditure, and non-salary expenditure were found to have some weaknesses. These defects put at risk the sound basis established by the more effective up-stream budget-cycle processes; this advance needs investment in more automated systems to support staff in implementing more effective processes. The current processes do not meet PEFA higher score requirements for reconciliation among approved staff lists; personnel records and payroll data; internal controls over changes to personnel records and payroll; procurement monitoring; use of competitive procurement methods; public access to complete, reliable, and timely procurement information; procurement-complaint system; expenditure commitment controls; payments controls; and coverage, timeliness and reporting of internal audit results. The Government's achievement of its policy goals needs further investment in the basic systems for these common processes. The delays in conducting internal audit programs in an environment where internal controls are not working well need to be corrected by greater attention to internal audit processes and monitoring. The Government should consider establishing a Central Internal Audit Unit to provide support and monitoring of agencies' internal audit arrangements.

**4.14. Pillar VI, Accounting and reporting.** Defects were found in the performance of the accounting and reporting systems. It is critical that PFM systems are able to maintain accurate and reliable records and disseminate appropriate reports at appropriate times to meet decision-making, management, and statutory reporting needs. The current processes do not meet the PEFA higher-score requirements for bank reconciliations; advance account reconciliations; integrity of financial data, including adequacy of audit trails; timeliness and information quality of in-year budget execution reports; and reliability of departmental and government-wide annual financial reports prepared in accordance with accepted international accounting standards. Development of an integrated accounting and financial management system will enable budget execution to improve substantially through better decision-making and assured allocation and use of funds for the intended purposes of fiscal discipline and service delivery.

**4.15. Pillar VII, External scrutiny and audit.** The external audit arrangements, for which the Commission of Audit independently reviews and reports on public finances, were operating satisfactorily. There is no Public Accounts Committee to examine and follow-up on the implementation of audit recommendations for improvement by the Executive so this aspect of external scrutiny of the PFM system is absent. Action by the legislature to undertake this

function is desirable. In its absence the function falls upon central agencies in the Executive. There is a formal management response on recommendations of audited entities, and action is taken on a majority of the recommendations. However, legislative scrutiny is also highly desirable, and in its absence a higher standard of Executive response is needed. It would be desirable to strengthen the role of internal audit in assisting management with making system improvements identified by external audit reports.

#### 4.2 Effectiveness of the internal control framework

4.16. An effective internal control system plays a vital role in addressing risks and providing reasonable assurance that operations meet the four control objectives: (a) operations are executed in an orderly, ethical, economical, efficient, and effective manner; (b) accountability obligations are fulfilled; (c) applicable laws and regulations are complied with; and (d) resources are safeguarded against loss, misuse, and damage. This analysis assesses the extent to which the internal control system operating in the PFM system contributes to the achievement of those four control objectives, based on available information obtained during the PEFA assessment, including other PFM studies applied by the Government. Detailed findings concerning the main elements of the five internal control components are summarized in a table at Annex 2 that also highlights the current perceived gaps in the internal control system. This section also uses the results of a study initiated by the World Bank at the request of the DBM Secretary. The objective of the study was to review the existing financial control environment by reviewing the existing DBM policies and practices as well as selected line departments.

4.17. There are international standards (ISSAI GOV 9100, *Guidelines for Internal Control for the Public Sector*, issued by the International Organization of Supreme Audit Institutions) that provide useful frameworks for control components. This analysis looks at the following:

- Control environment,
- Risk assessment,
- Control activities,
- Information and communication, and
- Monitoring of the internal controls system.

A companion standard (ISSAI GOV 9120, *Internal Control: Providing a Foundation for Accountability in Government*) provides guidance as to the separate roles of managers and auditors in implementing control effectively.

4.18. **Control environment.** The control environment is set by the National Guidelines on Internal Control Systems (NGICS) issued in 2008 by Department of Budget and Management, supported by a Government Accounting and Audit Manual (GAAM), Volume III issued in 1992 and an Internal Audit Service governed by DBM Circular Letter No. 2008-05. This set of procedures would provide a basis for an effective system of internal control if the management and staff of government agencies were more energetically engaged in applying the guidelines. This PEFA assessment and multiple internal audit and external audit reports demonstrate that this is not yet the case. International guidance on effective internal control places most

importance on the personal and professional integrity and ethical values of management and staff, including a supportive attitude toward internal control constantly throughout the organization. As summarized in Annex 2, this requires that public sector authorities encourage a strong commitment to competence and that the top and middle management's philosophy and operating style should set the tone for ethical application of internal control throughout the PFM system. Mechanisms for achieving this change include an organizational structure based on competence and program delivery and human resource management policies that reward ethical conduct and penalize misbehavior. This should be supported by IT systems that assist with the management and monitoring of program delivery. The most appropriate basis for a strong internal control regime is a comprehensive Public Finance Act that provides a legislated mandate.

4.19. The 2011 World Bank draft study on financial accountability and control highlighted the potential for role ambiguity leading to inexact assignments of accountabilities.<sup>102</sup> As a result, it is more difficult to hold officers to account for control failures. The consequential potential for the spread of impunity prejudices control over service delivery and fiscal discipline more generally. The NGICS needs to be supported by PFM manuals that contain clear and comprehensive codification of financial management rules and procedures, with explicit assignments of financial accountabilities and defined sanctions for different types of rule violation and non-compliance. An integrated financial management information system is required in order to do this well, as it provides automatic mechanisms for recording and reporting of budget performance progress as well as control of compliance.

4.20. The organizational structures to support internal controls should include an internal audit that is independent from management, reports directly to the highest level of authority, and is reviewed by the legislature or the Commission on Audit. PI 26 assesses internal audit and found that internal audit units have been established in almost all central government agencies. Internal audit units report directly to the head of the agency in most cases. This arrangement provides a satisfactory basis for an effective internal audit function but is not yet fully implemented. The assessment found that audit programs were sometimes delayed, and reports are not shared with the Department of Budget and Management and Commission on Audit. There is no central coordination in place.

4.21. **Risk assessment.** Risk management processes are used to provide efficient methods for internal control effectiveness. An example of this is where the Commission on Audit performs audits on a set of transactions in accordance with pre-defined high-risk criteria and performance audits using an integrated results and risk-based approach that satisfies some of the conditions for Dimension 30.1 (audit coverage and standards). Another is where internal audit units use risk-based audit plans for their work, but this process is not widely applied.

4.22. **Control activities.** The PEFA assessment includes specific indicator dimensions on the expenditure side for internal controls over payroll (PI-23), non-salary expenditure (PI-25), and procurement (PI-24). A major impediment to management and staff effectiveness in applying internal controls is the absence of a Government-wide user-friendly, integrated, and controlled accounting system. The assessment for Dimension 25.2 (effectiveness of expenditure commitment controls) found that the ability of the recording and reporting functions to report on

the segregation of expenditures and commitments by year of budget allocation is weak in the absence of an integrated system. The rating for Dimension 25.3 (compliance with controls for making payments) was affected by some non-compliance with controls and modified audit opinions as reported by CoA audits.

4.23. Dimension 24.2 (use of competitive procurement methods) shows that in 2013 only 74 percent of the total value of contracts was awarded through competitive bidding. A good procurement system ensures that procurement uses competitive methods, except for low-value procurement under an established and appropriate threshold. The relatively high proportion of procurement that is not subject to competitive bidding suggests that internal controls are not performing adequately in this area. Another major support for internal control is public access to information about procurement activities; two dimensions show these deficiencies. There is no independent administrative procurement complaints system (Dimension 24.4).

4.24. On the revenue collection side, Dimension 19.3 assesses whether sufficient controls are in place to deter evasion and ensure that instances of non-compliance are revealed, including through collusion with representatives within a revenue administration; and this rated well. As demonstrated by Dimension 3.2 (revenue composition outturn), the revenue collections for the major taxes are different from the budget projections for those taxes. These variations are a cause for considerable doubt over the adequacy of associated internal control systems for revenue. However, assessment under Dimension 19.2 (management of risks to revenue) shows that the Bureau of Internal Revenue has in place a comprehensive end-to-end compliance improvement strategy for its risk management, which may lead to improvement. Dimension 19.4 – revenue arrears monitoring – did not rate well with arrears older than 12 months at more than 75 percent of the total revenue arrears.

4.25. **Information and communication.** Transactions, procedures, and rules, all information needs to be identified, captured, and communicated in a form and timeframe that enables staff to carry out their internal control and program responsibilities. Therefore, the internal control system and all transactions and significant events should be fully documented. Computerized information systems can produce reports that contain operational, financial and non-financial, and compliance-related information that make it possible to run and control the operation to meet service delivery goals and maintain fiscal discipline.

4.26. The performance indicators for the accounting, reporting, and recording system have low ratings under the current systems. In order for the various Government manuals for comprehensive PFM system management to rate higher on PEFA indicators, the accounting system needs to be fully appraised for IFMIS. For Dimension 12.1 (financial asset monitoring), the Commission on Audit has consistently raised issues resulting in qualified audit opinions with balance discrepancies, dormant accounts, non-recognition of interest income, investments without stock certificates, and subsidiary ledger problems for foreign investments. For Dimension 12.2 (non-financial asset management), insufficient records are maintained and verified for reliable compilation of end-of-year balances. For Dimension 26.1 (regularity of bank reconciliations), the Commission on Audit has reported substantial deficiencies, and balances are unreliable. For Dimensions 27.3 (clearance of advance accounts), despite repeated efforts, significant advances remain outstanding long after the prescribed periods for settlement. For

Dimension 27.4 (financial data integrity processes), CoA audit opinions for government departments' annual financial statements are rarely unqualified because of lack of appropriate control mechanisms to ensure accuracy and validity of financial data. For Dimension 28.3 (accuracy of the in-year budget reports), the reports are prepared manually using spreadsheet. Although there is some level of data extraction from systems such as eBudget System and, not all agencies and departments have fully rolled out these systems. Reliability of the information is questionable considering the lack of appropriate control mechanisms to ensure accuracy and validity of financial data.

**4.27. Monitoring of the internal controls system.** Monitoring arrangements are needed to ensure a strong internal control framework. Several performance indicators found deficiencies in agencies' internal control that demonstrate a need for stronger internal audit action. Management has the primary responsibility for monitoring the effectiveness of its internal control procedures, especially by continuously maintaining a positive internal control environment. Management would be greatly supported in managing its internal controls if transactions and significant events are promptly recorded and properly classified. For the Government, this would be assisted by improved IT systems. Many controls rely on the expectation that transactions and significant events are to be authorized and executed only by persons acting within the scope of their authority; and IT systems enable these controls to be systematically applied.

4.28. Stronger action could also be facilitated by increased central oversight of internal audit activities. This internal control can be supplied through across-the-board external audit reviews of internal audit performance that are then reported to the legislature for examination through the Public Accounts Committee. More generally, the implementation of internal controls across the public sector needs central coordination such as a single locus of responsibility for systematic review of compliance and a clear process for enforcing sanctions or penalties for instances of deviation. A Central Internal Audit Unit located in the Department of Budget and Management should manage the Internal Audit Service and monitor the activities of the internal audit units. This arrangement would provide assurance to the President through an annual report on whether internal controls were being properly managed.

### **4.3 PFM strengths and weaknesses**

4.29. This section assesses the extent to which the PFM system, as measured by the performance indicators, constitutes an enabling factor for achieving the planned fiscal and budgetary outcomes that encompass aggregate fiscal discipline, strategic allocation of resources, and efficient use of resources for service delivery.

4.30. **Aggregate fiscal discipline** requires that the budget be delivered as planned, with effective systems for ensuring financial compliance by all staff engaged in PFM activities. The PFM functions that are focused on compliance must work well as measured by relevant PFM performance indicators. The most relevant of these indicators and their assessment results indicate that compliance and fiscal discipline at the component level are inadequate, and that performance needs significant changes to improve financial management systems that support accounting and reporting:



- ***In-year control of spending.*** PI-1 (aggregate expenditure outturn) rated “D” and PI-2 (expenditure composition outturn) rated “D+”, implying a need for better information systems to support control and provide budget reliability, and more consistent and integrated reporting frameworks.
- ***In-year control of taxes.*** PI-3 Dimension 1 (aggregate revenue outturn) rated “A”, but PI-3 Dimension 2 (revenue composition outturn) rated “C”, demonstrating a problem for the individual taxes in that the collections do not match expectations
- ***Timely accounting and reporting.*** PI-27 (financial data integrity) rated “C+” and PI-28 Dimension 2 (timing of in-year budget reports) rated “D”, both poor results that prejudice management capacity to exercise control over bank accounts and expenditures through the year. PI-29 (annual financial reports) rated “C+”, taken overall these results demonstrate the need for improvement in basic accounting systems that operate more effectively and with proper audit trails and reconciliations so that expenditure can be managed in accordance with budget intentions. Improved accounting is also needed to remedy the present position where several audit opinions on departmental annual accounts are qualified by the Commission on Audit.
- ***Central control over cash.*** PI-21 Dimension 1 (consolidation of cash balances) rated “C”, but PI-21 Dimension 2 (cash forecasting and monitoring) rated “A”, mixed results with only ODA and Trust funds are yet to be incorporated into the consolidated cash balances for a strong performance.
- ***Adequate internal controls.*** Both the indicator for payroll controls and for non-salary expenditure controls rated “B+”, indicating that the control framework is in place but is not providing appropriate control.
- ***Adequate external controls.*** PI-30 (external audit) rated “C+” with an important scope deficiency in the audit of tax revenue, and PI-31 (legislative scrutiny of audit reports) rated “D”. There is no Public Accounts Committee to routinely scrutinize audit reports and build on the good work of the Commission on Audit in reporting on the audit of expenditures and on defects in the adequacy of the financial statements of government agencies.

4.31. **Strategic allocation of resources** requires planning and executing the budget to be in line with government priorities aimed at achieving policy objectives. The most relevant indicators and their ratings show that the upstream processes of budget formulation perform well but their program allocations are not fully applied because of defects in the downstream processes of in-year budget execution:

- ***Well-managed policy based budget strategy.*** Indicators for fiscal strategy medium-term perspective in expenditure budgeting budget preparation process, legislative scrutiny of budgets, and predictability of in-year resource allocation all rated well, demonstrating strength in the budget development process to set expenditure priorities in accord with government intentions.

- ***Credible budget that is implemented as passed.*** PI-2 (expenditure composition outturn) rated “D+”, showing the final year-end result did not deliver the resource allocation intended at the beginning of the year
- ***Orderly execution of the budget with strong controls.*** The performance assessed for revenue and expenditure processes show mixed results with a need to review and improve the systems underlying delivery of the budget. The weak scores under accounting and reporting demonstrate the difficulty for budget managers to monitor and manage their budgets in the absence of basic tools for this purpose. Improvements would allow these managers to keep expenditure on track with budget intentions at the component level. Efficiency and economy may be improved with the establishment of an independent procurement complaints mechanism, which would support more competitive bidding.
- ***Fiscal risks, assets and liabilities are well managed.*** PI-10 (fiscal risk reporting) rated “B”, PI-11 (investment management) rated “B+”, PI-12 (asset management) rated “C+” and P-13 (debt management) rated “B”, generally a strong performance in managing assets and liabilities but with weaknesses in the systems for monitoring financial assets leading to control weaknesses and qualified audit opinions.

4.32. **Efficient service delivery** requires that actual spending match budget allocations, resources are available for service delivery as planned, and costs are minimized. Non-compliance with the budget may lead to a shift across expenditure categories. The most relevant indicators and their ratings show an appropriate budget development process but inadequate performance in budget execution:

- ***Credible budget that is implemented as passed.*** PI-2 (expenditure composition outturn) rated “D+”, a major concern for service delivery as this indicator is crucial for providing the resources needed to meet the policy intentions for the various economic sectors
- ***Transparent budget information.*** PI-4 (budget classification) rated “C”, PI-5 (comprehensive budget documentation) rated “A”, PI-8 (performance information for service delivery) rated “B+”, and PI-9 (public access to fiscal information) rated “B”, generally providing a good performance in delivering on the constitutional requirement for transparency of information on public finances.
- ***Policy-based budgeting with a multi-year perspective.*** PI-17 (budget preparation process) and PI-16 (medium-term perspective) rated “A”, again providing a sound basis for the budget in setting service delivery plans.
- ***Competitive tendering processes.*** PI-24 (procurement management) rated “C+”, demonstrating a need to be more stringent in using competition and independent review of complaints to deliver services at best cost and quality.

4.33. These results show overall that the Government has established strong and effective budget development processes. However, the budget is not delivered in accordance with the plans, and the budget execution process fails to deliver both at the aggregate level and the component level. At the detailed level there is substantial variability between plans and outcomes for both the revenue targets and the expenditure breakdowns. The PFM Committee is addressing the downstream processes with its plans for implementing improved GIFMIS. The Government has in place relatively effective internal audit and external audit arrangements that are supplying management with information on where controls are failing, but there is insufficient response to prevent continuing internal control deficiencies.

4.34. Management should take suitable actions with continued development of the proposed information systems being considered by the PFM Committee. At present with only limited IT systems the core PFM functions are being adversely affected by an ineffective reporting environment. These information system issues also need to be addressed through stronger PFM organizational arrangements, best supported by an appropriate law.<sup>103</sup>

4.35. In summary the PFM Committee should focus on strengthening the IT basis of PFM, developing the accounting system to an adequate level specified by international standards, and reinforcing the regulatory framework governing the PFM system. Guidance on design is available from the World Bank's handbook on IFMIS.<sup>104</sup> An IFMIS offers the Government significant benefits in managing public monies more effectively, including greater financial control, improved monitoring of the government's cash position and better planning for future requirements, better fiscal reporting, and timely availability of a complete set of data to form a reliable basis for budget formulation. The establishment of an effective system also contributes directly to improving transparency and accountability.

#### **4.4 Performance changes since the 2010 assessment**

4.36. The 2010 PEFA assessment was intended to serve as a baseline for monitoring subsequent progress in improving the performance of PFM systems in the Philippines. The current assessment provides the opportunity to do this, serving as a successive assessment but also a baseline for the future. The 2010 report included a summary assessment that identified various departures from accepted international good practices at that time. It is convenient to examine progress in rectifying these matters and identify where further progress is needed.

