

PUBLIC FINANCIAL MANAGEMENT ASSESSMENT

I. Summary

1. The Philippines has achieved much over recent years. Sound macro-economic performance has been complemented by marked improvements in a number of qualitative and quantitative measures of governance. The economy expanded by 6.4% on average in 2010–2017, accelerating from 4.5% in 2000–2009 and 3% in the 1990s. The Philippines has also advanced to 56th position in the World Economic Forum’s Global Competitiveness Index Rankings and has made progress towards achieving the Sustainable Development Goals.¹ Nevertheless, and despite high economic growth rates, progress in reducing poverty has been slow.

2. The government has recognized that improved public financial management (PFM) will be critical in ensuring that the Philippines can achieve its development goals. A transparent and credible PFM system supports informed decision-making, and the effective and efficient provision of public goods and services. Under the umbrella Philippine Development Plan (PDP) 2017–2022, the government instituted an aggressive reform agenda to promote effective and honest governance to create an enabling environment for citizens and the private sector. The Good Governance and Anti-Corruption Cabinet Cluster oversaw a comprehensive and integrated governance and anticorruption action plan which, among others, improved public financial management systems, increased capacity for results-based budgeting, and provided an improved policy and regulatory environment for private sector development. The PDP 2017–2022 will continue these reforms.

3. The 2016 Public Expenditure and Financial Accountability (PEFA) report validates government’s efforts to strengthen PFM, showing that three of seven core areas (transparency, policy-based budgeting, and asset and liability management) are strong and have improved since the 2010 assessment.² The government has harmonized Philippine Accounting Standards and Philippine Public Sector Standards of Accounting with International Financial Reporting Standards and the International Public Sector Accounting Standards, respectively. A Unified Account Code Structure (UACS) was rolled out and a performance-informed budget process was introduced. As a result, the government has improved its performance relative to international fiscal transparency standards.³ Moreover, indicators of corruption have also improved. The Philippines rose to 111th place out of 180 countries in Transparency International’s 2017 Corruption Perception Index, from 134th place out of 178 countries in 2010.

4. Areas of weakness identified in the 2014 update to the 2010 PEFA (e.g. budget credibility, predictability and control in budget execution, and external scrutiny and audit) have been actively addressed. Budget credibility has been enhanced through the adoption of an Outcome-Based Performance-Informed Budget (FY 2015) and efforts to ensure fast and efficient budget execution. In addition, the government has strengthened the budget review process and has reduced the number and magnitude of special purpose funds by incorporating these lump sums into the agency budgets. To utilize the harmonized financial reporting now available through UACS, the government launched an analytical tool which is capable of loading, organizing, and consolidating

¹ The Global Competitiveness Report 2017–2018 provides an overview of the competitiveness performance of 137 economies.

² Public Expenditure and Financial Accountability Report. 2016. <https://pefa.org/assessments/philippines-2016>. The 2016 PEFA assessment identified three dimensions as the main PFM weaknesses. These included: budget reliability, accounting and reporting, and external scrutiny.

³ The 2015 Open Budget Index assigned the Philippines a (transparency) score of 64 for transparency, representing a significant improvement over 2012 when the Philippines received a score of 48.

UACS-based data during all phases of the budget cycle. A web-based portal will be used to provide interactive tools for business analytics, reporting, ad hoc queries and dashboards. Transparency has been strengthened through the adoption of the Transparency Seal, which requires all government agencies to disclose key information through their respective websites. As part of this effort, the Open Budget Data project directs government agencies to proactively release datasets, and to generate an ecosystem to support the use and reuse of the datasets by the public. The adoption of a Treasury Single Account will increase budget credibility by centralizing the collection of government revenues. This reform has also provided the framework for the ongoing installation of a new treasury management system which will organize financial information in a central database to support budget management, commitments management, payments management, receipts management, cash management, accounting, and fiscal reporting. Finally, to improve scrutiny and audit, Congress now reviews and approves the annual budget and the standards governing public audit have been strengthened.

5. More needs to be done. The institutional framework for public financial management is fragmented. Several agencies are involved in the implementation and oversight of PFM systems and in some cases, they have overlapping mandates. This fragmentation demands close coordination among these agencies, requires a strong system of checks and balances, and dilutes accountability. For example, the Philippines fares relatively well in principles where a single agency is responsible for fiscal reporting and accounting, but concerns on data comparability and integrity arise when multiple agencies are involved. Political risks remain high. While recent efforts to increase budget credibility are notable, the Constitution provides the President with a high degree of discretion to re-allocate portions of the budget across the executive branch during execution.

II. Background

A. Macro-fiscal Context

6. **Rapid economic growth.** The Philippines posted a strong growth rate of 6.7% of GDP in 2017. Growth was attributed to increased infrastructure spending over the last five years and a number of reforms aimed at strengthening PFM which accelerated budget execution.⁴ For 2018, GDP growth is expected to remain robust at 6.8%.⁵ The Philippines places in 56th position (out of 137 economies) in the World Economic Forum's Global Competitiveness Index Rankings 2017–2018. The Philippines was among three countries in the region posting the largest overall positive change since 2007.⁶

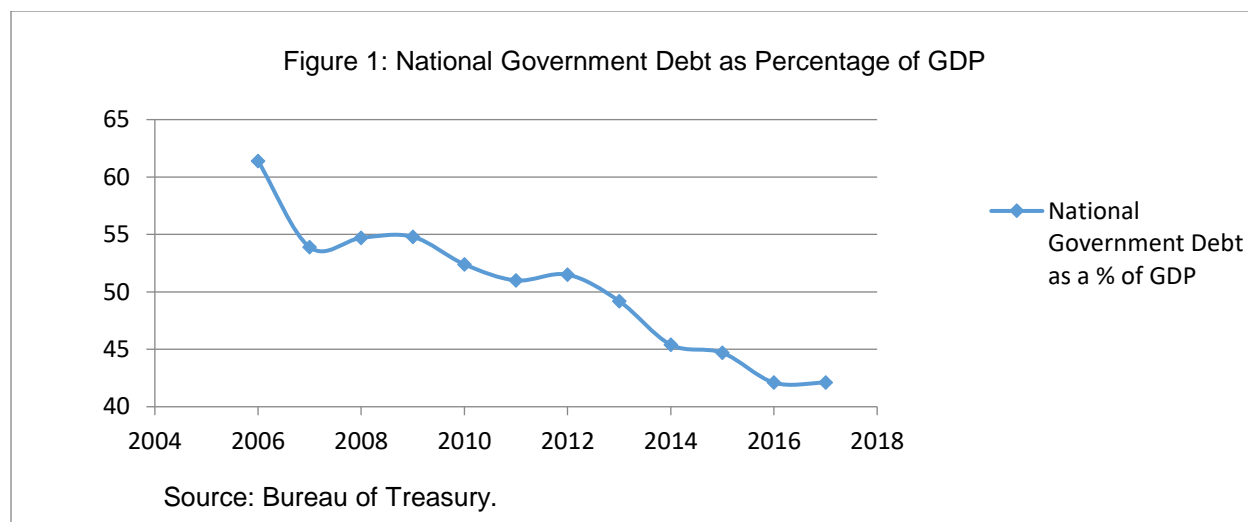
7. **Fiscal sustainability.** The fiscal consolidation strategy undertaken from 2010–2016 enforced fiscal discipline. The ₱314.5 billion fiscal deficits in 2010, equivalent to 3.5% of GDP, was reduced by more than 50%, to P121.7 billion or 0.9% of GDP by 2015 due to stable growth of revenues and a slower than-planned expansion of government spending. The outstanding debt stock declined from 52.4% of GDP in 2010 to 44.7% of GDP by 2015 due to strong growth in GDP and the lower-than-programmed deficit in later years (Figure 1). By 2017, the deficit had dropped even lower to 42% of GDP.⁷