4.37. **Budget reliability.** Credibility of budget expenditure forecasts could not be assessed in the 2010 report because the review period had frequent budget re-enactments and the budget system could not provide reliable data on original expenditure appropriations. This has improved in 2016 with budgets being enacted before the start of the fiscal year; but data on actual expenditures in a comparable format is still elusive. Instead the current assessment bases the analysis on the data available for committed amounts. The "D" rating is secured for aggregate expenditure outturn. However, the budget system continues to cause difficulties in the measurement of expenditure budgets due to the substantial use of allocations to Special Purpose Funds. This reduces the capacity of the PFM system to manage resource allocation intentions and creates risks for fiscal discipline as evidenced by the "D" score for expenditure composition outturn. The 2010 report also noted that revenue forecasts were relatively realistic. This position

has deteriorated somewhat as the 2016 assessment shows significant differences between estimates and outturns for the major revenue sources creating risks to expenditure financing and the consequent service delivery that can be funded.

4.38. **Transparency of public finances.** Comprehensiveness and transparency of budget reporting in the 2010 report was compromised by defects in the chart of accounts used for expenditure reporting and lack of a public consolidated budget execution report in accordance with the classification used for the budget. The 2016 assessment found that the situation had been rectified. The Unified Accounts Code Structure was adopted in 2014 for budget formulation, execution and reporting. It applies the GFS administrative and economic classification. The National Expenditure Program provides the prior year's outturn, revised budget for the current year, and proposed budget for the next year on an obligation basis. The Budget Expenditure and Sources of Finance Report provides details of expenditure and revenue on a functional basis and per organizational entity (prior year, adjusted budget for the current year, and budget year on an obligation basis). The 2010 report noted inadequate data on resources made available to primary service delivery units. Funds utilization reports required by the PFM arrangements were not being provided, and the lack of computer applications was seen as an impediment to speedy resolution of the problem. In 2016 the situation has not been resolved. A continued lack of integrated systems and automation limits the ability to monitor at a central level.

4.39. **Management of assets and liabilities.** The 2010 report found overall monitoring of fiscal risks from GOCCs to be deficient in quality. Since that report, the Government in 2011 established the Governance Commission for GOCCs with a focus on ensuring commercial viability. The Commission collects information on GOCC's financial performance on a quarterly basis, publishes an annual report with consolidated information, and includes a condensed version in the Government-wide Fiscal Risks Statement.

4.40. **Policy-based fiscal strategy and reporting.** The 2010 report found an orderly process of budget preparation was affected by congressional delays in approving the budget. A MTEF was being developed. In 2016 under the MTEF, each agency/department prepares a three-year rolling budget set to accord with goals and objectives set under the Philippine Development Plan and achieve intended resource allocations. In each of the three years, which were the subject of the current assessment, the budget was enacted after legislative approval before the start of the fiscal year.

4.41. **Predictability and control in budget execution.** The general weakness in reporting on budget execution created by inconsistent classification frameworks as reported in 2010 has been remedied. The revenue collection system was suffering from weak controls and enforcement. Taxpayer registration, tax audit, and tax transfers were all found to be deficient. In 2016 revenue administration was found to be much stronger. Both the Bureaus of Internal Revenue and Customs operate various automated systems to assist with taxpayer information, filing, and payment. Revenue audit programs have been systematized and achieved.

4.42. The 2010 system of managing releases of allotments through Special Allotment Release Orders often created uncertainty about availability of funds for parts of agency budgets such as

capital outlays and maintenance and other operating expenses. Weak reporting on budget execution made it difficult to establish the extent of in-year budget re-allocation, a major accountability issue in the Philippines' PFM system. In 2016 improvements have been achieved. Since 2014, the General Appropriations Act stands as the government's primary budget release document and Notices of Cash Allocation are issued for a semester enabling agencies to plan and commit for a six-month horizon.

4.43. In the 2010 report, internal audit units were functional only in a handful of agencies. By 2016, units had been established in all but 2 central government agencies covering revenue and expenditure. Audit programs are largely completed, and the report is submitted to the Secretary of the agency. Internal audit operates in accordance with the Philippine Government Internal Audit Manual, but there is no quality assurance program to validate this.

4.44. **Accounting and reporting.** The 2010 report found inadequate reconciliation processes for bank balances and for advances. This problem has continued in the 2016 PEFA assessment, a serious concern for fiscal discipline. The 2010 report found that accounting, recording, and reporting come out as areas where substantial work needs to be done in order for the Philippine PFM system to be effective; this is replicated in the 2016 assessment.

4.45. **External scrutiny and audit.** The Commission on Audit conducts comprehensive audits raising both systemic and compliance issues in reports. However, the accountability remains weak as these reports are not used by the legislature for oversight, and it does not have a formal role in the scrutiny of these audit reports. External audit reports continue to be submitted to the head of the audited entity; and in the absence of a strong legislative or independent executive oversight, the potential for improvements through recommendations is lost. Both the 2010 and 2016 reports found that no regular congressional hearings to discuss findings in the CoA reports occurred during the respective review periods — a major weakness for all aspects of budget outcomes, especially fiscal discipline.

## Chapter 5. Government PFM Reform Process

5.1. Chapter 5 discusses the Government's overall approach to PFM reform and describes recent and on-going reform initiatives to improve PFM performance. This chapter has been contributed entirely by the Government of the Philippines.

### 5.1 Approach to PFM reforms

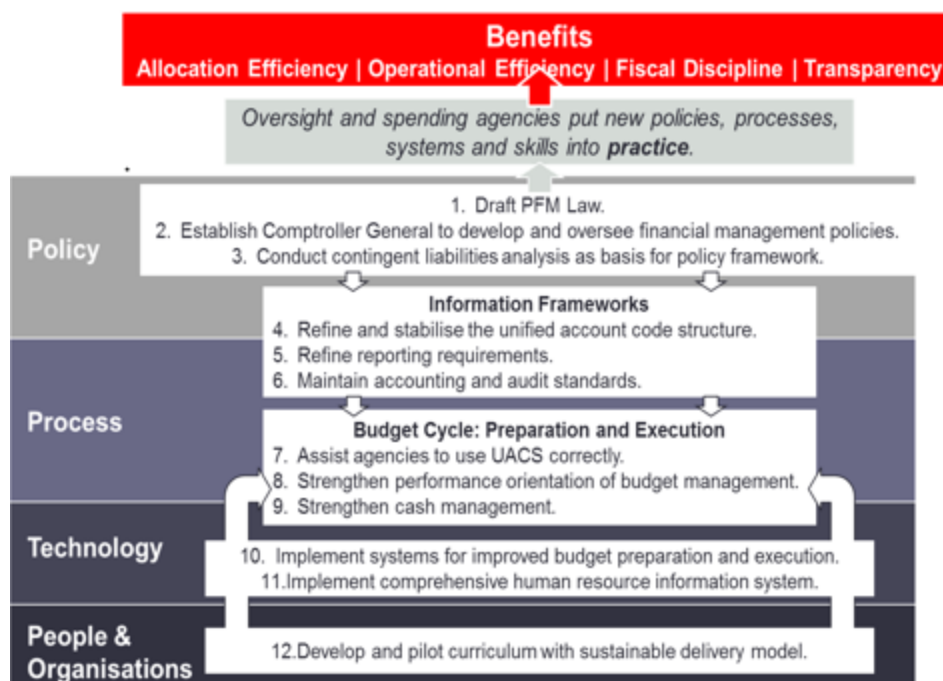
5.2. The Government of the Philippines has in recent years pursued PFM reform through different channels: (a) *PFM Reform Roadmap*; (b) *Good Governance and Anti-Corruption Cluster Plan*, which includes the Philippines' commitments to the Open Government Partnership; and (c) several stand-alone initiatives. Though these are distinct reform streams, they overlap to an extent.

5.3. Based on work initiated in mid-2009 undertaken by senior managers from the oversight agencies (DBM, DoF, BTr, and CoA) and with World Bank assistance, the Government in February 2011 launched the PFM Reform Roadmap for 2011-2015. It was a broad PFM reform agenda for the Government covering six projects that aimed to strengthen PFM, including fundamental changes to systems and processes.<sup>105</sup> Several of the Roadmap projects received direct implementation support from the Public Financial Management Project (PFMP) supported by Australia's DFAT. A mid-term review of the PFM Reform Roadmap was conducted in 2014-2015, which led to its updating in May 2015. The PFM Reform Roadmap for 2015-2016 focuses on delivery of the reforms from the design phase of the original roadmap.<sup>106</sup>

5.4. The implementation of the PFM Reform Roadmap follows from an Executive Order,<sup>107</sup> which established a comprehensive four-level governance structure: (a) principals, composed of the DBM and DoF secretaries and CoA chairperson; (b) PFM Committee, composed of senior managers from Department of Budget and Management, Commission on Audit, Department of Finance, and Bureau of the Treasury; (c) a DBM-based project management office supported by Australia's DFAT to manage and coordinate the reform and provide technical assistance; and (d) six project implementation units that provide technical implementation support for the six projects.<sup>108</sup>

5.5. There are no publicly available reviews or evaluations of the PFM Reform Roadmap. Implementation monitoring was done through regular PFM Committee meetings, PFM Project Steering Committee, and annual conferences.

5.6. In the Updated PFM Reform Roadmap, the delivery of reforms shifted to agency-specific management of initiatives, and the coordination was handled by the DBM-based PFM project unit, embedding responsibility for implementation within agencies rather than project implementation units. Henceforth, the reforms proceeded as laid down in Figure 5.1.

**Figure 5.1. The Updated PFM Roadmap Summary (2015-2016)**

5.7. The Good Governance and Anti-Corruption (GGAC) Cluster Plan 2012-2016 was launched by the Administration in early 2012.<sup>109</sup> Its aim was to improve transparency, accountability, and citizen engagement. It included initiatives such as zero-based budgeting, CSO participation in budgeting, publication of a citizen's budget, procurement and implementation of a comprehensive information system, performance-based incentive system, and publication of fiscal risk statement.<sup>110</sup> The Philippines' commitment to Open Government Partnership is included in the GGAC Cluster Plan. Introduced in January 2014, an updated and restructured GGAC Cabinet Cluster Action Plan 2013-2016 included new, on-going, stand-alone PFM activities as well as some initiatives from the original PFM Reform Roadmap. Implementation of the updated GGAC Cluster Plan during 2015 has generally been on track.<sup>111</sup>

## 5.2 Recent and on-going reform actions

5.8. The PFM Committee and the GGAC Cluster are the main forums for coordination and monitoring of the reforms. In the original Roadmap, the PFM Committee was supported by the inter-agency project implementation units for each reform, namely (a) the budget reporting and performance management, (b) treasury cash management operations, (c) accounting and auditing reforms, (d) GIFMIS, (e) capacity building, and (f) management of contingent liabilities.

5.9. The sub-committees or project implementation units aimed to respond directly to the identified major gaps and weaknesses in the Government's PFM system as identified by the 2010 PEFA assessment. These included the following:

- Limited ability to assess implementation capacity for the budget;
- Weak reporting processes for budget execution;
- Delayed approval of the General Appropriations Act;

- Lack of information system capable of capturing resource flows;
- Limited role of Congress in budget oversight and in reviewing/authorizing in-year budget amendments; and
- Weak processes for revenue administration, monitoring and management of expenditure arrears, oversight of contingent liabilities and associated fiscal risks, and financial accountability as manifested in qualified CoA audit reports.

The PFM Reform Roadmap for 2011-2015 was a response to the need for reforms, which were initiated as follows:

- a) ***Budget reporting and performance management.*** Progress has been achieved with the harmonization, streamlining, and refinement of reporting requirements among the oversight agencies, particularly Commission on Audit and Department of Budget and Management. The DBM/CoA-formulated UACS was rolled out for the 2014 budget preparation process and adopted in 2014 for accounting and reporting and integrating budget formulation and execution. Technical training was started in 2014, and eNGAS was updated into a UACS-compliant version in 2015. Other activities under this project implementation unit include DBM-developed, performance-informed, budgeting and revised GAA and NEP formats; and use of the Unified Reporting System for the Budget and Financial Accountability Reports, which unifies and streamlines CoA and DBM reporting requirements. The UACS is providing the key link to harmonize CoA and DBM reports.
- b) ***Treasury cash management operations.*** Improved quality and timeliness of information provides the starting point for improved cash management and reducing borrowings, thereby generating savings. A TSA system, maintained by the Bureau of the Treasury in Bangko Sentral ng Pilipinas, was established in 2014. The process involved closing many unnecessary NGA bank accounts and consolidating the remainder in the B Tr. The new approach also required banks to remit all BIR and BoC collections one day after receipt in exchange for a transaction fee starting in 2014. It was planned that once a GIFMIS is operational, the TSA system would facilitate electronic processing of payments to further improve the Government's fiscal performance. The DBM mandated the check-less payment system through direct bank transfer for NGA disbursements; as at end 2015, 81 percent of national government disbursements are done under this system.
- c) ***Accounting and auditing reforms.*** The current CoA focus is on alignment of the Government's accounting and audit standards with international standards. This is an ongoing task, particularly as international standards continue to evolve. Accurate and meaningful reporting of financial transactions requires consistent application of standards. The Commission on Audit has also adopted the Philippine Public Sector Standards on Auditing (PPSSA). Training on both new standards is currently on-going. The Government Accounting Manual for National Government Agencies was also prescribed in October 2015 for use effective January 1, 2016.
- d) ***GIFMIS.*** Implementation of a major integrated financial management system has been central to PFM reforms since their genesis. The GIFMIS was defined as the technology



centrepiece of the reforms in establishment of the PFM Committee under EO 55. The project aimed at phasing out the many disjointed financial management systems and processes through implementation of a common system that would simplify reporting:

- *Track I.* A centralized National Payroll System and Comprehensive Human Resource Information System is being developed to enable the national government, local government units, and GOCCs to process human resource and payroll information electronically and make direct salary payments into individual bank accounts. To date, this initiative is being implemented in the form of upgrading the Government Management Information System.<sup>112</sup>
  - *Track II.* In 2012-2013, a comprehensive conceptual design together with functional and technical specifications was developed for an integrated financial management information system covering fiscal planning, budget preparation, budget execution, and financial reporting. The government-wide project was tendered in 2013, but failed; a successful re-tendering in 2014 did not result in a contract award. This was due to concerns of scalability, feasibility, costs, and benefits to the government considering its wide application. The project was recalibrated, and the Budget and Treasury Management System was proposed. This scaled-down system will cover DBM and BTr systems and functions for budget execution and accountability. The Budget and Treasury Management System is expected to have its departmental launch in January 2017 with the flexibility to be rolled-out to the spending agencies in the future. The scale-up will require procurement of additional user licenses and training.
- e) ***Citizen participation.*** The CSO participation in the national budget formulation has been developed and formalized. Dovetailing early efforts in 2010 to create spaces for CSO participation in the budget process, the Government introduced (i) Budget Partnership Agreements between national government agencies and GOCCs and partner-CSOs during budget preparation and execution; (ii) bottom-up budgeting where grassroot-level communities and CSOs engage their local government units in formulating and implementing local poverty reduction action plans funded through the national budget; and (iii) piloted citizen participatory audits in national government agencies through CoA and CSO collaboration.

At the end of 2015, there were 11 national government agencies and 5 GOCCs that had entered into Budget Partnership Agreements with 244 CSOs. A total of 1,423 municipalities and cities are implementing over PhP 60.39 billion in bottom-up budgeting projects, which were funded in the 2013-2015 budgets.<sup>113</sup> The Commission on Audit conducted citizen participatory audits in 2014-2016, for which 3 audit reports were written and published.<sup>114</sup> The citizen participatory audit garnered 37 CSOs comprising of 32 non-government organizations and 5 academic institutions.

- f) ***Management of contingent liabilities.*** A stocktaking of contingent liabilities and estimation related to guaranteed loans for GOCCs, guarantees issued by GOCCs and implicit liabilities was conducted through IMF technical assistance. It is essential for

Government to have an accurate view of the scope and value of its contingent liabilities so that the potential impact on the budget can be properly understood and risks managed accordingly. A list of contingent liabilities was prepared to facilitate central monitoring and management of guaranteed loans. A separate project with ADB is assisting the Bureau of the Treasury and Department of Finance in the valuation, inventory, monitoring, and management of contingent liabilities associated with public-private partnerships projects; this effort aims to strengthen the government's capacity to manage these projects, while simultaneously accelerating their development to address infrastructure shortage.

5.10. The Government also undertook stand-alone initiatives distinct from the PFM Reform Roadmap and GGAC Cluster Plan. The focus of the stand-alone initiatives has been on expenditure management areas and tax system management. These initiatives include the following:

- a) ***GAA as release document.*** Since 2014, the General Appropriations Act has served as the primary fund release document to improve the predictability of budget releases and the pace of agency disbursements.
- b) ***Performance-informed budgeting.*** Adoption of performance-informed budgeting in the 2014 national budget aimed to reflect the link between the funds allocated for government programs and their projected results and outcomes. For the first time, nonfinancial performance indicators and targets were presented side by side with the agency financial budgets. The organizational performance indicators framework provided the necessary foundation for the implementation of performance-informed budgeting.
- c) ***Parliamentary expenditure oversight.*** A Joint Congressional Oversight Committee on Public Expenditures was set up with the 2014 General Appropriations Act in a bid to strengthen Congressional oversight of implementation of the national budget. This Committee was convened and held one meeting on June 8, 2015. This could be an appropriate venue to discuss the in-year budget execution reports, financial statements and audit reports.
- d) ***Internal audit.*** The DBM-provided training activities on the implementation of the DBM-issued 2011 Philippine Government Internal Audit Manual were provided to all national agencies and corporations to capacitate the newly created internal audit units in the different government entities.
- e) ***Online submission of budget proposal system.*** The Department of Budget and Management introduced the system in 2013 for departments and agencies to undertake real-time submission of consolidated budget proposals which significantly improved the efficiency of budget preparation.
- f) ***Tax reforms.*** The Department of Finance took the lead in the BIR and BoC administrative and policy reforms. The passage of adjusted excise rates for alcohol and cigarettes (or "sin" products) yielded additional resources equivalent to 1 percent of

GDP; this amount was earmarked to implement a universal health coverage program to improve access to quality health facilities in the different regions and localities and to enhance the access of indigents and senior citizens to health services. The continuous pursuit of better compliance measures in the Bureau of Internal Revenue and Bureau of Customs, including a drastic reorganization in the Bureau of Customs in 2014, also significantly improved the annual growth and predictability of the inflow of tax collections, providing more fiscal space to restructure the budget toward priority expenditure areas.