⁴ Statement of Secretary of the Department of Budget and Management on the 2015 fourth quarter and full year performance of the economy.

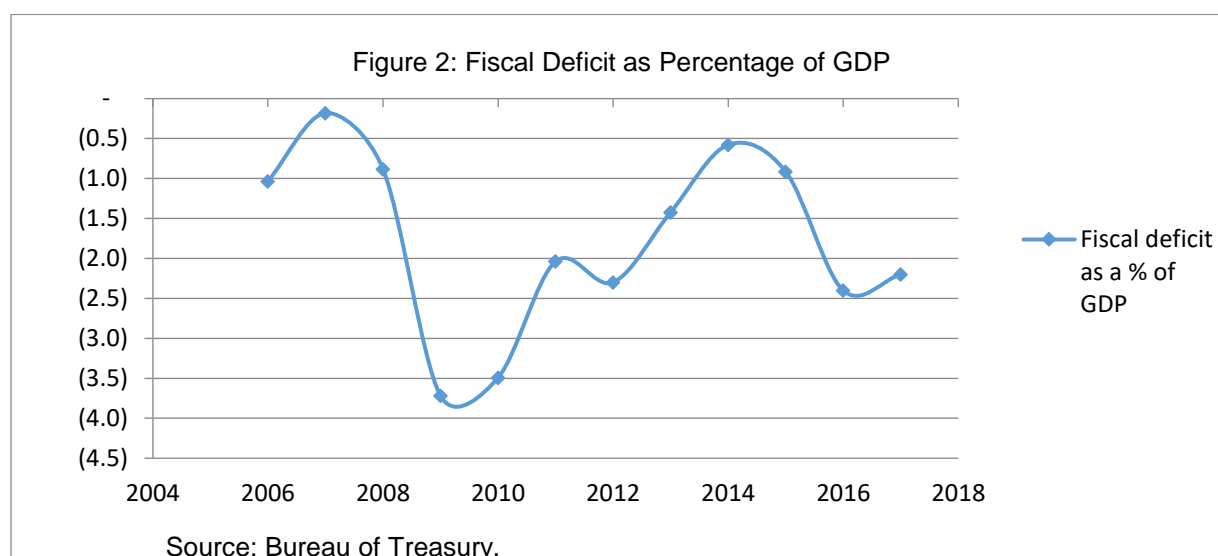
⁵ ADB. 2016. *Asian Development Outlook Supplement*. Manila.

⁶ World Economic Forum. *The Global Competitiveness Report 2016–2017*.

⁷ Technical Notes on the 2017 Proposed National Budget.



8. **Fiscal outlook for 2018-19.** Accommodative fiscal policy in 2018 is focused on investments in infrastructure and social services especially in the regions in line with the Government's inclusive growth agenda. The 2018 budget is 12.4% higher than the 2017 budget with higher appropriations for infrastructure and social services. Infrastructure spending is targeted at an equivalent of 6.1% of GDP in 2018. Social services account for a third of the national budget including support for universal basic education, national health insurance, and the conditional cash transfer (CCT) program which covers about 4.4 million households. The Tax Reform for Acceleration and Inclusion (TRAIN) law which took effect in January 2018 has provided additional tax revenues and fiscal space as planned for higher fiscal spending. In the first quarter of 2018, tax revenues as a percentage of GDP rose to 14.3%, up from 13.4% in the same period last year. The Bureau of Internal Revenue collected \$8.2 billion (P423 billion), 14% higher year-on-year in the first quarter of 2018, while the Bureau of Customs collected \$2.5 billion (P130 billion), 25% higher. External debt to GDP has declined to 23% in March 2018. National government debt has been on a downtrend to 42.6% of GDP in March 2018, largely denominated in local currency.



B. Importance of Public Financial Management⁸

9. The Government of the Philippines is implementing major reforms to strengthen its PFM systems. These reforms are laid out in the *Philippine Public Financial Management Roadmap: Towards Improved Accountability and Transparency 2011–2015*. This roadmap includes a comprehensive reform agenda that seeks to clarify, simplify, improve and harmonize the government's financial management processes and information systems. PFM is an essential part of the government's plans to improve transparency, accountability, public institutions and particularly governance in pursuit of more inclusive growth and poverty alleviation. A sound PFM system helps reduce the opportunity for misuse of funds, aids decision-makers in the government as they perform their functions and decide where to allocate funds to achieve the greatest good, and provides transparency regarding where and how the public funds are actually being spent.

III. Overview of the Current System

A. Roles and Responsibilities⁹

10. The Principals include the Chairman of the Commission on Audit (COA), the Secretary of the Department of Budget and Management (DBM), and the Secretary of the Department of Finance (DOF). These individuals are mandated to promote fiscal responsibility and good governance through greater transparency and accountability in the management of government funds. Plans call for the development of a modern computerized integrated financial management system, and the review and re-engineering of existing operational budgeting, cash management, and accounting auditing rules and procedures. These changes are designed to provide timely, more effective and responsive ways of managing, monitoring and reporting the financial performance of the government to its citizens.

11. The PFM Committee (formerly the GIFMIS Committee) is composed of authorized alternates or representatives of the Principals who hold senior management level positions. They have the authority to make immediate decisions during critical meetings, or on other pressing concerns, and serve as focal persons for cooperation. The committee oversees, coordinates, and develops the integration and harmonization of the government's financial management information systems. These systems cover all financial transactions of government in a phased and systematic manner. They apply uniformly to all government oversight and implementing agencies in order to generate reliable and accurate reports in a timely manner. Through Executive Order No. 55, the committee is tasked not only to undertake development of GIFMIS but also to implement the PFM Reform Roadmap and operationalize the treasury single account (TSA) system. All outputs of the committee are recommendatory in nature, and all milestone activities are reported to the principals.