5.13. In summary, the implementation of the PFM Reforms for 2011-2015 has yielded many results that shifted the Government's PFM reform program trajectory to a higher level in terms of fiscal discipline and allocative and technical efficiency as well as transparency and citizen empowerment. The PEFA results have shown the need for continued reforms through inclusion of the following:

- ***Development of GIFMIS.*** Automation of government-wide PFM systems is one of the core elements of the reform program. Its design needs to follow review of the processes and information flows and associated requirements for specific functions. The system needs to include sub-components covering accounting and reporting practices in the line agencies. A diagnostic study needs to review the existing state of transaction processing systems and availability of timely information for budget management. Procedures and control structures will be reviewed as part of a business processes study. Revenue agencies need an integrated financial management information system that enables efficient transaction processing in accordance with the prescribed controls for their relative transactions. The Department of Budget and Management also needs a system to monitor the budget execution process and produce timely and up-to-date budget execution reports for economic management. For this, it will require up-to-date information on programs and projects executed by many spending units distributed across the country.
- ***Passage and execution of the Public Financial Management Law.*** The budget cycle must be authorized by legislation that supports the Constitutional provisions for the Government's management of the national finances. Delays in relevant legislation have been extensive, but the Legislature is now in a position to enact the relevant laws. As part of the implementation of the PFM Law, reviews of relevant internal control and top-level agency assurance arrangements by principal accounting officers need to be conducted against ISSAI and other relevant standards and practices. This process would lead to recommendations and proposals for the appropriate assurance arrangements.
- ***Review of revenue forecasting.*** There was substantial under-performance in some collections. Unreliable revenue estimation has significant impact on the Government's ability to deliver services. Revenue prediction arrangements for the main revenue types from the the Bureau of Internal Revenue and the Bureau of Customs needs to be further developed and supported by suitable information systems, forecasting tools, and monitoring processes.

- ***A procurement practices review*** needs to be conducted in accordance with good international practices. An independent appeals process needs to be developed. The extent of competitive tendering is to be reviewed to ensure the most cost effective practices are applied to support realization of the Government's budget intentions.
- ***A review of internal audit arrangements*** needs to be conducted against standards of the Institute of Internal Auditors to assess opportunities for improvement. Proposals for the introduction of audit committees at agency level and central coordination of internal audit guidance need to be developed for consideration by the Government. As a complementary step, the roles of Principal Accounting Officers in providing assurance on internal controls as part of the Annual Audit Reports process need to be reviewed.
- ***Review of SAI coverage and processes against ISSAI*** governance and quality management standards needs to be conducted for consideration by Commission on Audit.
- ***Design for the conduct of programs of revenue audits*** that are relevant to the country needs to be developed for consideration by Commission on Audit.
- ***Legislative arrangements for scrutiny of CoA reports.*** The possibilities to advance the likelihood of suitable legislative committee arrangements for scrutiny of external audit reports should be explored considering globally established good practices. This action needs to be taken up by the legislature.

5.14. The current *Updated PFM Reform Roadmap (2015-2016)* aims for continuing and future reforms as follows:

- ***PFM Framework Law*** is meant to institutionalize the reforms, strengthen the oversight function and clarify the budget and fiscal administration rules and processes. With the assistance of DFAT, IMF, and World Bank, a PFM Framework Bill was crafted in 2014 and filed both in the Senate and House in 2015. The intention is to refile the bill in the next congressional term.
- ***Government Comptroller General***, a function in process of being established, will oversee compliance with existing PFM rules and regulations, including CoA-prescribed financial reporting requirements. Using the Budget and Treasury Management System and its accounting functionalities, the office will also consolidate Government-wide financial statements to assist the Executive in managing financial operations.
- ***Strengthening performance orientation of budget preparation and management*** is underway with a variety of budget reforms such as strengthening the medium-term budget and the M&E systems, and the shift to a Program Expenditure Classification Budget Structure with appropriate performance indicators and targets. These involve building on previous progress with output budgeting to strengthen the focus on program strategies and outcomes in the budget structure in order to facilitate the linkage with planning and M&E.

- ***PFM certificate program.*** While policies, processes, and systems are all important, equally so is the ability of Government staff at all levels to perform the tasks required for an effective PFM system. Capacity building is embedded into the implementation of all the individual reform initiatives above. It is also important to have a program in place to support skills and knowledge development on a systematic, ongoing basis. The Government has developed a PFM Competency Framework that maps the necessary skills, knowledge, and attitudes that must be developed in public financial managers across the bureaucracy. This was followed by the rollout of a PFM Certification Course as well as ongoing efforts to build a PFM Institute under Department of Budget and Management to serve as a permanent body for PFM-related training, certification, and other capacity development endeavors.

5.15. The 2014 updated and restructured *Good Governance and Anti-Corruption Cabinet Cluster Action Plan 2013-2016* also includes several PFM-related activities:

- ***CSO engagement in the National Budget Process.*** Policy consultations and review of budget process are ongoing for participatory budgeting and joint drafting of guidelines on CSO accreditation and release of funds to CSOs.
- ***Budget and Treasury Management System*** is being developed for DBM and BTr operations with the target to go live by January 2017. Subsequently, it is to be rolled out to all agencies, subject to the procurement of additional software licenses.
- ***Comprehensive Human Resource Information System and National Payroll System*** will be forthcoming in the form of updating the Government Manpower Information System.
- ***Local Government Unit PFM project*** provides local government units with strategic directions to strengthen their PFM system toward improved revenue generation and expenditure management. The strategy requires the implementation of an LGU PFM improvement plan as a precondition to access funds through bottom-up budgeting and various other national government assistance programs.
- ***Open data.*** The Department of Budget and Management improved openness and transparency by making the 2015 Government budget and other documents available online at <http://data.gov.ph>.
- ***Bottom-up budgeting*** engages municipalities in preparing community-level poverty reduction plans, which are funded by the budget.
- ***Philippine Government Electronic Procurement System (PhilGEPS).*** System requirement study has been completed, and the detailed specifications document has been developed. System testing is ongoing.

### 5.3 Institutional Considerations

5.16. The PFM Reform Program is led and owned by the Government of the Philippines. The Government has set out clear goals in the PFM Reform Roadmap and the updated GGAC Cabinet Cluster Action Plan for improving the PFM system. The PFM reform enjoyed strong political backing from the Office of the President.

5.17. The support of the development partners is generally relevant to and aligned with the needs of the Government of the Philippines. Development partners are supporting the Government's PFM reform through the following activities:

- **DFAT/Australian Aid** supports the Department of Budget and Management in coordinating and implementing the PFM Reform Roadmap (through DBM-based project management office, TSA design, UACS design, and conceptual design of GIFMIS Track II); support to national government agencies (*e*NGAS in DPWH, internal audit in DepEd, FMIS in DepEd, and internal control and internal audit in DSWD); and support for external oversight (citizen participation in audit, cooperation between Congress and Commission on Audit, and CSO engagement in the budget process).
- **Asian Development Bank** has earlier supported several initiatives, including public-private partnerships, capacity development as well as liquidity management in Bureau of Internal Revenue, treasury operations and capital market reforms in Bureau of the Treasury, data management for performance reporting, assessment in Department of Budget and Management, and LGU finance and fiscal decentralization reform.
- **European Union** supports DBM and DILG activities in strengthening PFM in local government units.
- **IMF** has provided technical assistance to strengthen BIR tax policy and administration and has also supported the drafting of the PFM Framework Law.
- **United States Treasury** plans to support the Bureau of the Treasury in organizational strengthening, developing staff capacities, and improving asset management.
- **World Bank** is supporting the Government of the Philippines in strengthening public finances (tax policy reform dialogue, and fiscal risk and debt management); enhancing public delivery performance (PFM Framework Law, PFM systems change management, and improving civil service performance); and improving demand-side pressure for accountability (Open Data, Medium-term Information and Communications Technology Harmonization Initiative, Philippine Business Registry reforms, and reconstruction participatory audit).

5.18. The PFM Competency Framework marked the shift to a more strategic approach toward human resource development for public financial management. This will serve as the overall human resource strategy or public sector reform that could be linked to PFM reform activities.

5.19. The reform efforts have initially been concentrated in the oversight agencies to develop a strengthened PFM framework in terms of systems and procedures. Involvement of national government agencies has taken place in several areas once certain initiatives have been implemented such as rolling out the Unified Accounts Code Structure, closing bank accounts for the TSA preparation, establishing grassroots participatory budgeting, and implementing the new PPSAS. There are examples of reform implementation delays that have adversely affected the operations of national government agencies such as the delay of the UACS rollout by one year with regard to accounting and reporting, and a UACS-compliant *e*NGAS not being prepared on time. Also, no change management strategy has been developed as part of the PFM reform

process, which would have been beneficial to ensure that the reform message was effectively communicated, understood, and implemented throughout the Government, especially regarding capacity building in national government agencies.

## Annex 1: Performance Indicator Summary

Pillars and Performance Indicators (PIs)			Scoring Method	2016				
				Dimension Rating				Overall Score
				(i)	(ii)	(iii)	(iv)	
<b>Pillar I. Budget reliability</b>								
PI-1	Aggregate expenditure outturn	M1	D				<b>D</b>	
PI-2	Expenditure composition outturn	M1	D	C	A		<b>D+</b>	
PI-3	Revenue outturn	M2	A	C			<b>B</b>	
<b>Pillar II-III. KEY CROSS-CUTTING ISSUES:</b>								
<b>II. Transparency of public finances</b>								
PI-4	Budget classification	M1	C				<b>C</b>	
PI-5	Budget documentation	M1	A				<b>A</b>	
PI-6	Central government operations outside financial reports	M2	A	A	C		<b>B+</b>	
PI-7	Transfers to subnational governments	M2	A	A			<b>A</b>	
PI-8	Performance information for service delivery	M2	A	A	C	B	<b>B+</b>	
PI-9	Public access to fiscal information	M1	A				<b>A</b>	
<b>III. Management of Assets and Liabilities</b>								
PI-10	Fiscal risk reporting	M2	C	C	A		<b>B</b>	
PI-11	Public Investment Management	M2	A	A	A	B	<b>A</b>	
PI-12	Public Asset Management	M2	C	C	B		<b>C+</b>	
PI-13	Debt Management	M2	A	A	D		<b>B</b>	
<b>Pillars IV-VII. BUDGET CYCLE</b>								
<b>IV. Policy-based Fiscal Strategy and Budgeting</b>								
PI-14	Macroeconomic and fiscal forecasting	M2	A	B	A		<b>A</b>	
PI-15	Fiscal Strategy	M2	A	B	C		<b>B</b>	
PI-16	Medium-term perspective in expenditure budgeting	M2	A	A	B	A	<b>A</b>	
PI-17	Budget preparation process	M2	A	A	A		<b>A</b>	
PI-18	Legislative scrutiny of budgets	M1	B	A	A	B	<b>B+</b>	
<b>V. Predictability and Control in Budget Execution</b>								
PI-19	Revenue administration	M2	B	B	A	D	<b>B</b>	
PI-20	Accounting for revenue	M1	A	A	A		<b>A</b>	
PI-21	Predictability of in-year resource allocation	M2	C	A	A	A	<b>B+</b>	
PI-22	Expenditure arrears	M1	B	C			<b>C+</b>	
PI-23	Payroll controls	M1	B	B	B	A	<b>B+</b>	
PI-24	Procurement management	M2	B	B	B	D	<b>C+</b>	
PI-25	Internal controls on non-salary expenditure	M2	A	B	B		<b>B+</b>	
PI-26	Internal audit	M1	A	B	C	B	<b>C+</b>	
<b>VI. Accounting and Reporting</b>								
PI-27	Financial data integrity	M2	D	A	C	C	<b>C+</b>	
PI-28	In-year budget reports	M1	A	D	C		<b>D+</b>	
PI-29	Annual financial reports	M1	B	C	A		<b>C+</b>	
<b>VII. External Scrutiny and Audit</b>								
PI-30	External audit	M1	C	C	B	B	<b>C+</b>	
PI-31	Legislative scrutiny of audit reports	M2	D	D	D	D	<b>D</b>	



Pillars and Performance Indicators (PIs)		2016 PEFA Assessment	
		Score	Description of requirements met
<b>Pillar I. Budget Reliability</b>			
PI-1	Aggregate expenditure outturn	D	The obligations incurred exceeded the range of 85% to 115% of the original budget in all of the last three fiscal years (2012 to 2014).
PI-2	Expenditure composition outturn	D+	The functional composition variance exceeded 15% and economic composition variance was less than 15% in 2 of the last 3 years. Average actual expenditure charged to contingency vote was less than 3%.
PI-3	Revenue outturn	B	Aggregate revenue outturn was between 97% and 106% in 2 of the last 3 years and revenue composition variance remained below 15% in the last 3 years.
<b>Pillar II. Transparency of Public Finances</b>			
PI-4	Budget classification	C	The Unified Accounts Code Structure was implemented in 2014 for budget formulation, execution and reporting. It applies the GFS administrative and economic classification. Full rollout to execution is still underway and reporting is adjusted for compliance at aggregate level.
PI-5	Budget documentation	A	The 2016 budget documentation fulfills 10 of 12 information benchmarks, including all the basic elements.
PI-6	Central government operations outside financial reports	B+	Revenue and expenditure outside government financial reports is less than 1% of total revenue and expenditures. Detailed financial reports of the majority of extra-budgetary units are submitted within 9 months of the end of the fiscal year.
PI-7	Transfers to subnational governments	A	All transfers to LGUs are based on clearly defined set of rules and procedures. Information on transfers is provided by DBM early in the budget cycle.
PI-8	Performance information for service delivery	B+	Performance information (both financial and non-financial) is presented in the budget documentation; performance results are published by most departments on websites; and the executive summary of all annual audit reports list the outputs achieved. PETS was recently conducted for DepEd; and evaluations of service delivery have been carried out and published for the majority of the departments.
PI-9	Public access to fiscal information	A	The Government makes available to the public all of the 5 basic elements and all additional elements of information.
<b>Pillar III. Management of Assets and Liabilities</b>			
PI-10	Fiscal risk reporting	B	Annual audit reports from GOCCs and LGUs are received but with delays. Fiscal risk statement comprehensively covers significant contingent liabilities and other risks.

Pillars and Performance Indicators (PIs)		2016 PEFA Assessment	
		Score	Description of requirements met
PI-11	Public investment management	A	All major capital investment projects are subject to ICC approval requiring review of technical, financial, economic, environmental, institutional, social, and sensitivity analysis. Guidelines are published by NEDA for the costing (including all life-cycle costs) and selection. Monitoring is done by implementing agencies.
PI-12	Public asset management	C+	CoA audit reports include substantial observations pointing to absence of up-to-date and complete financial asset registers. Fixed asset registers exist, but comprehensive management and statistical reports are not published annually. The procedures for competitive and transparent disposal of nonfinancial assets are established in legislation and generally respected but do not require reporting to legislature.
PI-13	Debt management	B	Detailed debt data (domestic and foreign) is maintained and published by BTr. The data is updated monthly, reconciled monthly, and presented 2 months from the reference period. Legislation provides clear authorization to DoF to review, approve, and manage debt. Ceilings are prescribed in law. Medium-term debt strategy in the form of strategic guidelines is in place but not published.
<b>Pillar IV. Policy-based Fiscal Strategy and Budgeting</b>			
PI-14	Macroeconomic and fiscal forecasting	A	Macroeconomic projections are prepared for 3 years and used in the annual budget preparation by DBM. These are reviewed and approved by DBCC and updated mid-year. Forecasts of the budget sensitivity analysis and debt sustainability are published.
PI-15	Fiscal strategy	B	Impact of proposed policy changes for revenue and expenditure is estimated for a 3-year horizon. A fiscal strategy, including mostly quantitative fiscal objectives, is prepared for up to 6 years, submitted to Congress and published. DBCC publishes a mid-year and year-end report on Government's progress of its fiscal strategy but these are not submitted to the legislature.
PI-16	Medium-term perspective in expenditure budgeting	A	Government prepares a 3-year rolling budget allocated by administrative, economic, and program classification; and 3-year plans include cost information. Budget ceilings based on the agencies' forward estimates are issued as part of pre-budget documents. Deviations from previous forecasted budget are explained in the budget documents. Majority of agencies align their activities to the priority program of the Government.
PI-17	Budget preparation process	A	A clear and comprehensive annual budget calendar is issued, allowing sufficient time for submission by departments. The guidance includes the approved "hard" budget ceilings per department and agency. The President has in each of the last 3 years submitted the budget proposal to Congress more than 5 months before the start of the fiscal year.

Pillars and Performance Indicators (PIs)		2016 PEFA Assessment	
		Score	Description of requirements met
PI-18	Legislative scrutiny of budgets	B+	Both Houses of Congress have established, comprehensive procedures that are respected. They scrutinize the budget proposal submitted, which includes fiscal policies, aggregates, and detailed estimates for revenue and expenditure. MTFE and priorities are not included in the budget document. In each of the last 3 years, the budget was approved before the start of the fiscal year. Expansion of the total expenditure is not allowed but extensive reallocations are permitted.
<b>Pillar V. Predictability and Control in Budget Execution</b>			
PI-19	Revenue administration	B	BIR provides easy access to comprehensive and up-to-date information about taxpayers' rights, obligations, and procedures, including right to redress. It uses a comprehensive end-to-end compliance improvement strategy for its risk management. The DoF Fiscal Intelligence Unit has expanded its scope. BIR conducts audit, investigation and prosecution of cases under the Run-After-Tax-Evaders (RATE) program. BoC implements Run-After-The-Smugglers (RATS) and DoF created Fiscal Intelligence Unit to eliminate smuggling. Target outputs are exceeded. In 2014, the stock of revenue arrears includes those arrears older than 12 months, which are more than 75% of the total revenue arrears.
PI-20	Accounting for revenue	A	BIR and BoC comply with TSA. Monthly submissions are consolidated and published by BTr, which does monthly reconciliations.
PI-21	Predictability of in-year resource allocation	B+	TSA is in place for revenues collected by BIR and BoC and is being rolled out for expenditure. Accounts for foreign-funded projects and those trust accounts with legal basis remain outside the TSA. Cash flow forecast is prepared and updated monthly. Departments can commit for a 6-month horizon and any realignment requires request by the concerned department or agency and should be approved by DBM.
PI-22	Expenditure arrears	C+	CoA requirement for the submission of year-end reports includes the aging of expenditure arrears. Stock of expenditures arrears is no more than 6% of the total obligations incurred for the past 3 years.
PI-23	Payroll controls	B+	Payroll and personnel records are not integrated, but reconciliation is conducted monthly. Changes are processed timely, but delays may occur in receipt of documents to initiate the process. Biometric attendance systems minimize the risk of ghost workers, and specific procedures are conducted in audit as well. Control exists on the authority and basis for the changes to personnel records and payroll.

Pillars and Performance Indicators (PIs)		2016 PEFA Assessment	
		Score	Description of requirements met
PI-24	Procurement management	C+	APCPI maintains data for contracts on content, value and vendor. The data are accurate and complete for most of the contracts procured using different methods for goods, services, and works. 74% of contracts in 2014 were awarded through competitive methods. 5 of the 6 key procurement information elements are complete and reliable for NGAs representing 75% of procurement operations (by value). There is no independent administrative procurement complaints system provided for under the Government Procurement Reform Act.
PI-25	Internal controls on non-salary expenditure	B+	NGICS prescribes a comprehensive set of controls, including segregation of duties. Commitment controls exist but with continuing appropriations, and absence of automation are challenging to monitor. Most CoA audit opinions are modified, but instances on non-compliance with payment procedures are not the main cause.
PI-26	Internal audit	C+	Internal audit units are established in all agencies conducting compliance, operations and management audit. Quality assurance does not exist and reports are submitted only to the head of the entity audited. Audit programs prepared are completed but with delays and responses to recommendations are received from management within 12 months.
<b>Pillar VI. Accounting and Reporting</b>			
PI-27	Financial data integrity	C+	Reconciliation of bank accounts and clearance of advances occurs with much delay. While access to records is restricted, often without audit trail, the quality and reliability of financial reporting process is low due to use of spreadsheet, which lacks controls for assuring financial data integrity.
PI-28	In-year budget reports	D+	Format of in-year reports comprehensively cover expenditures and comparison with budget estimates. Timely submission is not achieved for most reports and due to the use of spreadsheets these often contain mistakes.
PI-29	Annual financial reports	C+	Annual Financial Report includes information on revenue, expenditure, financial assets, financial liabilities, guarantees, and long-term obligations. Comparison of budget with outturn is provided in ARAOD, 1997 and enhanced to ARAOD in 2014. Major spending agencies submit financial statements for audit within 9 months of fiscal year-end. The 2014 audited financial statements of NGAs included disclosure on compliance with PPSAS in the notes to financial statements.
<b>Pillar VII. External Scrutiny and Audit</b>			
PI-30	External audit	C+	PPSSA, based on ISSAI, were adopted and applied for all audits. The scope of the audit covers the entire government but excluding verification of BIR-collected revenues. Audit reports are submitted to the head of the

Pillars and Performance Indicators (PIs)		2016 PEFA Assessment	
		Score	Description of requirements met
			auditee entity within 9 months of receipt of the financial reports for audit and formal responses are received in a timely manner. CoA's independence is laid down in the Constitution, and it has unrestricted access except for BIR revenues.
PI-31	Legislative scrutiny of audit reports	D	There is no formal scrutiny of audit reports by the legislature.

## Annex 2: Summary of Observations on the Internal Control Framework

<i>Internal control components and elements</i>	<i>Summary of observations</i>
1. Control environment	<p>There is a strong regulatory framework. The Philippines Constitution, Article XI, provides a strong imperative through its provisions on the accountability of public officers, supported by comprehensive Government instructions in the Administrative Code, National Guidelines on Internal Control Systems, and Government Internal Audit Manual. These instructions provide standards to guide each government agency in developing its detailed and comprehensive system of internal controls. Agency characteristics such as mandate, functions, nature of activities, operating environment, human resource profile, size, and organizational structure will have to be considered in developing or improving the individual controls. A strong and responsive internal control system is an essential component of an organization’s internal and external processes.</p> <p>This regulatory framework is shown to be effective by the results assessed for PI- 23 and PI-25 on internal controls over payroll and non-salary expenditure, which were rated “B+”. PI-25.3 on compliance with payment rules and procedures was rated “B”, and the assessment found that most payments comply with regular payment procedures. The CoA-conducted audits identify instances of non-compliance, which need to be corrected; but in the majority of cases, these exceptions are not the main causes of qualified opinions on the annual accounts. They are therefore not considered to seriously compromise the control environment as a whole but are significant in some cases. A more comprehensive, integrated, computerized accounting system for processing government transactions can provide a user-friendly set of controls that are applied automatically to prevent instances of failure.</p>
1.1 The personal and professional integrity and ethical values of management and staff, including a supportive attitude toward internal control constantly throughout the organization.	The Administrative Code states that public officers and employees must at all times be accountable to the people; serve them with utmost responsibility, integrity, loyalty, and efficiency; act with patriotism and justice; and lead modest lives. This principle relates to accountability, norms of conduct and ethical standards, and performance of the management and staff, including the manner by which an agency operates and provides public service.
1.2. Commitment to competence	The Administrative Code requires Government employees to commit and demonstrate competence in the conduct of their duties and responsibilities. Each one, from the head of agency to the rank and file, must work for the achievement of the agency’s objectives. They must show full support for internal control and the continual improvement of systems and processes that would increase the efficiency and effectiveness of the agency.
1.3. The “tone at the top” (i.e., management’s philosophy and operating style)	The Administrative Code provides that all resources of the Government shall be managed, expended, or utilized in accordance with law and regulations and safeguarded against loss or wastage through illegal or improper disposition to ensure efficiency, economy, and effectiveness in government operations. The responsibility to take care that such policy is faithfully adhered to rests directly with the head of the government agency.

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1.4. Organizational structure	The Administrative Code provides the basis for Government organization structures. The Code organizes departments on the basis of major functions to achieve simplicity, economy, and efficiency in government operations and minimize duplication and overlapping of activities. Adequate authority shall be delegated to subordinate officials. Administrative decisions and actions shall, as much as feasible, be at the level closest to the public. The organizational structure is to provide the framework within which the activities of an agency are planned, executed, controlled, and reviewed. It is to consider key areas of authority and responsibility and the appropriate lines of reporting.

1.5. Human resource policies and practices	Departments have human resource development services with divisions for staff development, employees' benefits and payroll. The Administrative Code provides for entrance based on competitive examination, or based on highly technical qualifications; and for advancement through merit and fitness. There is periodic and continuing review of the performance through the performance evaluation promulgated by the Civil Service Commission. There is also a policy on discipline.
2. Risk assessment	<p>For departments and agencies the NGICS requires effective and efficient systems of risk management and internal control for PFM. It mandates the establishment of standards on risk management in public service organizations. It has a section on risk assessment with specifications on risk identification, analysis and evaluation.</p> <p>PI 19 revenue administration included an assessment of the approach to revenue risk management and rated it B for both BIR and BoC.</p> <p>For GOCCs annual performance agreements set out the components of internal control. The agreements include a charter statement and a strategy map, together with identification of indicators for measurement of performance. For LGUs summarized risks are identified and presented in annual Fiscal Risks Statements.</p>
2.1 Risk identification	The NGICS includes - The purpose of doing risk identification is to generate a comprehensive list of risks based on factors that might enhance, prevent, degrade or delay the achievement of the general control objectives. This will include identifying the risks in case of not pursuing an opportunity. Comprehensive identification is very important because a risk that is not identified will not be included in the next step of analyzing risks.
2.2 Risk assessment (significance and likelihood)	The NGICS includes - After the identification, it is necessary to consider possible causes and scenarios that would show what consequences can occur. All significant causes should be considered to estimate the risk.
2.3 Risk evaluation	The NGICS includes - This is about developing an understanding of the risk and providing an input to risk evaluation and to decisions on whether risks need to be responded to, as well as on the most appropriate response strategies and methods. The objective of evaluating risks is to assist in coming up with a decision on which risks need treatment based on the results of the risk analysis.
2.4 Risk appetite assessment	The NGICS includes - An organization should apply risk identification tools and techniques, which are suited to its objectives and capabilities, and to the risks faced.
2.5 Responses to risk (transfer, tolerance, treatment or termination)	The NGICS includes - Risk evaluation may lead to a decision to undertake further analysis or a decision not to treat the risk in any way but maintain existing risk controls (INTOSAI Guidelines for Internal Control Standards for the Public Sector). Responses to risks can be divided into the four categories. In some instances, risks can be transferred, tolerated or terminated. However, in most instances, the risk will have to be treated. The results of risk evaluation are an input to prioritizing treatment implementation. Risk evaluation may lead to a decision to undertake further analysis or a decision not to treat the risk in any way but maintain existing risk controls (INTOSAI Guidelines for Internal Control Standards for the Public Sector). The NGICS gives some illustrations on risk treatment.



3. Control activities	The NGICs has a section setting out control activities. In PI-25, internal control was examined. It was found that the Accounting Division, in charge of recording and keeping the books, is usually under the Financial Management Service and is separate from the Administrative Service, which normally handles the cashiering function. Procurement is also a separate function that works alongside the Bids and Awards Committee. Functions and responsibilities, as well as clear procedures in handling transactions, are also outlined in Volume 1 of the NGAS Manual and the Government Accounting Manual for National Government Agencies.
3.1 Authorization and approval procedures	The CoA-prepared Government Accounting Manual sets out the systems of authorization, policies, standards, and accounting procedures and reports used by the agencies to control operations and resources and enable the various units to meet their objectives. These systems and work processes are integral to the operations of agencies and are to be consistently applied by all units in the public service. These procedures or activities are implemented in order to achieve the control objectives of safeguarding resources, ensuring the accuracy of data and enabling adherence to laws, policies, rules and regulations.

3.2 Segregation of duties (authorizing, processing, recording, reviewing)	<p>The NGICS sets out the usual internal control components, including segregation of duties. Key duties and responsibilities need to be divided or segregated among different people to reduce the risk of error or fraud. This includes separating the assignment of responsibilities for processing, reviewing, recording, custody, and approval/authorization of certain transactions.</p> <p>PI-25.1 segregation of duties is rated “A”. Segregation of duties exists throughout the process. Management override of controls occurs in some instances but not the majority.</p>
3.3 Controls over access to resources and records	<p>The NGICS sets out the usual internal control instructions for access over resources, assets, and facilities.</p> <p>PI-27.4, financial data integrity processes, is rated “C”. While access to records is restricted, often there is no audit trail; and the quality and reliability of financial reporting process is low due the absence of an integrated accounting and reporting system for government transactions. The practice of using spreadsheets that lack built-in controls for preparation of financial reports reduces assurance of financial data integrity.</p>
3.4 Verifications	<p>The NGICS sets out the usual internal control instructions for verification — review of transactions to check the propriety and reliability of documentation, costing, or mathematical computation. It includes checking the conformity of acquired goods and services with agreed quantity and quality specifications. The verification procedures should be built-in in every transaction. This is an internal checking procedure to avoid errors or fraud.</p>
3.5 Reconciliations	<p>The NGICS sets out the usual internal control instructions for reconciliation of financial and non-financial data. Operating procedures of every office require that the cash records of the accounting and the cash units should be regularly reconciled.</p> <p>PI-27.1, bank account reconciliation, was rated “D”. While monthly bank reconciliation statements are prescribed per law, issues of non-preparation, delayed submission, and non-recording of reconciling items are substantial as per CoA audit reports that cite unreliable cash balances.</p>
3.6 Reviews of operating performance	<p>The NGICS includes the evaluation of agency performance, which covers the financial position and results of operation of an agency. The Administrative Code provides that the President, through the Secretary of Budget and Management, shall evaluate on a continuing basis the quantitative and qualitative measures of agency performance.</p>
3.7 Reviews of operations, processes and activities	<p>The NGICS includes the Organizational Performance Indicator Framework, which is a useful tool in expenditure and budget accountability. The Framework directs resources of an agency toward its major final outputs that are linked to sectoral and societal goals.</p>
3.8 Supervision (assigning, reviewing and approving, guidance and training)	<p>The NGICS provides that supervision and control includes the authority to act directly whenever a specific function is entrusted by law or regulation to a subordinate. It provides guidance on administrative supervision.</p>
4. Information and communication	<p>A performance evaluation system guidebook is used for GOCCs.</p>

5. Monitoring	<p>In departments and agencies, monitoring of internal control is dealt with in the NGICS covering ongoing monitoring and the work of the Internal Audit Service. Monitoring the internal control activities themselves should be clearly distinguished from reviewing the operations of a unit, which is an internal control activity performed by the unit and its management.</p> <p>PI-26, Internal Audit, found that internal audit has been formally established in most agencies and that audit programs are largely completed, but with delays. The performance is rated “C+”.</p> <p>Monitoring of GOCCs is exercised through a quarterly report to the Government. Monitoring of LGUs is exercised through a substantial performance monitoring system with multiple indicators, including fiscal risks, financial position, and debts. The performance indicator on fiscal risk reporting for GOCCs and LGUs is rated “B”. Audited annual reports for these entities are usually published by CoA within 9 months of year-end.</p>
5.1 Ongoing monitoring	<p>In the agency structure, the Financial and Management Service is tasked to assist agency management in the ongoing monitoring of internal controls by regular management surveys of the organizational structure, human resource, and operations.</p> <p>Control in government departments and agencies, according to NGICS, includes checking the completeness of transaction documents and reports.</p> <p>Transaction documentation has to be complete in order to substantiate the transaction. Operational and financial reports are tools for monitoring performance, subsequent planning, and decision-making. These reports have to be checked at the source and by the management of the operating unit concerned. These reports have to be certified for accuracy by management of the office concerned before they are submitted to the report users.</p>
5.2 Evaluations	<p>In the agency structure, the Internal Audit Service is mandated to conduct a separate evaluation or appraisal of the internal control system to determine whether internal controls are well designed and properly operated. The Internal Audit Service in departments and equivalent agencies shall consist of two divisions: Management Audit Division and Operations Audit Division.</p> <p>External review is carried out by the Commission on Audit. The Constitution, as well as the Administrative Code, provides that where the internal control system of the audited agencies is inadequate, CoA may adopt such measures, including temporary or special pre-audit as necessary and appropriate to correct the deficiencies.</p>
5.3 Management responses	<p>PI-26.4 examined response to internal audits and was rated “B”. Internal audit reports provide recommendations that are presented to the head of the audited unit. Management response is solicited to indicate corresponding action plan, and a formal response is received in most instances within 12 months. However the report is not shared beyond the audited unit with, for example, the oversight agencies (DBM, DoF, and CoA).</p>

## **Annex 3A. PEFA Assessment Management Organization**

### ***Oversight Team – PFM Committee chaired by Department of Budget and Management:***

- Undersecretary Laura B. Pascua (DBM)
- Undersecretary Janet B. Abuel (DBM)
- Former Commissioner Heidi L. Mendoza (Commission on Audit – CoA)
- Assistant Commissioner Lourdes Castillo (CoA)
- Assistant Commissioner Aracadio B. Cuenco, Jr. (CoA)
- Director Luzvi Chatto (CoA)
- Undersecretary Gil S. Beltran (Department of Finance – DoF)
- Assistant Secretary Ma. Teresa Habitan (DoF)
- Treasurer Roberto B. Tan (Bureau of the Treasury – BTr)
- Deputy Treasurer Sharon P. Almanza (BTr)

\*Alternate members for DBM - Undersecretary Richard E. Moya and Undersecretary Luz M. Cantor

### ***Assessment Manager:***

- Robert R. Taliercio, Practice Manager, World Bank

### ***Assessment Team Leaders and Team Members:***

- Saeeda Sabah Rashid, Sr. Public Sector Specialist, World Bank
- Pazhayannur K. Subramanian, Lead Financial Management Specialist, World Bank
- Rogier Van den Brink, Lead Economist and Program Leader, World Bank
- Bonnie Ann Sirois, Sr. Financial Management Specialist, World Bank
- Kai-Alexander Kaiser, Sr. Economist, World Bank
- Karl Kendrick Tiu Chua, Sr. Country Economist, World Bank
- Cecilia D. Vales, Lead Procurement Specialist, World Bank
- Justine Espina Letargo, Communications Officer, World Bank
- Tomas JR. Sta. Maria, Financial Management Specialist, World Bank
- Aisha Lanette De Guzman, Financial Management Specialist, World Bank
- Maria Liennefer Rey Penaroyo, Financial Management Analyst, World Bank

### **Review of Concept Note**

Date of review of draft Concept Note was March 31, 2015. All invited reviewers provided comments, except DFAT. The date of the final Concept Note was June 3, 2015.

#### ***Invited reviewers:***

- Andrew James Mackie, Sr. Financial Management Specialist, World Bank
- Ivor Beazley, Sr. Public Sector Specialist, World Bank
- PEFA Secretariat
- Daniel Featherston, Counsellor – Economic, DFAT
- Warren Turner, Senior Public Management Specialist, ADB
- Sandeep Saxena, Senior Economist, IMF

**Review of the Assessment Report**

Date of review of the draft report was March 23, 2016. All invited reviewers provided comments. The date of the final Assessment Report is May 25, 2016.