12. The Project Implementation Units are responsible for the implementation of the key projects within the PFM reform agenda.¹⁰ International development partners are assisting the government in its PFM reform efforts. The Government of Australia is working with the Philippine Government through the Philippines-Australia Public Financial Management Program (PFMP) to implement the Philippines PFM Reform Roadmap. Other development partners

⁸ www.pfmp.org.ph.

⁹ The responsibilities of the Principals and the PFM Committee are indicated in the Memorandum of Agreement between COA and DBM; and in Executive Order No. 55.

¹⁰ COA is responsible for developing GIFMIS, and accounting and auditing reforms. The Bureau of the Treasury is responsible for improving cash management operations and liability management. DBM is responsible for budget reporting and performance standards as well as capacity development.

include the Asian Development Bank (ADB), International Monetary Fund (IMF), the World Bank, and the European Union.

B. Basic Laws and Regulations

13. Executive Order No. 55 was signed by President Benigno S. Aquino on 6 September 2011 directing the integration and automation of government financial management systems. The financial management systems of the three key oversight services (COA, DBM and DOF) shall be automated to the extent necessary and feasible and fully integrated to serve as the backbone of the financial reporting system of the government. Key regulations issued to guide the reforms can be found in annex 2.

IV. Assessment of PFM

A. Summary of 2016 PEFA findings

14. The PEFA evaluates the government's public financial management system in terms of how well it achieves positive budget outcomes of aggregate fiscal discipline, strategic allocation of resources, and efficient service delivery. The 2016 Philippines PEFA Assessment indicated that three of seven core areas (transparency, policy-based budgeting, and asset and liability management) have improved since the 2010 assessment and are now strong. While predictability and control in budget execution remained even, budget credibility and external scrutiny are considered weak.

15. Budget reliability. Budget reliability was evaluated as poor for both revenue and expenditure outturns. Large variances were noted in 2012 and 2014 which in turn affected fiscal discipline. These variances contribute to a lack of credibility and increase the risk of shortfalls in funding priority government expenditures. Improvements in budget outcomes will be especially important with government's plan to increase social service expenditures as called for in the PDP 2017–2022.

16. Transparency of public finances. This area performed very well although additional improvement in the timeliness in the collection and reporting of data on financial assets is needed.

17. Policy-based fiscal strategy and budgeting. This core area performed well due to focused efforts to improve the budget formulation process. The shift to an outcome-based performance-informed budget helped tighten the alignment of spending with desired socio-economic outcomes and measurable outputs.

18. Predictability and control of budget execution. This area exhibited a mixed performance. However, the weaknesses are more notable as they undermine performance in other key areas. The Government has an extensive formal structure for internal control and internal audit, but actual practice has suffered from delays and incomplete application. COA's reports are often qualified with adverse opinions and disclaimers. Some of the issues raised included compliance with internal controls and the integrity of financial information presented. While procurement processes rated well, a large portion did not follow a competitive process. Other areas in need of strengthening include improved internal audit effectiveness through better resourcing and an independent reporting mechanism, inclusion of accounts for foreign-funded projects in the TSA system, and an effective regular process for capturing aging and arrears in both revenues and expenditures to mitigate risk to fiscal discipline.

19. Accounting and reporting. This area did not rate well. A lack of data integrity, a delay in the timely submission of reports and the lack of electronic reporting mechanisms have resulted in qualified audit opinions for most departmental annual accounts. There is a strong need for a comprehensive accounting system to assure budget outcomes. Improvements are expected from the electronic New Government Accounting Systems (eNGAS) which will provide computerized accounting solutions. The system has been rolled out to a number of agencies and is going through further development and updating. Eventually, CoA should be able to issue a whole of government audit opinion. In the meantime, the annual financial accountability framework needs to be strengthened.

20. External scrutiny and audit. The 2016 PEFA noted this core area as incomplete. While a strong external audit performance was noted, a full revenue audit is not completed despite the requirement for Congress to review and approve the annual budget.

B. Assessment of Public Procurement

21. Revised Implementing Rules and Regulations (IRR) have been promulgated pursuant to Section 75 of Republic Act No. (R.A.) 9184, otherwise known as the “Government Procurement Reform Act”. The IRR prescribe the necessary rules and regulations for the modernization, standardization, and regulation of the procurement activities of the government.¹¹ The IRR created the Government Procurement Policy Board (GPPB), a policy and monitoring body with the mandate to handle all procurement matters affecting the national interest. Standard bidding documents have been provided and generic procurement manuals make it easier for everyone to understand and to participate in the procurement process. In 2012, the GPPB adopted the Agency Procurement Compliance and Performance Indicators (APCPI) system to standardize procurement monitoring, assessment and evaluation. The system identified the strengths and weaknesses of procurement agencies, and formulated a reasonable action plan. Based on the results of the focus group discussions conducted by the GPPB-Technical Support Group, the major causes of delays in procurement were identified as: poor planning; a low number of bidders; the limited capacity of the BAC and its secretariat and technical support staff; varying interpretations of the rules; leadership issues; the approval and review process; and incompetence of procurement personnel.¹²

22. The 2012 Country Procurement Assessment Report (CPAR) Action Plan included 64 measures to be implemented between 2012 and 2016. The government has implemented some of the measures as agreed in the 2008 and 2012 Country Procurement Assessment Reports. These measures include, among others, the upgrade of the Philippine Government Electronic Procurement System (PhilGEPS) into a full e-procurement system, the establishment of the Government Open Data portal (data.gov.ph) to provide easy access to information about contracted projects, and the localization of procurement reform through manuals for local government units and civil society organizations. The promotion of e-procurement through the Philippine Government Electronic Procurement System (PGEPS) has also vastly improved transparency and efficiency. Procurement costs have gone down because of savings in advertising expenses. In 2015, the GPPB issued a circular to remind procuring entities to submit the procurement monitoring report (PMR) for every semester.

¹¹ The Revised IRR were approved by the Government Procurement Policy Board (GPPB) through its Resolution 03–2009, dated 22 July 2009, and published in the Official Gazette on 3 August 2009. They became effective thirty (30) days after its publication or on 2 September 2009.

¹² DBM 2014 Annual Report.

C. Assessment of Accounting and Audit

23. In the Philippines, both audit and accounting functions are vested upon a supreme audit institution, COA. The Constitution mandates that the COA “keep the general accounts of the government” which represents an exceptional set-up as COA is required to both audit and perform a limited accounting function. With this mandate, COA has also continued to set accounting standards and rules.