***Invited reviewers:***

- Andrew James Mackie, Sr. Financial Management Specialist, World Bank
- Ivor Beazley, Sr. Public Sector Specialist, World Bank
- PEFA Secretariat
- Daniel Featherston, Counsellor – Economic, DFAT
- Warren Turner, Senior Public Management Specialist, ADB
- Sandeep Saxena, Senior Economist, IMF

### Annex 3B: Persons Consulted

<b>DBM</b>	<ul style="list-style-type: none"> <li>• <b>Laura B. Pascua</b> – UnderSecretary, Budget Policy &amp; Strategy</li> <li>• <b>Richard E. Moya</b> – UnderSecretary, Chief Information Officer/Organization &amp; Systems Improvement</li> <li>• <b>Maxine Tanya Hamada</b> – Assistant Secretary, Monitoring &amp; Evaluation Sector</li> <li>• <b>Rolando Toledo</b> – Director, Fiscal Planning and Reforms Bureau</li> <li>• <b>Cristina Clasara</b> – Director, Operations, Social &amp; Human Development</li> <li>• <b>Ma. Lourdes Baguio</b> – Officer-in-charge, Information and Communications Technology and System Service</li> <li>• <b>Aldrin Aquino</b> – Coordinator, PFM Committee Secretariat</li> <li>• <b>Ma. Cecilia Narido</b> – Operations, Social &amp; Human Development</li> <li>• <b>Agnes Cipriano</b> - PFM Committee Secretariat</li> <li>• <b>Jobelle Sicat</b> - PFM Committee Secretariat</li> </ul>
<b>DoF</b>	<ul style="list-style-type: none"> <li>• <b>Ma. Luisa Notario</b> – Chief Administrative Officer, Budget Division</li> <li>• <b>Elsa Agustin</b> – Director, Policy Division</li> <li>• <b>Rommel Roxales</b> – Planning Officer, Fiscal Policy &amp; Planning Office</li> <li>• <b>Lolita Verdadero</b> - Chief Accountant</li> </ul>
<b>BTr</b>	<ul style="list-style-type: none"> <li>• <b>Sharon Almanza</b> – Deputy Treasurer, Operations Subsector</li> <li>• <b>John Kenneth Trinidad</b> - Debt Strategy and Planning Division</li> </ul>
<b>BIR</b>	<ul style="list-style-type: none"> <li>• <b>Leonor Villalon-Rogers</b> – ACIR, Planning &amp; Management Service</li> <li>• <b>Elvira R. Vera</b> – ACIR, Collection Service</li> <li>• <b>Claro B. Ortiz</b> – ACIR, Internal Affairs Service</li> <li>• <b>Erlinda A. Simple</b> – ACIR, Assessment Service</li> <li>• <b>James H. Roldan</b> – ACIR, Enforcement &amp; Advocacy Service</li> <li>• <b>Marissa Cabrerros</b> – ACIR, Legal Service</li> <li>• <b>Zenaida Chang</b> – ACIR, Finance Service</li> <li>• <b>Marilou del Rosario</b> – OIC-ACIR, Client Support Service</li> <li>• <b>Ione Alejo</b> – Chief, Performance Evaluation Division</li> <li>• <b>Rosa Bella B. Javerina</b> – Asst. Chief, Revenue Accounting Division</li> <li>• <b>Felipa Birginiás</b> – OIC-Chief, Planning &amp; Programming Division</li> <li>• <b>Lizabel Valderrama</b> – OIC-Asst. Chief, Research &amp; Statistics Division</li> <li>• <b>Larry Barcelo</b> – Atty., COS Legal Matters</li> <li>• <b>Helen Vista</b> – Atty., Enforcement &amp; Advocacy Service</li> <li>• <b>Laarni Angeles</b> – Planning &amp; Programming Division</li> </ul>
<b>BoC</b>	<ul style="list-style-type: none"> <li>• <b>Jesusa Dimpna Lejos</b> – OIC Director, Financial Management Office</li> <li>• <b>Cecile Marie Soriano</b> – Director</li> <li>• <b>Arturo Lachica</b> – Deputy Commissioner</li> </ul>
<b>CoA</b>	<ul style="list-style-type: none"> <li>• <b>Luzvi Pangan-Chatto</b> – Director, Accounting Systems Development and Other Services Office, Government Accountancy Sector</li> </ul>
<b>NEDA</b>	<ul style="list-style-type: none"> <li>• <b>Kenneth Tanate</b> – Assistant Director-General and Chief of Staff</li> </ul>
<b>GCG</b>	<ul style="list-style-type: none"> <li>• <b>Ma. Angela Ignacio</b> – Commissioner</li> <li>• <b>Clarence Glenn G. Pascual</b> – Director, Corporate Governance Office</li> <li>• <b>Paolo E. Salvosa</b> – Director, Office of the Commissioner</li> </ul>
<b>GPPB</b>	<ul style="list-style-type: none"> <li>• <b>Dennis Santiago</b> – Executive Director, GPPB-Technical Support Office</li> </ul>
<b>House of Representatives Secretariat</b>	<ul style="list-style-type: none"> <li>• <b>Elena Ramos</b> – Committee Secretary, Appropriations Committee</li> </ul>
<b>Senate Secretariat</b>	<ul style="list-style-type: none"> <li>• <b>Ma. Victoria Cruz-Francia</b></li> <li>• <b>Rommel Patacsil</b></li> </ul>

## **Annex 3C: Sources of information**

### Documents:

#### **Executive Orders (EOs) and Republic Acts (RAs)**

- EO no. 292, series 1987, Instituting the “Administrative Code of 1987”
- Republic Act no. 8182, “ Official Development Assistance Act of 1996”
- EO no. 55, series 2011, “Directing the integration and automation of government financial management systems”
- RA no. 4860, “Foreign Borrowing Act”
- EO no. 93, series 1993, “Establishing the Regional Project Monitoring and Evaluation System”
- EO no. 43, series 2011, “Pursuing our social contract with the Filipino People through the reorganization of the Cabinet Clusters”
- EO no. 285, series 1987, “Abolishing the general services administration and transferring its functions to appropriate government agencies”
- EO no. 323, series 2000, “Constituting an inter-agency privatization council and creating a privatization and management office under DOF for the continuing privatization of government assets and corporations”
- EO no. 127, series 1987, “ Reorganization of DOF”
- EO no. 449, series 1997, “ Realigning the organization of the Bureau of the Treasury”
- RA no. 1000, “An act authorizing the President of the Philippines to issue bonds to finance public works and projects for economic development”
- RA no. 245, “An act authorizing the Secretary of Finance to borrow to meet public expenditures”
- RA no. 9135, “Tariff and Customs Code of the Philippines”

#### **DBM**

- Budget of Expenditures and Sources of Financing
- National Expenditures Program
- General Appropriations Act
- DBM National and Local Budget Issuances (e.g., Budget Call, Guideline on release of funds, Budget Fora, Guideline on Internal Revenue Allotment, Budget Priorities Framework)
- The President’s Budget Message
- People’s Budget
- Mid-year and year-end reports
- Fiscal Risks Statement
- Unified Reporting System generated submission report

**CoA**

- Annual Report on Allotments, Obligations and Disbursements
- Annual Report on Appropriations, Allotments, Obligations and Disbursements
- Annual Audit Reports
- Annual Financial Reports (including Financial Performance Reports)
- Consolidated Audit Report on Official Development Assistance Programs and Projects
- Special Audit Reports (e.g., Government-wide performance audit, sectoral performance audit, agency-based performance audit, special studies, rate audit)
- The Government Accounting Manual for National Government Agencies
- Pertinent CoA circulars, resolutions and other issuances

**BIR**

- Inventory of accounts receivable/delinquent accounts
- Comparative internal revenue collections and goals by tax type
- Monthly internal revenue collection by tax type
- Operations memoranda relevant to the assessment
- Revenue Special Order (internal memorandum)
- Bureau of Internal Revenue's rules (memorandum orders and circulars) and regulations
- Sample memorandum of agreement with authorized agent bank for collection and remittance of National Internal Revenue taxes/customs duties
- Treasury Circular for implementing guidelines on the use of Treasury Single Account
- Monthly reconciliation of Consolidated report on daily collections against - list of remittance for Internal revenue taxes as of August and September, 2015
- Data on number of registered taxpayers for 2010 to 2015
- Post Campaign Evaluation Dipstick for Public Awareness Campaign to encourage more taxpayers to pay their correct taxes

**BoC**

- Post-Entry Audit (PEA) Primer – PEA system and recordkeeping requirements
- Month of March, April and May statement of remittance by authorized agent banks thru
- Summary on daily collection of customs, taxes and levies for March, April and May (per bank)
- Consolidated Report on daily collection of customs duties, taxes and other levies (Month of May)
- Reconciliation of revenue accounting division for the period of March, April and May (per bank)
- Bureau of Customs' rules (memorandum orders and circulars) and regulations

**BTr**

- List of cash accounts with outstanding reconciling items (report to BTr)
- Cash Operations report



- Statistical data from Bureau of the Treasury and Department of Finance
  - a) National government fiscal position
  - b) National government revenue
  - c) National government cash expenditures
  - d) National government cash operations
  - e) Outstanding public sector debt
  - f) National government outstanding debt

### **GCG**

- Performance Evaluation System (PES) Guidebook
- GOCCs interim performance scorecard (3 samples)
- GOCCs performance agreement for calendar year 2015 (3 samples)
- 1<sup>st</sup> and 2<sup>nd</sup> quarter PES report (samples)

### **Other documents**

- Philippine Development Plan 2011-2016
- List of NEDA Board confirmed and approved projects
- Investment Coordination Committee guidelines and procedures
- IMF's Philippine Fiscal Transparency Report
- Public Expenditure Tracking Survey
- Local Government Code
- Joint Circulars for UACS adoption and manual and creation of UACS website
- UACS Manual

### Websites:

- Official Gazette of the Republic of the Philippines – [www.gov.ph](http://www.gov.ph)
- Bangko Sentral ng Pilipinas (BSP) – <http://www.bsp.gov.ph/>
- Bureau of Customs (BoC) – [www.customs.gov.ph](http://www.customs.gov.ph)
- Bureau of Internal Revenue (BIR) – [www.bir.gov.ph](http://www.bir.gov.ph)
- Bureau of Local Government Finance (BLGF) – <http://blgf.gov.ph/>
- Bureau of the Treasury (BTr) – [www.treasury.gov.ph/](http://www.treasury.gov.ph/)
- Commission on Audit (CoA) – <http://www.coa.gov.ph/>
- Department of Budget and Management (DBM) – <http://www.dbm.gov.ph/>
- Department of Finance (DoF) – <http://www.dof.gov.ph/>
- Good Governance and Anti-Corruption Cabinet Cluster – <http://www.gov.ph/governance/>
- Governance Commission for Government Owned or Controlled Corporations (GCG) – <http://gcg.gov.ph>
- Government Procurement Policy Board (GPPB) – <http://www.gppb.gov.ph/>
- The House of Representatives - [www.congress.gov.ph](http://www.congress.gov.ph)
- National Economic and Development Authority (NEDA) – <http://www.neda.gov.ph/>
- Public-Private Partnership (PPP) Center – <http://ppp.gov.ph/>
- The Senate of the Philippines – [www.senate.gov.ph](http://www.senate.gov.ph)
- Unified Accounts Code Structure – <http://www.uacs.gov.ph>

- Open Budget Survey - <http://www.internationalbudget.org/>
- International Monetary Fund (IMF) - <https://www.imf.org>

## Annex 4: Data for PI-1, PI-2 and PI-3

**Table A4.1: Data for PI-1 and PI-2, 2012**

<i>Administrative or functional head</i>	<i>(PhP millions)</i>					<i>%</i>
	<i>Budget</i>	<i>Actual</i>	<i>Adjusted budget</i>	<i>Deviation</i>	<i>Absolute deviation</i>	
DoF	184,765.02	180,612.93	151,055.76	29,557.17	29,557.17	19.57
DepEd	267,776.97	240,534.19	218,922.69	21,611.50	21,611.50	9.87
DPWH	205,228.94	158,031.62	167,786.16	(9,754.54)	9,754.54	5.81
DND	161,376.68	125,271.01	131,934.48	(6,663.47)	6,663.47	5.05
DILG	128,865.56	124,617.58	105,354.82	19,262.76	19,262.76	18.28
DSWD	59,724.45	55,774.83	48,828.08	6,946.75	6,946.75	14.23
DoH	41,876.48	34,413.61	34,236.37	177.24	177.24	0.52
DoA	66,301.10	56,887.57	54,204.87	2,682.70	2,682.70	4.95
DOTC	36,289.81	19,487.20	29,668.95	(10,181.75)	10,181.75	34.32
State universities and colleges	29,745.09	29,272.62	24,318.28	4,954.34	4,954.34	20.37
DENR	21,449.24	17,257.16	17,535.96	(278.80)	278.80	1.59
COMELEC	19,347.49	9,014.44	15,817.66	(6,803.22)	6,803.22	43.01
Judiciary	19,251.82	17,748.99	15,739.44	2,009.55	2,009.55	12.77
DAR	18,520.60	12,400.67	15,141.63	(2,740.96)	2,740.96	18.10
ARMM	14,733.80	14,237.32	12,045.71	2,191.61	2,191.61	18.19
DFA	14,468.47	11,778.46	11,828.79	(50.33)	50.33	0.43
DOST	11,833.31	10,293.32	9,674.40	618.92	618.92	6.40
Justice	11,635.11	10,831.21	9,512.35	1,318.86	1,318.86	13.86
Congress	11,202.41	9,929.89	9,158.60	771.29	771.29	8.42
Other Executive Offices	12,075.23	9,881.60	9,872.18	9.42	9.42	0.10
Others (= sum of rest)	477,533.61	334,771.45	390,410.49	(55,639.04)	55,639.04	14.25
<i>Allocated expenditure</i>	<i>1,814,001.22</i>	<i>1,483,047.67</i>	<i>1,483,047.67</i>	-	<i>184,224.22</i>	
Interest & principal on debt	<i>706,139.31</i>	<i>706,139.31</i>				
Contingency	<i>9,414.83</i>	<i>6,926.35</i>				
<b>Total expenditure</b>	<b>2,529,555.36</b>	<b>2,196,113.33</b>				
<i>Overall (PI-1) variance</i>				<b>13.2%</b>		
<i>Composition (PI-2) variance</i>				<b>12.4%</b>		
<i>Contingency share of budget</i>				<b>0.27%</b>		

Table A4.2: Data for PI-1 and PI-2, 2013

<i>Administrative or functional head</i>	<i>(PhP millions)</i>					<i>%</i>
	<i>Budget</i>	<i>Actual</i>	<i>Adjusted budget</i>	<i>Deviation</i>	<i>Absolute deviation</i>	
DoF	140,898.03	137,227.82	115,879.94	21,347.88	21,347.88	18.42
DepEd	299,904.03	280,609.03	246,652.58	33,956.45	33,956.45	13.77
DPWH	230,115.61	200,528.67	189,255.91	11,272.76	11,272.76	5.96
DND	168,847.77	165,379.87	138,866.88	26,512.99	26,512.99	19.09
DILG	140,610.02	131,407.41	115,643.07	15,764.34	15,764.34	13.63
DSWD	78,574.91	69,606.74	64,623.02	4,983.72	4,983.72	7.71
DoH	48,454.68	40,932.73	39,850.98	1,081.74	1,081.74	2.71
DoA	76,267.18	66,612.98	62,725.06	3,887.92	3,887.92	6.20
DOTC	39,717.71	28,300.78	32,665.37	(4,364.59)	4,364.59	13.36
State universities and colleges	37,739.96	36,707.28	31,038.79	5,668.49	5,668.49	18.26
DENR	28,939.75	25,260.80	23,801.16	1,459.64	1,459.64	6.13
COMELEC	18,850.13	15,243.55	15,503.07	(259.52)	259.52	1.67
Judiciary	20,173.26	18,876.72	16,591.26	2,285.46	2,285.46	13.78
DAR	24,074.41	13,432.17	19,799.72	(6,367.55)	6,367.55	32.16
ARMM	18,140.75	17,984.81	14,919.65	3,065.16	3,065.16	20.54
DFA	14,861.59	13,618.63	12,222.74	1,395.89	1,395.89	11.42
DOST	14,232.58	13,267.49	11,705.42	1,562.07	1,562.07	13.34
Justice	13,348.88	12,675.62	10,978.63	1,696.99	1,696.99	15.46
Congress	11,891.43	10,104.06	9,779.97	324.09	324.09	3.31
Other Executive Offices	14,199.33	10,440.20	11,678.07	(1,237.87)	1,237.87	10.60
Others (= sum of rest)	581,518.75	354,227.25	478,263.32	(124,036.07)	124,036.07	25.93
<i>Allocated expenditure</i>	<i>2,021,360.76</i>	<i>1,662,444.61</i>	<i>1,662,444.61</i>	-	<i>272,531.19</i>	
Interest & principal on debt	783,246.00	557,028.40				
Contingency	13,782.69	9,325.73				
<b>Total expenditure</b>	<b>2,818,389.45</b>	<b>2,228,798.74</b>				
<i>Overall (PI-1) variance</i>				<b>20.9%</b>		
<i>Composition (PI-2) variance</i>				<b>16.39%</b>		
<i>Contingency share of budget</i>				<b>0.33%</b>		

**Table A4.3: Data for PI-1 and PI-2, 2014**

<i>Administrative or functional head</i>	<i>(PhP millions)</i>					<i>%</i>
	<i>Budget</i>	<i>Actual</i>	<i>Adjusted budget</i>	<i>Deviation</i>	<i>Absolute deviation</i>	
DoF	138,140.82	133,412.67	101,694.86	31,717.81	31,717.81	31.19%
DepEd	309,658.76	274,459.54	227,960.90	46,498.64	46,498.64	20.40%
DPWH	302,110.59	190,534.45	222,404.17	(31,869.72)	31,869.72	14.33%
DND	143,222.97	138,088.36	105,436.18	32,652.18	32,652.18	30.97%
DILG	160,000.48	143,035.87	117,787.25	25,248.62	25,248.62	21.44%
DSWD	103,658.09	86,135.27	76,309.78	9,825.49	9,825.49	12.88%
DoH	56,781.44	47,228.15	41,800.68	5,427.47	5,427.47	12.98%
DoA	74,695.59	56,697.10	54,988.51	1,708.59	1,708.59	3.11%
DOTC	59,354.94	34,107.99	43,695.21	(9,587.22)	9,587.22	21.94%
State universities and colleges	42,902.27	38,883.67	31,583.28	7,300.39	7,300.39	23.11%
DENR	30,083.72	23,825.60	22,146.67	1,678.93	1,678.93	7.58%
COMELEC	6,615.82	5,439.17	4,870.36	568.81	568.81	11.68%
Judiciary	21,957.88	19,443.77	16,164.69	3,279.08	3,279.08	20.29%
DAR	30,445.53	12,161.67	22,413.03	(10,251.36)	10,251.36	45.74%
ARMM	22,850.84	22,450.91	16,822.06	5,628.85	5,628.85	33.46%
DFA	15,489.31	13,371.16	11,402.74	1,968.42	1,968.42	17.26%
DOST	14,694.14	12,630.66	10,817.36	1,813.30	1,813.30	16.76%
Justice	14,568.17	13,640.93	10,724.62	2,916.31	2,916.31	27.19%
Congress	12,545.34	10,506.38	9,235.48	1,270.90	1,270.90	13.76%
Other Executive Offices	18,473.90	13,327.59	13,599.90	(272.31)	272.31	2.00%
Others (= sum of rest)	655,342.72	354,919.21	482,442.40	(127,523.19)	127,523.19	26.43%
<b>Allocated expenditure</b>	<b>2,233,593.32</b>	<b>1,644,300.12</b>	<b>1,644,300.12</b>	-	<b>359,007.59</b>	
Interest on debt	793,583.00	541,910.30				
Special Purpose Fund for LGUs	50,397.47	41,321.95				
<b>Total expenditure</b>	<b>3,077,573.79</b>	<b>2,227,532.37</b>				
<b>Overall (PI-1) variance</b>				<b>27.6%</b>		
<b>Composition (PI-2) variance</b>				<b>21.83%</b>		
<b>Contingency share of budget</b>				<b>1.34%</b>		

**Table A4.4: Results Matrix for PI-1 and PI-2**

Year	For PI-1: Total expenditure variation	For PI-2.1: Composition variance	For PI-2.3: Contingency share
2012	86.82%	12.42%	0.65%
2013	79.08%	16.39%	
2014	72.38%	21.83%	