24. COA prescribed the use of the Government Accounting Manual through COA Circular Number 2015–007. The manual was issued in accordance with pertinent accounting and budgeting rules and regulations. The Chart of Accounts for National Government Agencies has been revised to provide new accounts for the adoption of PPSAS through COA Circular Number 2013–002. The Revised Chart of Accounts (RCA) was incorporated in the Government Accounting Manual. The revised chart of accounts for Local Government Units and for GOCCs was prescribed in 2015.¹³ Finally, COA issued Circular Number 2015–001 on January 29, 2015 directing government agencies to revert cash balances of all dormant accounts, and unnecessary special and trust funds to the General Fund.

25. **Unified Account Code Structure.**¹⁴ A harmonized budget classification and UACS has been formulated by the Department of Budget and Management (DBM) and COA.¹⁵ The system was rolled out for the 2014 budget preparation process and was further enhanced in November 2014.¹⁶ UACS was adopted for accounting and reporting in 2015 and will improve financial reporting. Oversight and implementing agencies will share a common set of financial data and information for budgeting, procurement, cash management and treasury, and accounting and auditing. This provides timely access to information which will, in turn, support improved analysis and decision making.

26. **GIFMIS reforms.** GIFMIS is a major reform output of the PFM Reform Roadmap, which seeks to strengthen fiscal discipline, transparency and accountability for improved public service delivery. It aims to harmonize and improve PFM business processes and rules toward making reliable financial information and analysis available to executives, managers and staff in the line and oversight agencies. The PFM Committee approved the GIFMIS design in April 2013 which providing the basis for the government to procure a commercial off-the-shelf solution. The PFM agencies implemented the prerequisites for GIFMIS – *TSA, UACS, Revised Chart of Accounts, Performance-Informed Budgeting framework, and improved business processes* towards a “go live” pilot of GIFMIS in October 2015. However, the government decided in January 2015 to abandon the procurement process and proceed with a more incremental solution focused initially only on oversight agencies. The modified solution (the Budget and Treasury Management System), will go live in early 2017.

¹³ Government Corporations consist of Government-Owned or Controlled Corporations, Government Financial Institutions, Government Instrumentalities with Corporate Powers/Government Corporate Entities, their subsidiaries, and water districts.

¹⁴ The Unified Accounts Code Structure or UACS is a government-wide harmonized budgetary, treasury and accounting code classification framework jointly developed by the Department of Budget and Management, the Commission on Audit, the Department of Finance and the Bureau of the Treasury to facilitate reporting of all financial transactions of agencies including revenue reporting.

¹⁵ As a coding framework for financial transactions, the UACS ensures that all processes, from budgeting and cash management to accounting and audit will follow a single classification system or common language. The new codes will make it easier to collect, aggregate, consolidate and report financial transactions across government.

¹⁶ COA-DBM-DOF Joint Circular No. 2014–1 dated 7 November 2014.

D. Assessment of Reporting and Transparency

27. The COA is mandated by the Philippine Constitution to submit to the President and the Congress, within the time fixed by law, an annual report covering the financial condition and operation of the government. The scope of this report also includes the government's subdivisions, agencies and instrumentalities, including government owned or controlled corporations and non-governmental entities subject to its audit. The report provides recommendations to improve the efficiency and effectiveness of these entities. The Annual Financial Report (AFR) is prepared based on numerous reports submitted by the agencies to COA and DBM.

28. The 2014 AFR for the national government featured the first financial statements which are based on the PPSAS which were adopted pursuant to COA Resolution No. 2014-003 (January 1, 2014). The PPSAS are aligned with the prevailing International Public-Sector Accounting standards and provide quality accounting reports set uniformity to allow comparability with other public sector entities around the world.

29. **Online Financial Reporting.** In 2015, COA has developed online web-based application systems, the Annual Financial Reporting System (AFRS) and the Budget and Financial Accountability Reporting System (BFARS). These systems facilitate the efficient submission of the AFRs and Budget and Financial Accountability Reports (BFARs) of national government agencies.¹⁷ The development of these two application systems is part of COA's efforts to use automation to provide timely and relevant financial and budgetary information to its clientele: the Office of the President, the Congress, oversight agencies, and the public. The use of these systems promotes transparency in the utilization and management of government funds. The main purpose of the systems is to ensure prompt submission of the reports to facilitate faster and more efficient consolidation of financial statements and reports, and the preparation of constitutionally-required reports. Using AFRS and BFARS, data is gathered directly from the source and manual interventions are minimized, eliminating user error in the consolidation process. Thus, reporting will be more efficient, reliable and timely.¹⁸

30. **Transparency.** The government has instituted reforms that allows for more transparency in government operations and over the use of public funds. The following initiatives were introduced to promote greater fiscal transparency and provide citizens with greater access to information on public financial management

31. Transparency Seal. First introduced in 2011, the transparency seal requires all government agencies to disclose key information through their respective websites, such as their functions, budgets and financial reports, status of major programs and projects, procurement activities, and contact information.¹⁹ In addition, since 2010, the government has been introducing reforms that support meaningful devolution by strengthening the ability of LGUs to manage public funds, enforce greater transparency and citizen's participation, and deliver services. These include the LGU PFM reform program, which seeks to improve the PFM capacity of LGUs along good governance and financial stewardship standards; as well as the Seal of Good Local Governance, the Mandatory Disclosure Policy and the Performance Challenge Fund.

¹⁷ COA Circular 2015-005 dated 16 July 2015.

¹⁸ The effectiveness of these systems can be determined only after the 2015 AFR has been prepared.

¹⁹ DBM 2014 Annual Report.

32. *Improved Budget Reporting.* The DBM, together with the Development Budget Coordination Committee (DBCC), has been pursuing initiatives to improve fiscal transparency in the Philippines in line with global benchmarks.²⁰ DBM has produced technical notes on the proposed 2015 national budget which provide substantial narrative discussions and key details of the proposed fiscal program and expenditure priorities. Moreover, DBM presented new or additional information in the 2015 BESF. In particular, DBM provided medium-term fiscal parameters which show important details of the financing program including projections for infrastructure spending over a three-year horizon. In addition, DBM provided multi-year projections of tax and non-tax revenues up to 2017, consistent with international standards, and disclosed the tax incentives granted to private investors registered with different investment promotion agencies. Through these initiatives, the Philippines improved its performance relative to international fiscal transparency standards. The Open Budget Survey (OBS) of the International Budget Partnership reported in 2015 that the Philippines published all eight essential budget documents.²¹ This is a significant improvement from the Philippines' performance in the 2012 at which time the country only published four of the eight essential budget documents. As a result, the 2015 Open Budget Index assigned the Philippines a score of 64 for transparency, representing a significant improvement over 2012 when the Philippines received a score of 48.

33. *The People's Budget.* DBM published the 2014 People's Budget in Filipino and Bisaya to reach more audiences. DBM also produced audio-visual presentations and quick-glance editions, developed briefs on key budget reforms and issues, and intensified its social media engagement activities. DBM has further improved the contents and design of the flagship People's Budget 2015 and the 2015 People's Proposed Budget (formerly the Proposed Budget in Brief) after surveying stakeholders to solicit their feedback and inputs on the publications.

34. *Open Budget Data.* The Open Data Philippines initiative, launched on 16 January 2014, sought to proactively release public sector datasets and generate an ecosystem for the use and reuse of the datasets by the public. Through the website, the government supplies datasets in open and machine-readable formats. The Open Data Philippines Task Force has launched a website (data.gov.ph) and has completed a number of other initiatives.²² For example, an open government data provision was adopted in the 2015. The General Appropriations Act (GAA) requires agencies to adopt a policy of openness regarding their datasets. This means that their datasets must be in open and machine readable formats, and released with open licenses. Open data provisions were also adopted in the proposed Freedom of Information bill. These provisions are akin to the one adopted in the 2015 GAA albeit with additional details such as the frequency of updating and the "release to one, release to all" provision. Finally, specialized portals were launched, including: openreconstruction.gov.ph which is a budget tracking system for the government's Build Back Better program; openbud.gov.ph which provides a transparency, monitoring, and evaluation portal for the Bottom-Up Budgeting program; and the Extractive Industries Transparency Initiative (EITI) Contracts Dashboard (data.gov.ph/eiti) which catalogues around 40 mining and oil and gas contracts.

E. Anti-corruption efforts

35. In December 2014, the Integrity Management Program (IMP) was established as the national corruption prevention program of the government. This program covers six dimensions

²⁰ DBM 2014 Annual Report.

²¹ Open Budget Survey 2015, Chapter 1 – Empowerment through the Budget.

²² Open Data Philippines Task Force comprised of the Office of the Presidential Spokesperson (OPS), DBM, and the Presidential Communications Development and Strategic Planning Office (PCDSPO).

or management systems that are linked together to enhance both individual and systems integrity. They are: *Service Delivery; Institutional Leadership; Human Resource Management and Development; Financial, Procurement and Asset Management; Internal Reporting and Investigation, and; Corruption Risk Management*. The IMP's objectives include reducing vulnerabilities to corruption at the department and agency level, ensuring integrity is practiced in the public sector, and improving the public's trust and confidence in government.²³ An Integrity Management Committee (IMC) was created in each department and agency to oversee and ensure the effective implementation of the IMP, as well as all integrity management initiatives and measures. Operational Guidelines were issued in April 2015 to provide a do-it-yourself manual to guide agencies in implementing the IMP.

36. The national anti-corruption resolution, signed by key government officials, was presented to the President during the 3rd State Conference of the United Nations Convention against Corruption (UNCAC) in December 2015. The resolution was handed over by the Ombudsman who also relayed a progress report on the creation of the five-year anti-corruption framework. The resolution called on all the relevant government agencies, concerned private sector groups, and civil society organizations to continue their active participation and engagement on various consultation efforts relative to progress on the UNCAC compliance and anti-corruption initiatives of the government.

37. The updated Good Governance and Anti-Corruption Cluster Plan (2013–2016) included improved anti-corruption measures as one of four priority outcomes. Sub-outcomes were greater accountability of public servants and intensified efforts to prevent smuggling and tax evasion. A website was developed to serve as a repository of project reports, cluster updates, and other publications and related documents.

38. As a result of the government's anti-corruption efforts, the Philippines placed 111th out of 180 countries in Transparency International's 2017 Corruption Perception Index. This represents a marked improvement from 2014 when the Philippines was ranked in 94th place. Further, the Political and Economic Risk Consultancy Ltd. noted the Philippines improved to 10th place (2016) from 12th place (2015) among the 16 economies covered by its annual review of corruption in Asia and the Pacific. The World Bank's 2017 "Ease of Doing Business" rankings place the Philippines at 99 out of 190 economies.

F. Remaining Constraints and Issues

39. **Improved public financial management** is central to the Philippines' achieving its development goals. This requires, amongst other things, a transparent and credible PFM system to manage public resources to support informed decision-making, and the effective and efficient provision of public goods and services. PFM reforms need to be sustained and those in progress need to be completed. To institutionalize these reforms, the proposed Public Financial Accountability Act will need to be approved.

40. **The Institutional Framework is fragmented.** Several agencies are involved in the implementation and oversight of PFM systems and in some cases, they have overlapping mandates. This fragmentation demands close coordination among these agencies and requires a strong system of checks and balances. Technical coordination on macro-fiscal policies is ensured through the Development Budget Coordinating Committee (DBCC) which includes the

²³ Executive Order No. 176 issued by the Office of the President on 1 December 2014 institutionalizing the Integrity Management Program (IMP) as the National Corruption Prevention Program in all Government Departments, Bureaus, Offices, Agencies, Including Government-Owned and Controlled Corporations, Government Financial

DBM, National Economic and Development Authority (NEDA), DOF, Bangko Sentral ng Pilipinas (BSP) and the Office of the President (OP). However, some constitutional and autonomous bodies like the COA and the Civil Service Commission (CSC) function independently on matters relating to policies under their jurisdiction. This requires multiple levels of accountability. In fact, the IMF Fiscal Transparency Evaluation report, issued in June 2015, noted that fiscal reporting itself was fragmented.²⁴

41. For example, the Philippines fares relatively well in principles where a single agency is mandated with responsibility for fiscal reporting and accounting, and where reporting policies are clear. The Annual Financial Reports prepared by COA and the monthly cash operations reports by the Bureau of the Treasury (BTr) for in-year reporting represent two such outputs. However, where multiple agencies are involved in fiscal reporting, and coordination is incomplete, concerns on data comparability and integrity arise. Reconciling information on fiscal forecasts, budgets, outcomes, and statistics is a particular challenge in Philippines, as four different entities (DBM, BTr, COA, and NEDA) are involved in these roles.

42. **The Political economy.** Political engagement in the budget process occurs through a review and approval process that involves both chambers of Congress, the Executive and the President. Under the Constitution, the President can also exercise a high degree of discretion to re-allocate portions of the budget across the executive branch during execution. As part of the efforts to improve operational efficiency and to better enforce agency accountability, the government has continued to disaggregate lump sum funds and flesh out program and project details. For 2016, only three lump sum funds remain; the Contingent Fund, the Calamity or the National Disaster Risk Reduction and Management Fund, and the Allocations to LGUs. In short, it is not possible to foresee the specific utilization of these funds prior to agency requests.²⁵

43. **Budget execution is a concern, together with underspending and slower disbursement.** Public expenditure management is characterized by a generally low efficiency of spending. To improve the ability of departments to utilize their budgets and implement programs in a timely manner, the President signed Administrative Order Number 46 (March 2015) directing all heads of departments and agencies to implement measures to facilitate budget execution for fiscal year 2015.