**Table A4.5: Data for PI-2.2, 2012**

Economic head	<i>(PhP billions)</i>					%
	Budget	Actual	Adjusted budget	Deviation	Absolute deviation	
Maintenance and other operating expenses	703.89	622.53	594.10	28.43	28.43	4.78
Capital Outlays	510.45	304.35	430.84	(126.49)	126.49	29.36
Personnel Services	599.65	556.17	506.12	50.05	50.05	9.89
Financial expenses	307.83	307.83	259.82	48.01	48.01	18.48
<b>Total expenditure</b>	<b>2,121.82</b>	<b>1,790.88</b>	<b>1,790.88</b>	-	<b>252.98</b>	
<i>Composition Variance</i>	<i>14.13%</i>					

**Table A4.6: Data for PI-2.2, 2013**

Economic head	<i>(PhP billions)</i>					%
	Budget	Actual	Adjusted budget	Deviation	Absolute deviation	
Maintenance and other operating expenses	813.35	703.11	685.48	17.63	17.63	2.57
Capital Outlays	587.00	348.29	494.71	(146.42)	146.42	29.60
Personnel Services	621.01	611.04	523.38	87.66	87.66	16.75
Financial expenses	333.90	322.54	281.41	41.13	41.13	14.62
<b>Total expenditure</b>	<b>2,355.26</b>	<b>1,984.98</b>	<b>1,984.98</b>	-	<b>292.84</b>	
<i>Composition Variance</i>	<i>14.75%</i>					

**Table A4.7: Data for PI-2.2, 2014**

Economic head	(PhP billions)					%
	Budget	Actual	Adjusted budget	Deviation	Absolute deviation	
Maintenance and other operating expenses	886.30	735.27	673.30	61.97	61.97	9.20
Capital Outlays	687.73	272.99	522.45	(249.46)	249.46	47.75
Personnel Services	658.11	634.80	499.95	134.85	134.85	26.97
Financial expenses	354.11	321.65	269.01	52.64	52.64	19.57
<b>Total expenditure</b>	<b>2,586.25</b>	<b>1,964.71</b>	<b>1,964.71</b>	<b>-</b>	<b>498.92</b>	
<i>Composition Variance</i>	<i>25.39%</i>					

**Table A4.8: Results Matrix for PI-2.2**

Year	Composition variance
2012	14.13%
2013	14.75%
2014	25.39%

**Table A4.9: Data for PI-3, 2012**

Economic head	(PhP millions)					%
	Budget	Actual	Adjusted budget	Deviation	Absolute deviation	
<b>Tax Revenue</b>						
Taxes on income and profits	670,977	642,515	659,932	(17,417)	17,417	2.6%
Taxes on property	2,794	3,615	2,748	867	867	31.5%
Taxes on goods and services	406,583	425,078	399,890	25,188	25,188	6.3%
Taxes on imports	347,073	289,866	341,360	(51,494)	51,494	15.1%
<b>Grants</b>						
Grants from international organizations	-	99	-	99	99	
Grants from other government units			-	-	-	
<b>Other Revenues</b>						
Premiums, fees, and claims related to nonlife insurance and standardized guarantee schemes	69,446	81,332	68,303	13,029	13,029	19.1%
Sum of rest	63,750	92,428	62,700	29,728	29,728	47.4%
<b>Total Revenue</b>	<b>1,560,623</b>	<b>1,534,933</b>	<b>1,534,933</b>	<b>-</b>	<b>137,822</b>	
<i>Overall variance</i>	<i>98.4%</i>					
<i>Composition variance</i>	<i>9.0%</i>					

**Table A4.10: Data for PI-3, 2013**

Economic head	<i>(PhP millions)</i>					%
	Budget	Actual	Adjusted budget	Deviation	Absolute deviation	
<b>Tax Revenue</b>						
Taxes on income and profits	759,186	718,210	746,243	(28,033)	28,033	3.8%
Taxes on property	3,918	3,552	3,851	(299)	299	7.8%
Taxes on goods and services	504,765	509,010	496,160	12,850	12,850	2.6%
Taxes on imports	340,000	304,925	334,204	(29,279)	29,279	8.8%
<b>Grants</b>						
Grants from international organizations	-	321	-	321	321	
Grants from other government units			-	-	-	
<b>Other Revenues</b>						
Premiums, fees, and claims related to nonlife insurance and standardized guarantee schemes	78,258	30,541	76,924	(46,383)	46,383	60.3%
Sum of rest	59,729	149,533	58,710	90,823	90,823	154.7%
<b>Total Revenue</b>	<b>1,745,856</b>	<b>1,716,092</b>	<b>1,716,092</b>	<b>-</b>	<b>207,988</b>	
<i>Overall variance</i>	<i>98.3%</i>					
<i>Composition variance</i>	<i>12.1%</i>					

**Table A4.11: Data for PI-3, 2014**

Economic head	<i>(PhP millions)</i>					%
	Budget	Actual	Adjusted budget	Deviation	Absolute deviation	
<b>Tax Revenue</b>						
Taxes on income and profits	853,200	784,859	806,895	(22,036)	22,036	2.7%
Taxes on property	5,291	5,450	5,004	446	446	8.9%
Taxes on goods and services	613,331	560,530	580,044	(19,514)	19,514	3.4%
Taxes on imports	408,096	369,277	385,948	(16,671)	16,671	4.3%
<b>Grants</b>						
Grants from international organizations	-	233	-	233	233	
Grants from other government units			-	-	-	
<b>Other Revenues</b>						
Premiums, fees, and claims related to nonlife insurance and standardized guarantee schemes	75,441	32,771	71,347	(38,576)	38,576	54.1%
Sum of rest	62,691	155,407	59,289	96,118	96,118	162.1%
<b>Total Revenue</b>	<b>2,018,050</b>	<b>1,908,527</b>	<b>1,908,527</b>	<b>-</b>	<b>193,594</b>	
<i>Overall variance</i>	<i>94.6%</i>					
<i>Composition variance</i>	<i>10.1%</i>					

**Table A4.12: Results Matrix for PI-3**

Year	Total revenue deviation	Composition variance
2012	98.4%	9.0%
2013	98.3%	12.1%
2014	94.6%	10.1%



## Annex 5: Summary Assessment based on Old Methodology

Performance Indicators		Scoring Method	2010					2016					
			Dimension Ratings				Overall Score	Dimension Ratings				Overall Score	
			(i)	(ii)	(iii)	(iv)		(i)	(ii)	(iii)	(iv)		
<b>A – Credibility of the Budget</b>													
PI-1	Aggregate expenditure outturn compared to original approved budget	M1	NR					NR	D				D
PI-2	Composition of expenditure outturn compared to original approved budget	M1	NR					NR	D	A			D+
PI-3	Aggregate revenue outturn compared to original approved budget	M1	A					A	A				A
PI-4	Stock and monitoring of expenditure payment arrears	M1	C	D				D+	C	D			D+
<b>B – Comprehensiveness and Transparency</b>													
PI-5	Classification of the budget	M1	D					D	C				C
PI-6	Comprehensiveness of information included in budget documentation	M1	B					B	A				A
PI-7	Extent of unreported government operations	M1	A	A				A	A	A			A
PI-8	Transparency of inter-governmental fiscal relations	M2	A	B	C			B	A	B	A		A
PI-9	Oversight of aggregate fiscal risk from other public sector entities	M1	C	B				C+	B	B			B
PI-10	Public access to key fiscal information	M1	C					C	A				A
<b>C – Policy Based Budgeting</b>													
PI-11	Orderliness and participation in the annual budget process	M2	B	A	D			B	A	A	A		A
PI-12	Multi-year perspective in fiscal planning, expenditure policy and budgeting	M2	C	D	C	D		D+	B	A	B	B	B+
<b>D – Predictability and Control in Budget Execution</b>													
PI-13	Transparency of taxpayer obligations and liabilities	M2	D	C	B			C	B	B	B		B
PI-14	Effectiveness of measures for taxpayer registration and tax assessment	M2	C	C	C			C	B	A	B		B+
PI-15	Effectiveness in collection of tax payments	M1	A	C	D			D+	A	A	A		A
PI-16	Predictability in the availability of funds for commitment of expenditures	M1	A	D	D			D+	A	A	A		A
PI-17	Recording and management of cash balances, debt and guarantees	M2	B	B	B			B	B	B	B		B
PI-18	Effectiveness of payroll controls	M1	C	B	C	C		C+	B	B	C	C	C+
PI-19	Competition, value for money and controls in procurement	M2	B	B	B			B	B	B	B	B	B
PI-20	Effectiveness of internal controls for non-salary Expenditure	M1	C	C	D			D+	C	B	C		C+
PI-21	Effectiveness of internal audit	M1	D	D	C			D+	C	C	C		C
<b>E – Accounting, Recording and Reporting</b>													
PI-22	Timeliness and regularity of accounts reconciliation	M2	D	D				D	D	D			D
PI-23	Availability of information on resources received by service delivery unit	M1	D					D	C				C
PI-24	Quality and timeliness of in-year budget reports	M1	D	D	D			D	A	D	C		D+
PI-25	Quality and timeliness of annual financial statements	M1	B	D	B			D+	B	B	B		B
<b>F – External Scrutiny and Audit</b>													
PI-26	Scope, nature and follow-up of external audit	M1	A	NA	B			B+	A	D	B		B
PI-27	Legislative scrutiny of the annual budget law	M1	B	A	A	C		C+	B	A	A	B	B+
PI-28	Legislative scrutiny of external audit reports	M1	D	D	D			D	D	D	D		D

**Table A5.2: Distribution of Ratings by Indicator – Old Methodology**

<i>Core Dimensions of Performance</i>	2010 Ratings		2016 Ratings		Total indicators
	A / B	C / D	A / B	C / D	
Credibility of the budget	1	3	1	3	4
Comprehensiveness and transparency	3	3	5	1	6
Policy-based budgeting	1	1	2	-	2
Predictability and control in budget execution	2	7	6	3	9
Accounting, recording and reporting	-	4	1	3	4
External scrutiny and audit	1	2	2	1	3
<b>Total</b>	<b>8</b>	<b>20</b>	<b>17</b>	<b>11</b>	<b>28</b>

**Table A5.3: Distribution of Ratings by Dimensions – Old Methodology**

<i>Core Dimensions of Performance</i>	2010 Ratings		2016 Ratings		Total indicators
	A / B	C / D	A / B	C / D	
Credibility of the budget	1	4	2	4*	5
Comprehensiveness and transparency	6	4	9	1	10
Policy-based budgeting	2	5	7	-	7
Predictability and control in budget execution	10	18	19	9	28
Accounting, recording and reporting	2	7	4	5	9
External scrutiny and audit	5	5	6	4	10
<b>Total</b>	<b>26</b>	<b>43</b>	<b>47</b>	<b>23</b>	<b>69</b>

\* Indicator was revised in 2011 to add a dimension.

**Table A5.4: Description of Assessed Scores – Old Methodology**

<i>Indicator / Dimension</i>	<i>Score</i>		<i>Brief Explanation</i>
	2010	2016	
<p><b>PI-1 Aggregate expenditure outturn compared to original approved budget</b></p> <p>(i) The difference between actual primary expenditure and the originally budgeted primary expenditure (i.e. excluding debt service charges, but also excluding externally financed project expenditure).</p>	NR	D	The actual expenditure in 2013 and 2014 deviate from budgeted expenditure by an amount equivalent to more than 15% of budgeted expenditure (20.9% and 27.6%).
<p><b>PI-2 Composition of expenditure outturn compared to original approved budget</b></p>	NR	D+	<b>Overall rating based on M1 methodology.</b>
(i) Extent of the variance in expenditure composition during the last three years, excluding contingency items.	-	D	The composition variances (in absolute terms) were 12.3%, 16.5% and 21.8% in 2012, 2013 and 2014 respectively.
(ii) The average amount of expenditure actually charged to the contingency vote over the last three years	-	A	Actual expenditure charged to the contingency vote was on average less than 3% of the original budget
<p><b>PI-3 Aggregate revenue outturn compared to original approved budget</b></p> <p>(i) Actual domestic revenue compared to domestic revenue in the originally approved budget.</p>	A	A	Actual domestic revenue was between 97% and 106% of budgeted domestic revenue for the fiscal years 2012 and 2013. (98.4% and 98.3%). <b>Performance unchanged</b> , but reforms were introduced to improve the revenue performance.
<p><b>PI-4 Stock and monitoring of expenditure payment arrears</b></p>	D+	D+	<b>Overall rating based on M1 methodology.</b>
(i) Stock of expenditure payment arrears and any recent change in the stock	C	C	The stock of arrears constitute 5.0% and 5.4% of the total obligations incurred for years 2012 and 2013. <b>Performance unchanged</b> , the stock of arrears actually increased by 2%.
(ii) Availability of data for monitoring the stock of expenditure payment arrears	D	D	<b>Performance unchanged</b> , however, CoA requires submission of aging of expenditure arrears which are not consolidated for monitoring purposes.
<p><b>PI-5 Classification of the budget</b></p> <p>(i) The classification system used for formulation, execution and reporting of the central government's budget.</p>	D	C	<b>Performance improved.</b> The UACS was adopted in 2014 for budget preparation, execution, and reporting. UACS applies the GFS administrative and economic classification. Roll-out to execution is still underway.
<p><b>PI-6 Comprehensiveness of information included in budget documentation</b></p> <p>(i) Share of the above listed information in the budget documentation most recently issued by the central government (in order to count in the assessment, the</p>	B	A	<b>Performance improved.</b> The 2016 budget documentation fulfills seven of nine information benchmarks. Details of financial assets and summarized data as per main heads of classification are not present.

<i>Indicator / Dimension</i>	<i>Score</i>		<i>Brief Explanation</i>
	<b>2010</b>	<b>2016</b>	
full specification of the information benchmark must be met).			
<b>PI-7 Extent of unreported government operations</b>	<b>A</b>	<b>A</b>	<b>Overall rating based on M1 methodology.</b>
(i) The level of extra-budgetary expenditure which is unreported i.e. not included in fiscal reports	A	A	<b>No change in the process.</b> Per interview, all the information, activities and operations of the department/bureau are reported and disclosed in the annual audit reports of the respective agencies.
(ii) Income/expenditure information on donor-funded projects which is included in fiscal reports.	A	A	<b>No change in the process.</b> There is a separate annual audit report being undertaken by CoA for special projects financed by grants or donor-funding,
<b>PI-8 Transparency of inter-governmental fiscal relations</b>	<b>B</b>	<b>A</b>	<b>Performance improved</b> under (iii) as BLGF fiscal reporting coverage improved.
(i) Transparent and rules based systems in the horizontal allocation among SN governments of unconditional and conditional transfers from central government (both budgeted and actual allocations)	A	A	<b>Performance unchanged.</b> System and process remains the same.
(ii) Timeliness of reliable information to SN governments on their allocations from central government for the coming year	B	B	<b>Performance unchanged.</b> The information on transfers is regulated by DBM and the respective allocations are provided early.
(iii) Extent to which consolidated fiscal data is collected and reported for general government according to sectoral categories	C	A	<b>Performance improved.</b> Annual audited reports of majority LGUs are issued and published by CoA within nine months of the year-end
<b>PI-9 Oversight of aggregate fiscal risk from other public sector entities</b>	<b>C+</b>	<b>B</b>	<b>Performance improved</b> in all dimensions.
(i) Extent of central government monitoring of autonomous government agencies and public enterprise	C	B	<b>Performance improved, GCG</b> conducts an annual performance review and published these data annually. The risk information is consolidated in the Government-wide Fiscal Risk Statement (FRS).
(ii) Extent of central government monitoring of SN governments' fiscal position	B	B	<b>Performance unchanged,</b> BLGF monitors the fiscal position and debt of the LGUs. The information collated by BLGF for inclusion into the FRS.
<b>PI-10 Public access to key fiscal information</b>			
(i) Number of the above listed elements of public access to information that is fulfilled (in order to count in the assessment, the full specification of the information benchmark must be met).	C	A	The government makes available five of the listed types of information. The <b>performance improved</b> as the government made several reforms to disclose public information.
<b>PI-11 Orderliness and participation in the annual budget process</b>	<b>B</b>	<b>A</b>	<b>Performance improved</b> in all dimensions.

<i>Indicator / Dimension</i>	<i>Score</i>		<i>Brief Explanation</i>
	<b>2010</b>	<b>2016</b>	
(i) Existence of and adherence to a fixed budget calendar	B	A	A clear annual budget calendar exists, which allows NGAs more than 10 weeks to complete their detailed estimates on time
(ii) Clarity/comprehensiveness of and political involvement in the guidance on the preparation of budget submissions (budget circular or equivalent)	A	A	National Budget Memoranda are clear and very comprehensive. These also include the approved “hard” budget ceilings per department and agency.
(iii) Timely budget approval by the legislature or similarly mandated body (within the last three years)	D	A	The President has in each of the last three years approved the budget before the start of the fiscal year.
<b>PI-12 Multi-year perspective in fiscal planning, expenditure policy and budgeting</b>	<b>D+</b>	<b>B+</b>	<b>Performance improved</b> in all dimensions.
(i) Preparation of multi -year fiscal forecasts and functional allocations	C	B	<b>Performance improved.</b> MTFs were prepared for the last two years. Departments / agencies prepare a three-year rolling budget based on the issued hard budget ceiling.
(ii) Scope and frequency of debt sustainability analysis	D	A	<b>Performance improved.</b> Debt sustainability analysis, previously lacking, is present in the Fiscal Risk Statement report.
(iii) Existence of sector strategies with multi-year costing of recurrent and investment expenditure	C	B	<b>Performance improved</b> based on the PFM reforms initiated by DBM. The budget preparation covers program budgeting which sets the priority programs and its related costs.
(iv) Linkages between investment budgets and forward expenditure estimates	D	B	<b>Performance improved,</b> major investments are identified based on the priority programs, while recurrent costs are budgeted by the implementing agencies. Budget ceilings are directly related to the forward estimates.
<b>PI-13 Transparency of taxpayer obligations and liabilities</b>	<b>C</b>	<b>B</b>	<b>Performance improved</b> in (i) and (ii) through the reforms made in BIR and BoC.
(i) Clarity and comprehensiveness of tax liabilities	D	B	<b>Performance improved.</b> Laws and its related implementing rules and regulations for most major taxes are comprehensive and updated online, however, these, are still complex for the taxpayers/importers and the assigned bureaus have fairly limited discretionary powers.
(ii) Taxpayer access to information on tax liabilities and administrative procedures	C	B	<b>Performance improved</b> as the BIR and BOC are disclosing comprehensive and updated information through their respective websites, though this information is not always user-friendly to the public/user.
(iii) Existence and functioning of a tax appeals mechanism	B	B	<b>No change in the process.</b> Additional information was provided by the BIR in the website through rulings and circular.