44. Government spending closed at ₱2,230.6 billion as of end of December 2015, up by 12.6% when compared with the disbursements in previous year.²⁶ This is the fastest annual growth in government spending from 2013 to 2015, outperforming the 5.8% and 5.4% growth recorded in 2013 and 2014, respectively. However, underspending remains a challenge. This was largely evident during the first two quarters of 2015 where close to 55% of underspending was recorded (₱78.2 billion or 13.4% in Q1 and ₱101.5 billion or 15.2 % in Q2). By the third and fourth quarters, underspending had declined to ₱96.7 billion or 14.8% in Q3 and ₱51.9 billion or 8.0% in Q4, respectively. For the full year 2015, total underspending was only 12.8% of the target expenditure by the end of the year. This is slightly lower than the 13.8 % deviation in 2014, and even lower at 11.9% when debt service is excluded, compared to 13.6 % in the previous year.

45. To streamline budget releases for 2016, the government adopted the GAA-as-Release-Document which enabled the release of 78% of the 2015 GAA at the start of the year. Utilizing a

²⁴ IMF Fiscal Transparency Evaluation Report issued in June 2015.

²⁵ DBM Fiscal Risk Statement 2015.

²⁶ National Government Disbursement Performance as of 31 December 2015. Growth was made possible by: (i) higher personnel services expenditures from the grant of performance-based bonuses and requirements for creation and filling up of positions in key agencies; and (ii) increased MOOE due to the expansion.

cashless and checkless disbursement scheme, around 80% of payments to government suppliers are being coursed through bank to bank transactions. Procurement innovations were also introduced allowing certain agencies to advance certain procurement activities even before the GAA is enacted.

46. In 2016, the disbursements for the third quarter posted an annual growth of 14.4%. Despite this, the government missed its spending target by around ₱60.0 billion or 3.1% of the revised program for the period. This spending gap is lower when compared with the underspending for the same period in 2015 (₱276.4 billion or 14.5%), and with the first and second quarters (₱89.2 billion or 13.1% and ₱75.2 billion or 10.7%, respectively). It is important to note, however, that the 2016 full year program was revised downward from the original ₱2,995.4 billion target to ₱2,645.6 billion at the end of the first semester.²⁷ The slowdown in agency disbursements during the early months of the third quarter contributed to the underspending for the period. This was expected given the transition to a new administration. National government spending reached ₱2,265.8 billion as of November 2016, increasing by almost ₱274.0 billion or 13.7% from the comparable period in 2015. The growth of disbursements for the 11-month period was faster than that of the 13.0% increase recorded for the same period in 2015 and the 11.9% recorded as of October 2016,²⁸ total disbursements for full year 2016 amounted to ₱2,549.3 billion. Compared to 2015, total expenditures grew by 14% or ₱318.7 billion but missed the revised target of ₱2,645.6 billion by 4%. Other factors or reasons for underspending reported by line agencies (based on a partial report) in 2016 were: (i) late or non-submission of billing statements from creditors or contractor; (ii) procurement difficulties; and (iii) ongoing implementation of programs/project.²⁹

47. The budget for 2017 was ₱3.35 trillion which was 11% higher than the budget for 2016. To adequately cover the increase in expenditures, the administration aimed to energize revenue collection through new tax measures which would promote greater equity and efficiency, and control leakages and corruption. In funding the expenditure program for 2017, the government sought to borrow from different markets. There was a drop in the amount of gross borrowings across time, from ₱747.20 billion in 2010 to ₱609.6 billion in 2015. This will increase in the medium term, however, from ₱631.3 billion in 2017, to ₱647.5 billion in 2018, and ₱892.4 billion in 2019. Borrowings will be necessary to cover increasing expenditures for infrastructure and social services. As a financing strategy, the government will rely more on domestic rather than foreign borrowings, with a ratio of 77:23, further improving to 80:20 during the period 2017–2019. Approximately ₱126.3 billion will be borrowed from foreign sources, such as program and project loans, while ₱505.0 billion will come from domestic sources such as treasury bills (₱40.0 billion) and fixed rate treasury bonds (₱465.0 billion).³⁰

V. Government's Strategy

A. Philippine Development Plan

48. The Philippine Development Plan (PDP) 2017–2022 is the government's blueprint. The PDP 2017–2022 aspires to upgrade the Philippines economy into an upper middle-income country by 2022. The plan adopts three major pillars: (i) enhancing the social fabric; (ii) reducing inequality; and (iii) increasing growth potential, as well as cross-cutting strategies to support economic development. Under the first pillar "Enhancing the social fabric", the government is

²⁷ The revision considers the first semester disbursement performance, historical spending trends and seasonality of expenditures after a Presidential election year.

²⁸ Highlights of National Government Disbursement Performance as of September 2016.

²⁹ Highlights of National Government Disbursement Performance as of September 2016.

³⁰ Technical Notes on the Proposed 2017 National Budget.

committed to ensuring people-centered, clean and efficient governance. Five subsector outcomes are identified: (i) corruption reduced; (ii) better service delivery achieved; (iii) administrative governance enhanced; (iv) citizens engaged and empowered; and (v) civil service strengthened. Specifically, to achieve these outcomes, the government is set out to implement regulatory reforms, improve productivity of the public sector, enhance administrative governance, strengthen results-based performance management, PFM and accountability system.

49. **PFM Reform Roadmap.** The PFM roadmap is a comprehensive reform agenda, overseen by a PFM Committee, which seeks to clarify, simplify, improve and harmonize the financial management processes and information systems of the public sector. The desired result is that the national government will be able to maintain fiscal discipline, allocate funds efficiently, and effectively deliver public services. Specific PFM reforms and initiatives are presented in Part II-C and part IV of this document.

50. **LGU PFM Reform.** A PFM Reform roadmap for the local government units (LGU PFM Reform Roadmap) has been developed under an EU-funded project and provides the platform for instituting PFM reforms at the LGU level. The road map is complemented by an implementation strategy that details the activities and timeframe to strengthen LGU revenue generation and expenditure management. In February 2015, the LGU PFM Reform Roadmap and Implementation Strategy was adopted and a PFM Assessment Tool (PFMAT) was launched.³¹ PFMAT is a diagnostic tool which establishes the indicators that will help identify the strengths and weaknesses in LGU PFM systems and recommend appropriate improvement measures.