<i>Indicator / Dimension</i>	<i>Score</i>		<i>Brief Explanation</i>
	2010	2016	
<b>PI-14 Effectiveness of measures for taxpayer registration and tax assessment</b>	C	B+	<b>Performance improved</b> in (ii) and (iii) through BIR process reforms.
(i) Controls in the taxpayer registration system	C	B	<b>Performance improved</b> , per interview the BIR system is currently linked to (i) Securities and Exchange Commission, (ii) Department of Trade and Industry, and (iii) Land Registration Authority. The BIR is coordinating with other agencies in linking their system for registration.
(ii) Effectiveness of penalties for non-compliance with registration and declaration obligations	C	A	<b>Performance improved</b> , RMO No. 7-2015 prescribes and implements the revised consolidated Schedule of Compromise Penalties for Violations of the National Internal Revenue Code and introduction of eFiling has improved monitoring and enforcement ability.
(iii) Planning and monitoring of tax audit and fraud investigation programs	C	B	<b>Performance improved</b> , as the BIR sets an annual audit program and issues special guidelines to audit value added tax. This was not done before.
<b>PI-15 Effectiveness in collection of tax payments</b>	D+	A	<b>Overall rating based on M1 methodology.</b>
(i) Collection ratio for gross tax arrears, being the percentage of tax arrears at the beginning of a fiscal year, which was collected during that fiscal year (average of the last two fiscal years)	A	A	The process of recording and monitoring has improved. This can be noted in the percentage of the total tax arrears against the total revenue for the past three years. The percentages were 4%, 6% and 6% for 2012, 2013 and 2014, respectively.
(ii) Effectiveness of transfer of tax collections to the Treasury by the revenue administration	C	A	<b>Performance improved</b> through the roll-out of the TSA reform which is now fully implemented on revenue side.
(iii) Frequency of complete accounts reconciliation between tax assessments, collections, arrears records and receipts by the Treasury	D	A	<b>Performance improved</b> Reconciliations with the BTr of the collections of the BIR and BOC are being done monthly.
<b>PI-16 Predictability in the availability of funds for commitment of expenditures</b>	D+	A	<b>Overall rating based on M1 methodology.</b>
(i) Extent to which cash flows are forecast and monitored	A	A	<b>Performance unchanged.</b> A cash flow forecast is prepared for the fiscal year and updated monthly based on actual cash inflows and outflows.

<i>Indicator / Dimension</i>	<i>Score</i>		<i>Brief Explanation</i>
	<b>2010</b>	<b>2016</b>	
(ii) Reliability and horizon of periodic in-year information to departments on ceilings for expenditure commitment	D	A	<b>Performance improved.</b> Since 2014, the GAA stands as the government's primary budget release document. An agency can begin obligating funds as soon as the GAA is enacted on the very first working day of the fiscal year. For multi-year PPAs, Multi Year Obligation Authority is necessary prior to entering into contracts. Cash allotment is made every six months.
(iii) Frequency and transparency of adjustments to budget allocations, which are decided above the level of management of departments	D	A	<b>Performance improved.</b> In 2015, DBM issued National Budget Circular No. 559 dated June 26, 2015 to provide guidelines in the realignment of funds
<b>PI-17 Recording and management of cash balances, debt and guarantees</b>	<b>B</b>	<b>B</b>	<b>Overall rating based on M2 methodology.</b>
(i) Quality of debt data recording and reporting	B	B	<b>Performance unchanged,</b> debt records are complete, updated and reconciled on a monthly basis. Mid-year reports present the National Government debt information.
(ii) Extent of consolidation of the government's cash balances	B	B	<b>Performance unchanged,</b> daily cash balances data are consolidated when reports are received from different authorized banks.
(iii) Systems for contracting loans and issuance of guarantees	B	B	No change in the process, loan contracting and issuance of guarantee still follows the same guideline and procedure
<b>PI-18 Effectiveness of payroll controls</b>	<b>C+</b>	<b>C+</b>	<b>Overall rating based on M1 methodology.</b>
(i) Degree of integration and reconciliation between personnel records and payroll data	C	C	<b>Performance unchanged.</b> DBM maintains GMIS at the central level; however, this is not linked to each agency's personnel records and payroll data, which is paid at the regional level. DepEd, for instance, adopts a decentralized system allowing the Regional Offices to manage their own records and process their payroll through the Regional Payroll Service Unit.
(ii) Timeliness of changes to personnel records and the payroll	B	B	<b>Performance unchanged.</b> Delays occur in processing changes to payroll for some and not the majority of instances.
(iii) Internal controls of changes to personnel records and the payroll	C	C	<b>Performance unchanged.</b> CoA's audit observations include payroll system deficiencies, including lapses in the controls and procedural practices that resulted in the double issuance of pay slips, inclusion in the database of transferred, retired, resigned and deceased personnel, rejected payrolls and

<i>Indicator / Dimension</i>	<i>Score</i>		<i>Brief Explanation</i>
	<b>2010</b>	<b>2016</b>	
			canceled payroll checks, among others.
(iv) Existence of payroll audits to identify control weaknesses and/or ghost workers	C	C	<b>Performance unchanged.</b> While payroll audits are performed by CoA as part of their regular audit of an agency's financial statements, there is little evidence that checks for ghost workers are being conducted.
<b>PI-19 Competition, value for money and controls in procurement</b>	<b>B</b>	<b>B</b>	<b>Overall rating based on M2 methodology.</b>
(i) Use of open competition for award of contracts that exceed the nationally established monetary threshold for small purchases	B	B	The total value of contracts awarded through competitive methods in 2014 was PhP 35.4 billion for central government agencies and PhP 26.2billion or 74% was done through competitive bidding.
(ii) Justification for use of less competitive procurement methods	B	B	Results of APCPI Indicator 2 on Alternative Mode showed that there is justification for more than 70% of the contracts procured through alternative methods.
(iv) Existence and operation of a procurement complaints mechanism	B	B	The procurement law, Republic Act No. 9184 has a well-defined procurement complaint mechanism. However, there is no independent administrative body that resolves complaints.
<b>PI-20 Effectiveness of internal controls for non-salary expenditure</b>	<b>D+</b>	<b>C+</b>	<b>Overall rating based on M1 methodology.</b>
(i) Effectiveness of expenditure commitment controls	C	C	<b>Performance unchanged.</b> Agencies commit based on the GAA and in some instances, through DBM-issued Special Allotment Release Orders; thus limiting the expenditures that can be incurred. Notice of Cash Allocations, on the other hand, constrains the agency from releasing funds due to cash availability which essentially is not linked with commitment control. CoA reports indicate expenditures in excess of obligations.
(ii) Comprehensiveness, relevance and understanding of other internal control rules/procedures	C	B	<b>Performance improved.</b> In October 2008, DBM issued circular (No. 2008-8) on National Guidelines on Internal Control Systems (NGICS) which serve as a guide to the heads of MDAs in designing, installing, implementing, and monitoring their respective internal control system. Further in May 2011, DBM issued circular (No. 2011-5) on the Philippine Government Internal Audit Manual to complement NGICS and serve as a guide to the MDAs in strengthening their



<i>Indicator / Dimension</i>	<i>Score</i>		<i>Brief Explanation</i>
	2010	2016	
			internal control systems. Trainings and workshops on NGICS and PGIAM implementation had been conducted to MDAs.
(iii) Degree of compliance with rules for processing and recording transactions	D	C	<b>Performance improved.</b> Number of unmodified opinion increased and adverse opinion decreased based on CY2013 audit reports (compared to previous assessment). However, despite NGICS and PGIAM implementation, CoA audit reports still indicated a substantial number of findings concerning lapses in internal control resulting in significant misstatements in the financial statements as well as occurrences of transactions not compliant with existing rules and regulations. Also, due to maintaining financial records in spreadsheet format, there is little evidence that controls over access to financial information exist.
<b>PI-21 Effectiveness of internal audit</b>	<b>D+</b>	<b>C</b>	<b>Overall rating based on M1 methodology.</b>
(i) Coverage and quality of the internal audit function	D	C	<b>Performance improved.</b> Internal Audit Service/Internal Audit Units have now been established in most government agencies; although not efficiently and effectively functioning due to lack of substantial trainings to further develop competencies of audit personnel. In DOTC, there is non-adherence to independence since Internal Audit Service/Internal Audit Units is reporting to the Undersecretary of Operations.
(ii) Frequency and distribution of reports	D	C	<b>Performance improved.</b> DPWH and DOTC completed their respective audit plans during 2014 and were able to issue internal audit reports. Internal Audit Units established in all NGAs regularly issue reports to the head of the entity but not to DBM or CoA.
(iii) Extent of management response to internal audit findings	C	C	<b>Performance unchanged.</b> In every internal audit report issued, Internal Audit Service/Internal Audit Units provide recommendations that are presented to the Head of the audited unit and the Department Secretary. Management response is solicited to indicate corresponding action plan that will be undertaken. However, no validation is completed to verify actions have been completed.

<i>Indicator / Dimension</i>	<i>Score</i>		<i>Brief Explanation</i>
	2010	2016	
<b>PI-22 Timeliness and regularity of accounts reconciliation</b>	<b>D</b>	<b>D</b>	<b>Overall rating based on M2 methodology.</b>
(i) Regularity of bank reconciliation	D	D	<b>Performance unchanged.</b> CoA audit reports cite unreliable cash balances and include a significant number of findings and observations concerning non-preparation or delayed submission of bank reconciliation statements.
(ii) Regularity of reconciliation and clearance of suspense accounts and advances	D	D	<b>Performance unchanged.</b> Based on CoA audit observations, long outstanding unliquidated advances run to millions of pesos. For the suspense account, DoJ maintains Other Property, Plant and Equipment which is captioned as “for reclassification” since 2012. DOTC, on the other hand, created suspense payable accounts to lodge prior year balances subject to reconciliation.
<b>PI-23 Availability of information on resources received by service delivery units</b> (i) Collection and processing of information to demonstrate that resources were actually received (in cash and in kind) by the most common front-line service delivery units (focus on primary schools and primary health clinics) in relation to the overall resources made available to the sector(s), irrespective of which level of government is responsible for the operation and funding of those units	<b>D</b>	<b>C</b>	<b>Overall rating based on M1 methodology.</b> <b>Performance improved.</b> MDAs (which includes DepEd and DoH) submit a consolidated Statement of Appropriations, Allotments, Obligations, Disbursements and Balances (SAAODB) on a quarterly basis to Department of Budget and Management. This report reflects information on resources received by the frontline service delivery units whether sub-allotted by the Central Office or directly released by DBM to Regional Offices. However, there is no evidence that in-kind resources received by service delivery units are compiled at least annually. CoA’s audit reports also indicate lack of efficient monitoring of resources for service delivery units.
<b>PI-24 Quality and timeliness of in-year budget reports</b>	<b>D</b>	<b>D+</b>	<b>Overall rating based on M1 methodology.</b>
(i) Scope of reports in terms of coverage and comparability with budget estimates	D	A	<b>Performance improved.</b> Numerous reports with a new format are required to be submitted by the line departments and agencies to both CoA and DBM. DBM requires 4 Budget Execution Documents and 10 Budget and Financial Accountability Reports.

<i>Indicator / Dimension</i>	<i>Score</i>		<i>Brief Explanation</i>
	2010	2016	
(ii) Timeliness of the issue of reports	D	D	<b>Performance unchanged.</b> Timely submission remained to be a challenge among a number of line departments and agencies. As of September 11, 2015, there are still a number of line departments and agencies that are flagged pending on their submission of the March and June Budget and Financial Accountability Reports.
(iii) Quality of information	D	C	<b>Performance improved.</b> Delay in the submission compromised the relevance of the information. In addition, reliability may prove questionable considering the lack of appropriate control mechanisms to ensure accuracy and validity of financial data.
<b>PI-25 Quality and timeliness of financial statements</b>	<b>D+</b>	<b>B</b>	<b>Overall rating based on M1 methodology.</b>
(i) Completeness of the financial statements	B	B	<b>Performance unchanged.</b> CoA Annual Financial Reports provides relative complete information for national and local government and GOCCs. Qualified audit opinion on BTr - national government Books indicating incomplete financial statements. Annual financial statements of Agencies, which are the bases of consolidation, are mostly given a qualified opinion.
(ii) Timeliness of the submission of the financial statements	D	B	<b>Performance improved.</b> Based on the information obtained from CoA, submission of Agency financial statements are submitted between February and May
(iii) Accounting standards used	B	B	<b>Performance unchanged.</b> In 2014, CoA adopted PPSAS, which is based on IPSAS with some exceptions. In the previous years, NGAS was applied.
<b>PI-26 Scope, nature and follow-up of external audit</b>	<b>C+</b>	<b>B+</b>	<b>Overall rating based on M1 methodology.</b>
(i) Scope/nature of audit performed (including adherence to auditing standards)	A	A	<b>Performance unchanged.</b> PPSSA was adopted on January 29, 2013. In 2011, an integrated results and risk-based audit methodology was adopted.
(ii) Timeliness of submission of audit reports to legislature	-	D	CoA is not mandated by law to submit the annual audited financial statements to Congress; although, it submits a copy of the report upon request by the latter. 2014 audit reports have not yet been received by both House and Senate. Furthermore, the House confirmed that 2013 audit reports were received only in 2015. Annual audit reports are uploaded on CoA website.

<i>Indicator / Dimension</i>	<i>Score</i>		<i>Brief Explanation</i>
	2010	2016	
(iii) Evidence of follow up on audit recommendations	B	B	<b>Performance unchanged.</b> A formal response as well as full/partial implementation of recommendations was in place for majority of the observations raised.
<b>PI-27 Legislative scrutiny of the annual budget law</b>	<b>C+</b>	<b>B+</b>	<b>Overall rating based on M1 methodology.</b>
(i) Scope of legislature's scrutiny	B	B	<b>Performance unchanged.</b> The legislature's review covers fiscal policies and aggregates for the coming year as well as detailed estimates of expenditure and revenue. Legislative scrutiny is limited to what is submitted by the Executive in their budget proposal.
(ii) Extent to which the legislature's procedures are well-established and respected	A	A	<b>Performance unchanged.</b> The House of Representatives through the Congressional Policy and Budget Research Department issued "A Legislator's Guide in Analyzing the National Budget".
(iii) Adequacy of time for the legislature to provide response to budget proposals both detailed estimates, and where applicable, for proposals on macro-fiscal aggregates earlier in the budget preparation cycle (time allowed in practice for all stages combined)	A	A	<b>Performance unchanged.</b> Timely approval by the House and Senate of and endorsement to the President of the GAA.
(iv) Rules for in-year amendments to the budget without ex-ante approval by the legislature	C	B	<b>Performance improved.</b> Per EO 292, the President has extensive authority for budget reallocations, expansion is not allowed. In year administrative reallocations are transparent and processes have been improved subsequent to decision on the Disbursement Acceleration Program.
<b>PI-28 Legislative scrutiny of external audit reports</b>	<b>D</b>	<b>D</b>	<b>Overall rating based on M1 methodology.</b>
(i) Timeliness of examination of audit reports by the legislature (for reports received within the last three years)	D	D	<b>Performance unchanged.</b> Based on the discussion with House's Committee of Appropriation's Secretariat and Senate's Legislative Budget Research and Monitoring Office, there is no designated committee in both Senate and House that carries out the function of reviewing and scrutinizing the external audit reports for the purpose of issuing recommended actions based on CoA observations. There may be instances when CoA auditors are called for
(ii) Extent of hearings on key findings undertaken by the legislature	D	D	
(iii) Issuance of recommended actions by the legislature and implementation by the executive	D	D	