B. Recent initiatives

51. **Budget Cycle Analytics (BCA) Business Intelligence Solution.** The DBM, with technical assistance from the Philippines-Australia Public Financial Management Program (PFMP), has developed a Budget Cycle Analytics (BCA) Business Intelligence Solution. This solution will equip budget analysts with an analytical tool which supports enhanced performance analysis and decision making. The BCA is capable of loading, organizing, and consolidating UACS-based data during the preparation, legislation, execution, and accountability phases of the budget cycle. It will provide a web-based portal with graphic and interactive tools to support business analytics, reporting, ad hoc queries and dashboards. BCA will provide in-year and multi-year financial and physical performance analysis based on multiple dimensions (e.g. fiscal year, date, UACS segments and hierarchy, budget cycle transactions, etc.). The BCA went live on 20 January 2016.

52. **Budget and Treasury Management System (BTMS).** The BTMS Project, launched in December 2015, looks to develop, operate, and maintain a new system that will link the financial processes of the DBM and the DOF-BTr. The BTMS will help collect and organize financial information in a central database to support budget management, commitments management, payments management, receipts management, cash management, accounting, and fiscal reporting. The project, which will be implemented over 27 months, went live in June 2017.

53. **Two-tier Budgeting.** Aside from budget execution measures, the government also continues to develop ways to improve budget preparation. DBM is implementing a Two-Tier Budgeting Approach (2TBA) which will introduce separate reviews for ongoing and approved programs vis-à-vis new or expanded ones to give a better focus on each type of program. In 2016,

³¹ DBM-DILG-DOF-NEDA Joint Memorandum Circular No. 2015-1 dated 24 February 2015.

budget preparation targeted a lower number and magnitude of special purpose funds (SPFs) by incorporating these lump sums into the agency budgets (e.g. provisions for new positions, pensions and gratuities).

54. **Revised Framework of Professional Standards.** COA first issued the Framework of Professional Standards through COA Resolution 2013–006 on 29 January 2013. The framework provided an overview of all the standards and guidelines for public sector auditing, assurance engagements and other related services, and harmonized current standards in the Philippines with international standards on auditing. COA subsequently updated its professional standards framework to emphasize the independence of supreme audit institutions, the importance of transparency and accountability, and to revise financial, compliance and performance audit guidelines. COA adopted the Revised Framework of Professional Standards through Resolution Number 2016–007 on 3 May 2016. The framework was based on a study of applicable laws, the International Standards of Supreme Audit Institutions (ISSAI) and the International Organization of Supreme Audit Institutions (INTOSAI) Framework of Professional Standards. The revised framework includes ISSA 10, ISSA 11 and ISSA 12, ISSAI 21.³² COA also adopted revisions made by INTOSAI regarding the fundamental concepts and principles of the three types of audit; financial, compliance and performance.

³² ISSAI 10, or The Mexico Declaration on SAI Independence, establishes eight core principles for SAI independence approved by INTOSAI members at the XIXth Congress in 2007. ISSAI11 provides guidelines and good practices related to SAI Independence. ISSAI 12 defines the value and benefits of Supreme Audit. SAI 21 provides principles of transparency and accountability.

ANNEX 1

Historical Perspective and Past Efforts to Strengthen PFM

55. In January 2010, a Memorandum of Agreement (MOA) was entered into by and between the key oversight agencies, namely: the Commission on Audit (COA); the Department of Budget and Management (DBM), and the Department of Finance – Bureau of the Treasury (DOF-BTr). This MOA was used to establish an inter-agency committee (also termed as GIFMIS Committee) to clarify, simplify, improve and harmonize the financial management processes and information system of the public sector. In addition, and as necessary, the GIFMIC Committee would amend and integrate the relevant financial information management systems in the COA, DBM, DOF-BTr, and other implementing agencies to eventually foster the development of a Government Integrated Financial Management Information System (GIFMIS). The GIFMIS Committee would be responsible for securing the steadfast engagement of all key stakeholders, converging existing financial management processes and information system programs and initiatives, and focusing on sustainable solutions and ensuring government ownership of the GIFMIS implementation plan.

56. In September 2011, the government's mandate was formalized (Executive Order Number 55) to complete the integration and automation of government financial management systems. The GIFMIS Committee, which would now be called the PFM Committee, was tasked with undertaking the development of GIFMIS and also with implementing the PFM Reform Roadmap and launching a Treasury Single Account.

57. The Philippines–Australia Public Financial Management Program (PFMP), a joint initiative of the Governments of Australia and the Philippines, was created to support the government's efforts to implement its *Philippine PFM Reform Roadmap: Towards Improved Accountability and Transparency, 2011–2015*. This comprehensive PFM reform agenda aimed to clarify, simplify, improve and harmonize the financial management processes and information systems. Under this and other programs, a number of key reforms were completed and are detailed below.

58. *New Government Accounting system.* In 2002, COA rolled-out a new government accounting system (NGAS) that aimed to simplify government accounting, in conformity with international standards, and to generate periodic and relevant financial statements. With the implementation of the NGAS, a modified accrual basis of accounting was introduced. All government agencies are required to prepare a balance sheet, income and expenditure statement and a cash flow statement. Central offices of government departments consolidate the department-wide financial statements.

59. *Accounting and Auditing Standards.* Twenty-Five Philippine Public Sector Standards of Accounting have been harmonized with the International Public Sector Accounting Standard (IPSAS). In 2013, twenty-four Philippine Public-Sector Standards on Auditing were adopted through COA Resolution No. 2013–007. International Financial Reporting Standards (IFRS) were adopted in 2014 through COA Resolution 2014–003.

60. The Philippine Government Internal Audit Manual (PGIAM) was issued to serve as a generic guide for internal auditors in government to understand the nature and scope of the internal audit function in the public sector, including the institutional arrangements, protocols and processes for the conduct of internal audit. DBM enhanced the capabilities of internal audit staff by providing training on PGIAM and issuing the National Guidelines on Internal Control Systems.

61. Revision of Chart of Accounts. In 2013, the chart of accounts of the National Government was revised to provide new accounts for the adoption of PPSSA through COA Circular No. 2013-002.³³ The revised Chart of accounts is now incorporated in the new government accounting manual.
62. Treasury Single Account (TSA). Treasury Circular Number 03–2013 was issued to implement the Memorandum of Agreement for authorized banks and authorized government depository banks to collect and remit national internal revenue taxes, customs duties, and other national collections into the TSA. The DOF-BTr operates the TSA which is maintained at the BSP. The TSA is consistent with and supports the government’s policy of requiring greater financial management and control over its cash resources and allows for the unification of government bank accounts.
63. Capacity building. The participation of civil society organizations (CSO) in the national budget process has been developed and formalized under Budget Partnership Agreements (BPAs) covering a large number of departments, agencies and Government-Owned and Controlled Corporations (GOCCs). In addition, COA has piloted citizen participatory audit activities through CSOs in four spending departments. In 2013, a total of 77 BPAs was signed with CSOs covering six national government agencies and two GOCCs. Aside from department central offices, the regional offices of the Department of Labor and Employment and Department of Social Welfare and Development signed BPAs with CSOs from their respective regions. In crafting the 2014 Budget, two national government agencies and two GOCCs signed BPAs with CSOs.
64. Unified Account Code Structure (UACS). A harmonized UACS, formulated by DBM and COA, was rolled out to support the 2014 budget preparation process, and is being adopted to support accounting and reporting during 2015.
65. Performance-Informed Budgeting (PIB). This approach strengthens linkages between planning, budgeting and outcomes. PIB also simplifies budget presentation and enhances transparency and accountability in the allocation of limited resources.³⁴
66. Budget Priorities Framework (BPF). To fully support the performance-informed budgeting system, the Government of the Philippines adopted the Budget Priorities Framework (BPF) through National Budget Memorandum Number 118. The BPF set the budget priorities for FY2014 in line with the five priority areas of President Aquino’s Social Contract with the Filipino People.
67. GIFMIS. The PFM agencies implemented the pre-requisites for GIFMIS, including the TSA, UACS, Revised Chart of Accounts, Performance-Informed Budgeting framework, and improved business processes.
68. Management of contingent liabilities. A list of contingent liabilities has been prepared to facilitate central monitoring and management of guaranteed loans. The GOCC debt report templates have been completed and the development of GOCC Monitoring System (GMS) is underway. A database buildup for the GMS is ongoing for selected priority GOCCs and the social security institutions.

³³ COA Circular 2013–002.

³⁴ National Budget Memorandum No. 117 dated 1 March 2013.

ANNEX 2

- (i) COA Circular No. 2013–02 dated 30 January 2013 – Prescribing the Adoption of the Revised Chart of Accounts for National Government Agencies.
- (ii) COA Circular No. 2014–003 dated 15 April 2014 – Conversion from the Philippine Government Chart of Accounts under the New Government Accounting System per Commission on Audit Circular No. 2004–008 dated September 20, 2004, as amended, to the Revised Chart of Accounts for National Government Agencies under Commission on Audit Circular No. 2013–002 dated January 30, 2013, additional accounts/revised description/title of accounts and relevant Accounting Policies and Guidelines in the implementation thereof.
- (iii) COA Circular No. 2015–02 dated 9 March 2015 – Prescribing Supplementary Guidelines on the Preparation of Financial Statements and other financial reports, the transitional provisions of the implementation of the PPSAS and the coding structure.
- (iv) COA Circular No. 2015–05 dated 16 July 2015 –Availability of Web-based Annual Financial Reporting System (AFRS) and Budget and Financial Accountability Reporting System (BFARS).
- (v) COA Circular No. 2015–07 dated 22 October 2015 – Prescribing the Government Accounting Manual for the Use of All National Government Agencies.
- (vi) COA Circular No. 2015–009 dated 1 December 2015 – Prescribing the Revised Chart of Accounts for Local Government Units.
- (vii) COA Circular No. 2015–010 dated 1 December 2015 - Adoption of the Revised Chart of Accounts (RCA) for Government Corporations (GCs) which consist of Government-Owned or Controlled Corporations (GOCCs), Government Financial Institutions (GFIs), Government Instrumentalities with Corporate Powers (GJCPs)/ Government Corporate Entities (GCEs), and their Subsidiaries, and Water Districts.
- (viii) COA Resolution No. 2013–007 dated 29 January 2013 – Adoption of Philippine Public-Sector Standards on Auditing.
- (ix) COA Resolution No. 2014–003 dated 24 January 2014 – Adoption of the Philippine Public-Sector Accounting Standards.
- (x) COA-DBM Joint Circular No. 2013–1 dated 15 March 2013 – prescribing the Revised Guidelines on the Submission of Quarterly Accountability Reports on Appropriations, Allotments, Obligations and Disbursements.
- (xi) COA-DBM Joint Circular No 2014–I dated 2 July 2014 – Guidelines Prescribing the Use of Modified Formats of the Budget and Financial Accountability Reports (BFARs).
- (xii) COA-DBM-DOF Joint Circular No. 2013-1 dated 6 August 2013 - prescribing the Unified Accounts Code Structure (UACS).
- (xiii) COA-DBM-DOF Joint Circular No. 2014–1 dated 7 November 2014 – Enhancement of the Unified Accounts Code Structure (UACS) per COA-DBM-DOF Joint Circular No. 2013-1.

- (xiv) Executive Order No. 171 dated September 5, 2014 – Creating an Inter-Agency Committee to Oversee the Review, Implementation and Monitoring of the United Nations Convention against Corruption (UNCAC).
- (xv) Executive Order No. 176 dated 1 December 2014 – Institutionalizing the Integrity Management Programs (IMP as the National Corruption Prevention Program in all Government Departments, Bureaus, Offices, Agencies, including Government-Owned and Controlled Corporations, Government Financial Institutions, State Universities and Colleges and Local Government Units through the Establishment of Integrity Management Systems (IMS).
- (xvi) OP Administrative Order No. 46 dated 30 March 2015 – Directing All Heads of Departments and Agencies to Implement Measures to facilitate Budget Execution for Fiscal Year (FY) 2015.
- (xvii) OP Memorandum Circular No. 76 dated 15 April 2015 – Urging All Government Departments, Bureaus, Offices, Agencies, including Government-Owned and Controlled Corporations, Government Financial Institutions, State Universities and Colleges and Local Government Units to implement the Integrity Management Program (IMP) through the establishment of Integrity Management Systems (IMS) and Adopt the IMP Handbook for the purpose.
- (xviii) DBM Circular Letter No. 2011–3 dated 19 May 2011 – Prescribing the Philippine Government Internal Audit Manual.
- (xix) DBM National Budget Memorandum No. 117 dated 1 March 2013 – Adoption of the Performance-Informed Budget Structure for the National Expenditure Program/General Appropriation Act.
- (xx) DBM-DILG-DOF-NEDA Joint Memorandum Circular No. 2015–1 dated 14 February 2015 – Adoption of the Local Government Units Public Financial Management Reform Roadmap and Implementation Strategy.
- (xxi) BTr Treasury Circular No. 03–2013 dated 11 December 2013 – Implementing Guidelines of the Memorandum of Agreement for Authorized Agent Banks/Authorized Depository Banks in the Collection and Remittance of National Internal Revenue Taxes/Customs Duties/Other National Collections under the Treasury Single Account.