## Endnotes

- <sup>1</sup> World Bank, Philippines, Public Expenditure and Financial Accountability (Report No. 54584-PH, May 2010).
- <sup>2</sup> Following Administrative Order No. 119 (29 March 1989), DBM was directed to promulgate rules, regulations, or circulars for strengthening the internal control systems. Memorandum Order No. 277 (19 January 1990) specified that this was not to be interpreted so as to diminish the powers and functions of Commission on Audit.
- <sup>3</sup> Commission on Audit is authorized to promulgate accounting (and auditing) rules and regulations based on the Constitution (Article IX, Part D, Section 2, para 2).
- <sup>4</sup> Provided for under Constitution Article IX, Part D, the Commission on Audit is charged with carrying out external audit of LGUs and GOCCs (Book V, Subtitle B, Chapter 3, Section 7, para 5b) as well as formulating accounting rules and regulations for LGUs (para 10a). The Commission is likewise charged with preparing the Annual Financial Report for GOCCs (para 9f) and LGUs (para 10f).
- <sup>5</sup> The Supreme Court ruling from July 2014 made it clear though that this needs to be based on law.
- <sup>6</sup> Less than one quarter of the 2015 National Government budget was subject to direct legislative approval since about 33% of the total was automatic appropriations (interest payment, internal revenue allotments and special accounts), 17% was for SPFs and unprogrammed funds, and 29% were for personnel expenditure.
- <sup>7</sup> To ensure continuity in government operations, the Philippine Constitution [Section 25 (7) of Article VI] provides that the General Appropriations Act for the preceding fiscal year shall be deemed re-enacted for the ensuing fiscal year if Congress fails to pass the General Appropriations Bill and shall remain in force and effect until a General Appropriations Act is passed by Congress.
- <sup>8</sup> Development Budget Coordination Committee comprises the DBM Secretary (Chairman), DoF Secretary, NEDA Director-General, BSP Governor, and a representative from the Office of the President. Its tasks include establishing the level of the annual government expenditure programs; determining expenditure allocations; allocating funds for each development activity; assessing the reliability of revenue estimates; recommending tax or other revenue measures as well as the extent and type of borrowings; and conducting periodic reviews of costs, accomplishments, and performance standards. The regulative basis of the DBCC is Section 7 (1) Chapter 2 (NEDA Board), Title II (Other Bodies) in Book V (Office of the President) of the EO No. 292 Instituting the Administrative Code of 1987.
- <sup>9</sup> The Unified Accounts Code Structure is based on DBM/CoA/DoF Joint Circular No. 2013-1 (UACS adoption and Manual), Joint Circular No. 2014-1 (UACS implementation), and Circular Letter No. 2015-2 (creation of UACS website).
- <sup>10</sup> The budget preparation and appropriation processes are described under PI-11 and PI-27.
- <sup>11</sup> Article VII Section 22 (1) of the Constitution of the Republic of the Philippines.
- <sup>12</sup> Chapter 3 Budget Preparation in Book VI (National Government Budgeting) of the Executive Order No. 292 Instituting the 'Administrative Code of 1987'.
- <sup>13</sup> Section 44, Book VI of EO 292 of 1987.
- <sup>14</sup> Section 8 (b) of Republic Act no. 8182 'ODA Act' dated 11 June 1996, as amended by Republic Act no. 8555.
- <sup>15</sup> Article 409 of the Implementing Rules and Regulations of Republic Act no. 7160 of the Local Government Code.
- <sup>16</sup> <http://www.dbm.gov.ph/wp-content/uploads/Issuances/2014/Local%20Budget%20Memorandum/LBM%20No.68.pdf>.
- <sup>17</sup> <http://www.dbm.gov.ph/wpcontent/uploads/Issuances/2015/Local%20Budget%20Memorandum/LOCAL%20BUDGET%20MEMORANDUM%20NO.%2070.pdf>.
- <sup>18</sup> <http://www.dbm.gov.ph/wp-content/uploads/Issuances/2014/Local%20Budget%20Circular/LBCNo.104.pdf>; <http://www.dbm.gov.ph/wp-content/uploads/Issuances/2014/Local%20Budget%20Circular/LBCNo105.pdf>; and <http://www.dbm.gov.ph/wpcontent/uploads/Issuances/2015/Local%20Budget%20Circular/LOCAL%20BUDGET%20CIRCULAR%20No.%20107.pdf>
- <sup>19</sup> [http://www.dbm.gov.ph/wpcontent/uploads/Issuances/2015/Local%20Budget%20Memorandum/LBMNo.69\\_GUIDELINES%20AND%20PROCEDURES%20IN%20THE%20RELEASE%20AND%20UTILIZATION%20OF%20THE%20SHARE%20OF%20PROVINCES%20FROM%20THE%20CY%202012%20COLLECTION%20OF%20BURLEY%20AND%20NATIVE%20TOBACCO%20EXCISE%20TAX%20PURSUANT%20TO%20REPUBLIC%20ACT%20\(RA\)%20NO.%2082.pdf](http://www.dbm.gov.ph/wpcontent/uploads/Issuances/2015/Local%20Budget%20Memorandum/LBMNo.69_GUIDELINES%20AND%20PROCEDURES%20IN%20THE%20RELEASE%20AND%20UTILIZATION%20OF%20THE%20SHARE%20OF%20PROVINCES%20FROM%20THE%20CY%202012%20COLLECTION%20OF%20BURLEY%20AND%20NATIVE%20TOBACCO%20EXCISE%20TAX%20PURSUANT%20TO%20REPUBLIC%20ACT%20(RA)%20NO.%2082.pdf); and <http://www.dbm.gov.ph/wpcontent/uploads/Issuances/2015/Local%20Budget%20Memorandum/LOCAL%20BUDGET%20MEMORANDUM%20NO.%2071.pdf>.
- <sup>20</sup> <http://www.dap.edu.ph/rbpmis/agency-performance/>
- <sup>21</sup> [http://www.dbm.gov.ph/?page\\_id=8766](http://www.dbm.gov.ph/?page_id=8766)
- <sup>22</sup> <http://serp-p.pids.gov.ph/home/index.html#>
- <sup>23</sup> Government Financial Institutions, Government Instrumentalities with Corporate Powers, and Government Corporate Entities differ from GOCCs, but are often referred to as GOCCs as well.
- <sup>24</sup> 2016 Proposed Budget (August 2015), p. 18: [http://www.dbm.gov.ph/?page\\_id=13550](http://www.dbm.gov.ph/?page_id=13550).
- <sup>25</sup> [http://gcg.gov.ph/site/public\\_files/Annual%20Reports/The%20First%20200%20Days%20Report.pdf](http://gcg.gov.ph/site/public_files/Annual%20Reports/The%20First%20200%20Days%20Report.pdf); and [http://gcg.gov.ph/site/public\\_files/gcg14036673542013%20Annual%20Report%20optimized.pdf](http://gcg.gov.ph/site/public_files/gcg14036673542013%20Annual%20Report%20optimized.pdf).
- <sup>26</sup> Fiscal Risk Statement 2013, op. cit., p. 13.
- <sup>27</sup> Fiscal Risk Statement 2013, op. cit., p. 23.

- <sup>28</sup> [http://www.dbm.gov.ph/?page\\_id=9010](http://www.dbm.gov.ph/?page_id=9010).
- <sup>29</sup> Significant in this case is defined as 0.5% of the total national government expenditure.
- <sup>30</sup> Detailed engineering studies are considered part of project implementation and require prior ICC approval for funding and project start. The evaluation of the proposal is done on the entire project rather than on the detailed engineering investment alone.
- <sup>31</sup> <http://www.neda.gov.ph/wp-content/uploads/2013/10/Revised-ICC-Guidelines-and-Procedures-as-of-4-March-2005.pdf>
- <sup>32</sup> [http://www.neda.gov.ph/wp-content/uploads/2013/10/Revisions-on-ICC-Guidelines-and-Procedures\\_1billion.pdf](http://www.neda.gov.ph/wp-content/uploads/2013/10/Revisions-on-ICC-Guidelines-and-Procedures_1billion.pdf).
- <sup>33</sup> Section 2.6 of the BOT Law, implementing rules and regulations provide that approval of projects shall be approved as follows: (a) for projects of the national line agencies and GOCCs implemented through BOT and its variant schemes; i) those costing up to Php300 million shall be submitted to ICC for its approval; and ii) those costing more than Php300 million shall be submitted to the NEDA Board for its approval, upon recommendation of ICC; and (b) for local BOT projects to be implemented by local government units costing above Php200 million.
- <sup>34</sup> Section 7.2b of the 2013 Revised Joint Venture Guidelines provides that the approving authority shall be the NEDA Board Investment Coordination Committee for the following projects: (a) Infrastructure projects as defined under Section 5.9 of these Guidelines with government contribution amounting PhP 150 million and above; (b) Projects that are public utilities as defined under Section 5.11 of these Guidelines with government contribution amounting PhP 150 million and above; (c) Negotiated joint ventures that are initiated by a private sector proponent with government contribution amounting PhP 150 million and above; and (d) Projects that are not related to primary corporate mandate with government contribution amounting PhP 150 million and above.
- <sup>35</sup> <http://www.neda.gov.ph/wp-content/uploads/2013/10/Revised-ICC-Guidelines-and-Procedures-as-of-4-March-2005.pdf>
- <sup>36</sup> The ICC Technical Working Group, comprising NEDA Secretariat, DoF, DENR Environmental Management Bureau, and PPP Center, jointly undertakes specific aspects of the appraisal of PPP projects.
- <sup>37</sup> <http://www.neda.gov.ph/wp-content/uploads/2013/10/ICC-Project-Evaluation-Procedures-and-Guidelines-as-of-24-June-2004.pdf>.
- <sup>38</sup> <http://www.neda.gov.ph/list-neda-board-confirmed-icc-approved-projects/>
- <sup>39</sup> <http://www.neda.gov.ph/wp-content/uploads/2015/05/Consolidated-CIIP-as-of-15-May-2015.xlsx>.
- <sup>40</sup> <http://www.neda.gov.ph/wp-content/uploads/2013/12/CIIP-Guidelines-as-of-06-March-2015.xlsx>.
- <sup>41</sup> IMF Country Report no. [15/156].
- <sup>42</sup> DBM National Budget Memorandum no. 123, 28 January 2015.
- <sup>43</sup> The National Project Monitoring Committee is an interagency committee mandated primarily to coordinate and oversee the implementation of the regional project M&E system.
- <sup>44</sup> NEDA Regional Offices serve as Secretariat to RPMCs.
- <sup>45</sup> [http://www.dbm.gov.ph/?page\\_id=4273](http://www.dbm.gov.ph/?page_id=4273).
- <sup>46</sup> <http://www.gov.ph/2011/05/13/executive-order-no-43/>.
- <sup>47</sup> Registry of Public Infrastructure shall be used to record properties for use by the general public. A separate Registry shall be maintained for each class of property or asset (e.g., Plaza, Parks and Monuments; Roads, Highways and Bridges; Ports, Harbors, Seawalls, River Walls and Others; Runways; Railways; Waterways, Aqueducts, etc.; and Irrigation Canals and Laterals, etc.). For proper costing, the original construction cost and any major repairs undertaken shall be posted in the respective Registry. It shall be maintained by the Accounting Unit of the agency.
- <sup>48</sup> Registry of Reforestation Projects shall be used to record expenses incurred on reforestation projects. It shall be maintained by the Accounting Unit of the agency implementing reforestation projects.
- <sup>49</sup> Registry of Public Infrastructure Summary shall be used to summarize all the public infrastructures of the agency. The total of each registry shall be posted in the summary and the total public infrastructures shall be disclosed in the notes to the financial statements,
- <sup>50</sup> This is a consolidated report that comprises the general government sector, non-financial public corporations, and financial public corporations. The coverage of the debt data includes the debt of the LGUs because it is part of the general government sector.
- <sup>51</sup> The report is comprised of actual obligations for loans/bonds, both direct and assumed, and securities (domestic and foreign) and contingent obligations in form of national government guarantees. The national government debt report is disclosed two months from reference period. The report is published before the end of March the following year.
- <sup>52</sup> [http://www.treasury.gov.ph/?page\\_id=746](http://www.treasury.gov.ph/?page_id=746)
- <sup>53</sup> Under EO 127 (January 1987), 127-A (July 1987) and 292 (July 1987).
- <sup>54</sup> Under EO 449, series 1997 and Republic Act (RA) 1000.
- <sup>55</sup> Reports on guarantee fees billed and collected and GOCCs that have not been able to service the National government guaranteed borrowings.
- <sup>56</sup> Under RA No. 4860 or the Foreign Borrowings Act, RA No. 245 authorizing the Secretary of Finance to borrow to meet public expenditures, and RA. No. 8182 as amended by RA 8555 for contracting Official Development Assistance loans and grants
- <sup>57</sup> DOF, 2010. Annual Report
- <sup>58</sup> <http://www.dbm.gov.ph/wp-content/uploads/BESF/BESF2016/D.pdf>
- <sup>59</sup> BESF Table A.2.

<sup>60</sup> BESF Table A.1.

<sup>61</sup> BESF Table A.6.

<sup>62</sup> <http://www.dbm.gov.ph/>

<sup>63</sup> For 2014 (<http://budgetngbayan.com/2014-peoples-budget-2857>), 2015 (<http://budgetngbayan.com/2015-peoples-proposed-budget-2885>), and 2016 [http://www.dbm.gov.ph/?page\\_id=13550](http://www.dbm.gov.ph/?page_id=13550).

<sup>64</sup> This key areas is organized according to the following thematic clusters; (a) good governance and anti-corruption; (b) human development and poverty reduction; (c) economic development; (d) security, justice and peace; and (e) climate change adaptation and mitigation.

<sup>65</sup> EO No. 43, series of 2011.

<sup>66</sup> This approach was established in 2013 budget preparation in order to focus the budget on identified necessary program and to ensure that the key agencies participating in the program coordinate their targets and activities to facilitate program execution. A matrix of priority program with the corresponding agencies/departments was attached in order to provide proper guidance to the participating agencies and departments.

<sup>67</sup> Consist of tourism development program, infrastructure development program, basic education for all, universal health program, agriculture development program, conditional cash transfer program, and climate change adaptation program.

<sup>68</sup> DBM, April 25, 2013. National Budget Memorandum No. 118.

<sup>69</sup> This framework is designed especially to link planning (medium-term outlook) with the annual budget and to link the budgetary expenditures with the desired outcome. This framework also facilitates the systematic determination of the fiscal space (available uncommitted funds) available for allocation among the key program, taking account of the future cost of approved and ongoing programs as well as validate commitment under the forward estimate process and the fiscal consolidation strategy of the national government.

<sup>70</sup> DBM, 28 January 2015. National Budget Memorandum No. 123.

<sup>71</sup> The two-tier budgeting approach separates the evaluation of agency proposals for on-going and existing programs/projects from new spending proposals and the expansion of on-going and existing programs/projects. Under Tier1, the budgetary requirements are determined through the forward estimate process. In Tier 2, the departments/agencies propose their new spending based on the spending areas and strategies identified in the Budget Priorities Framework.

<sup>72</sup> National Budget Memorandum no. 124.

<sup>73</sup> [http://www.dbm.gov.ph/?page\\_id=11897](http://www.dbm.gov.ph/?page_id=11897).

<sup>74</sup> The planning-budgeting framework used by the government to provide a three-year forward perspective to the decision-making process during budget preparation. This uses the forward estimate process.

<sup>75</sup> A budgeting approach that uses performance information to assist in deciding where the government funds will go.

<sup>76</sup> A program evaluation approach through which every function within an organization is analyzed for its needs and costs.

<sup>77</sup> An approach to facilitate and incentivizes inter-agency collaboration along contract areas to ensure priority programs are planned, budgeted and implemented in a coordinated manner.

<sup>78</sup> An approach to ensure that the prioritized list of programs is incorporated. It also strengthens the capacity of the LGUs to plan, budget and execute programs.

<sup>79</sup> An approach to separate the evaluation of agency proposals for ongoing/existing programs from the new spending/the expansion of the ongoing/existing programs. The objective is to decongest and systematize the decision-making process for these two different types of programs during budget preparation.

<sup>80</sup> [http://www.dbm.gov.ph/?page\\_id=9769](http://www.dbm.gov.ph/?page_id=9769)

<sup>81</sup> <http://www.bir.gov.ph/> .

<sup>82</sup> <http://knowyourtaxes.ph/home>.

<sup>83</sup> Departmental Order No. 44-2014, 17 June 2014 – post-entry audit guidelines under the Fiscal Intelligence Unit.

<sup>84</sup> The scope of post-entry audit has been expanded to cover importers who commit plain and simple errors in the import declaration. Importers must be cognizant of importation laws, rules and regulations so that import entries are accurate and error-free.

<sup>85</sup> RMO No. 19-2015, 15 September 2015.

<sup>86</sup> The eLAMS enforces management and control of audit conducts as well as to monitor the workload of concerned case/revenue officer's audit.

<sup>87</sup> [http://www.bir.gov.ph/images/bir\\_files/annual\\_reports/annual\\_report\\_2014/iacep.html](http://www.bir.gov.ph/images/bir_files/annual_reports/annual_report_2014/iacep.html).

<sup>88</sup> <http://www.gov.ph/governance/wp-content/uploads/2015/06/Run-After-the-Smugglers-RATS-Program1.pdf>.

<sup>89</sup> <http://www.tariffcommission.gov.ph/previous-website/ra9135.html>.

<sup>90</sup> Customs Memorandum Circular 83-2014, 19 June 2014 and DoF Department Order No. 44-2014, 17 June 2014.

<sup>91</sup> BIR Operations Memorandum No. 12-09-001, 5 September 2012, mandating to properly identify the accounts receivable and delinquent accounts cases in the inventory of the concerned BIR offices.

<sup>92</sup> BIR Revenue Memorandum Order No. 11-2014, 7 February 2014.

<sup>93</sup> BIR Revenue Memorandum Order No. 22-2015, 12 October 2015.

<sup>94</sup> [http://www.bir.gov.ph/images/bir\\_files/annual\\_reports/annual\\_report\\_2014/actscg.html](http://www.bir.gov.ph/images/bir_files/annual_reports/annual_report_2014/actscg.html).

<sup>95</sup> BIR internal Operations Memorandum No. 4-2014 and the policy and guidelines through RMO No. 35-2014.

<sup>96</sup> [http://www.treasury.gov.ph/wp-content/uploads/2015/10/mo\\_cor\\_revenues.pdf](http://www.treasury.gov.ph/wp-content/uploads/2015/10/mo_cor_revenues.pdf).

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- <sup>97</sup> Data includes the consolidated report on daily collection and daily collection summary. The consolidated reports on daily collection are reconciled with BSP's list of remittances for the respective bureaus while the daily collection summaries are reconciled with the BTr's summary of collection report.
- <sup>98</sup> The MDS is a procedure whereby disbursements by national government agencies, chargeable against the account of the Treasurer of the Philippines, are effected through the government servicing banks.
- <sup>99</sup> Per National Budget Circular Nos. 551 and 556 dated January 2, 2014 and January 5, 2015, respectively.
- <sup>100</sup> CoA Circular No. 2012-001, June 14, 2012
- <sup>101</sup> <http://www.gov.ph/1998/10/30/executive-order-no-38-s-1998/>
- <sup>102</sup> Financial Control and Accountability in the Philippines, World Bank, June 17, 2011.
- <sup>103</sup> With the support of IMF, World Bank, and DFAT, the Government initiated the drafting of a PFM Bill to legislate several budget-related matters, prudent fiscal discipline, and financial management. The Bill was filed in Senate as SB 2719 on April 14, 2015, and in the House of Representatives as HB 6117 on September 8, 2015.
- <sup>104</sup> Ali Hashim, "A Handbook on Financial Management Information Systems for Government: A Practitioners Guide for Setting Reform Priorities, Systems Design, and Implementation", World Bank, 2014.
- <sup>105</sup> Philippines PFM Reforms Roadmap – Consolidated Matrix of Identified Gaps, Strategies and Desired Results, as of 13 January [Annex to GIFMIS Committee Resolution No. 01-2011], GoP, 2011.
- <sup>106</sup> The Updated PFM Reform Roadmap 2015-2016", GoP, May 2015.
- <sup>107</sup> Executive Order No. 55 Directing the Integration and Automation of Government Financial Management Systems, GoP, September 6, 2011. The Executive Order established the PFM Committee, outlined its deliverables, and stated its authority and functions.
- <sup>108</sup> The PIUs are not dedicated implementation units as the staff have ordinary duties.
- <sup>109</sup> A total of five high-level Cabinet Clusters were set up in 2011 with EO No. 43 to advise the President and recommend policy measures and operational matters in their respective areas. The GGAC Cluster is the only cluster chaired by the President.
- <sup>110</sup> The GGAC Cluster Plan covered 34 initiatives under transparency, accountability, and citizen engagement.
- <sup>111</sup> Cabinet Cluster on Good Governance and Anti-Corruption – Governance Cluster Initiatives Status Reports (available from <http://www.gov.ph/governance/>), GoP. The updated and restructured GGAC Cabinet Cluster Action Plan included 30 initiatives under three areas (transparency and citizens' empowerment; public sector performance; and, anti-corruption measures) and priority legislation under a fourth area (policy environment for good governance).
- <sup>112</sup> Track I originally aimed to improve the functionality and interface of existing BTR, CoA, and DBM systems. The change in focus toward a human resource and payroll system took place during 2012.
- <sup>113</sup> [http://openbub.gov.ph/wb\\_gaa\\_chart](http://openbub.gov.ph/wb_gaa_chart)
- <sup>114</sup> Published audit reports on CAMANAVA flood control, QC garbage collection, and Marikina maternal health component of conditional cash transfer. Ongoing projects being audited are on farm-to-market roads; tourism road; WASH facilities; and DRRM.