

FINANCIAL MANAGEMENT ASSESSMENT AND ARRANGEMENTS: OUTPUT 1

1. Applicable ADB Policy and Operational Procedures (OM D7) related to FM

(i) **Disaster and Emergency Assistance Policy (2004)**- Para. 88 (repeated in OM D7/BP Para 22): A clear relationship between **cost** and **amount** of loan should be established.

(ii) Operational Procedures

- Para 111 (repeated in OM D7/OP Para 18): EAL may include quick-disbursing component, but it is not a program loan (i.e., not a policy-based loan with conditionality, and should be used to finance a list of imports identified as necessary for an effective recovery).¹
- Para 111 (repeated in OM D7/OP Para 25): Regular audit required per OM J7.
- Para 111 (repeated in OM D7/OP Para 25): Special audit focusing on governance, financial accountability and transparency required.

2. Financial Management Arrangement Summary

Component	FM Assessment	FM Requirements		
			Financial Reporting	Financial Auditing
Output 1: Quick-disbursing loan (\$300 mln)	FMA will be conducted on DOF which will be completed before loan implementation. An initial assessment is attached hereto as Annex 1.	Funds Flow	<ul style="list-style-type: none"> • Directly to the Single Treasury Account at the Bureau of Treasury, attached to DOF.² • Loan proceeds are comingled with other revenue sources. Cash transfers to line agencies are in Pesos and not traceable to EAL proceeds. 	Annual Audited Statement of Eligible Expenditures by Commission of Audit for a fee should be submitted within 12 months from close of fiscal year.
		Positive List of Eligible Expenditures	<ul style="list-style-type: none"> • RRP and loan agreement include a positive list of expenditure categories based on the Programs, Projects and Activities (PPAs) included in the <i>Bangon Marawi Comprehensive Rehabilitation and Recovery Program</i> (BMCRRP) and the recurrent costs of the Autonomous Region in Muslim Mindanao (ARMM). • The positive list of eligible expenditures in the loan agreement will include categories such as local governance and peace building, social services, livelihood and business development, housing and resettlement. • The total amount of PPAs should exceed the loan amount of \$300 million. 	

¹ In the previous ADB emergency assistance, a waiver was sought for this policy requirement of “list of imports”.

² Department of Budget and Management (DBM) will issue a Special Allotment Release Order authorizing the line agencies to incur obligations for the amount specified in the document.

Component	FM Assessment	FM Requirements		
			Financial Reporting	Financial Auditing
		Projects Programs and Activities (PPAs)	<ul style="list-style-type: none"> The positive list of eligible expenditures in the loan agreement will be linked to the PPAs included in the Annex of BMCRRP (there are 744 proposed PPAs). Expenditures on the PPAs can be tracked through the SAAOB-DB³ prepared by the implementing agencies and submitted to the DBM. The SAAOB-DB ensures expenditures on each budget item can be tracked and recorded. PPAs are coded in the government's budgeting system. For each PPA to be in the budget system, they will need to be included in the general appropriations act (GAA) either with a separate budget item or included in unprogrammed funds in the GAA Budget. 	
		Withdrawal Applications	<ul style="list-style-type: none"> To be supported by a projection of eligible expenditures for the year certified by DOF (i.e. eligible expenditures are greater than the withdrawal amount). If the quick disbursement is made in multi-drawdowns, each subsequent drawdowns will not be linked to the submission of an annual statement of eligible expenditures. 	
		Statement of Eligible Expenditures	<ul style="list-style-type: none"> To be prepared annually by DOF based on actual disbursements recorded in the SAAOB-DB. The statement should provide aggregate expenditure on the identified budget heads, together with details of the aggregate funding sources from ADB, other development partners, and the government's own contribution. This will help demonstrate that aggregate sources and funds are balanced (i.e., not double-counted). Since the PPAs will be implemented by different line agencies, a copy of the disbursements (as contained in the SAAOB-DB) will be consolidated and reconciled by DBM⁴ and submitted to DOF. This will be the basis for preparing the Statement of Eligible Expenditures by DOF. 	
Output 2-4: Project loan (\$100 million) &	FMA was conducted on DPWH and LWUA. The	Annual Project Financial Statements	<ul style="list-style-type: none"> Details are provided in the PAM of each component. 	Annual APFS shall be submitted within 6

³ Statement of Allotment, Allocation, Obligation, Balances and Disbursements.

⁴ To be agreed between DOF and DBM.

Component	FM Assessment	FM Requirements		
			Financial Reporting	Financial Auditing
Grants from JFPR & UCCRTF (\$5 million each).	FMA will be updated after project approval and will be monitored throughout project implementation. The FMAs are included as part of the PAM.			months from close of fiscal year

DBM = Department of Budget and Management, DOF = Department of Finance, EAL = emergency assistance loan, FMA = Financial Management Assessment, GAA = general appropriations act, JFPR = Japan Fund for Poverty Reduction, LWUA = Local Water Utilities Authority, PAM = project administration manual, PPA = programs, projects and activities, RRP = Report and Recommendation of the President, UCCRTF = Urban Climate Change Resilience Fund.

3. Financial Analysis

A complete financial analysis during project processing is not feasible.⁵ However, sufficient resources will be allocated to ensure that the financial analysis will be completed before project implementation. Notwithstanding, assurances in the legal agreement will be provided to ensure sustainability of projects.

Component	Financial Analysis Approach	Timeline	Assurances in Legal Agreement
Output 2: Connectivity reestablished	Incremental recurrent cost analysis (financial sustainability assessment) to determine whether DPWH and the local authorities charged with its maintenance will have sufficient resources for O&M.	To be completed within first 6 months of project implementation.	<p>The Borrower shall, through DPWH, ensure that appropriate budgetary and human resources allocations are made for the continued operation and maintenance (O&M) of the Project facilities once they have been commissioned and become operational. The Borrower shall further endeavor that ADB is provided with annual reports showing the amount of funds allocated and spent on O&M activities for each Project facility that remain within the jurisdiction of DPWH, following its respective commissioning until 5th anniversary of the Project completion.</p> <p>Notwithstanding the foregoing, the Borrower shall, through DPWH, ensure that O&M for Project facilities other than national highways, such as local roads, is provided by DPWH until such time as DPWH and the relevant local authorities make appropriate arrangements, acceptable to ADB, for (a) the ownership transfer of such Project facilities and (b) continued O&M by the relevant local authorities.</p>
Output 3: Water Utilities and Health Infrastructure Restored	Incremental recurrent cost analysis (financial sustainability assessment) to determine whether the local government units which provides budgetary	To be completed within first 6 months of project implementation.	The Borrower shall ensure that prior to completion of any civil works for Project Facility, [LWUA] and Marawi City Water District (MCWD) make appropriate arrangement, acceptable to ADB, for the budgetary and human resource allocation necessary for operations and

⁵ The Staff Instructions allows due diligence to be undertaken during project implementation.

	<p>allocation to the CHO and IPHO have sufficient resources for O&M.</p> <p>For the water component, a financial viability assessment to be conducted on MCWD.</p>		<p>maintenance of such Project Facility post transfer to MCWD. The Borrower shall further ensure that adequate budget is allocated on [annual basis] to MCWD until such time as MCWD is able to generate adequate revenue to fully cover the operations and maintenance costs of the Project Facility.</p> <p>The Borrower shall ensure that Integrated Provincial Health Office (IPHO) and City Health Office (CHO) have adequate asset management system to keep record of the mobile health clinics, ambulance, vehicles and any other assets acquired and transferred to IPHO and CHO under the Project, and have allocated budgetary and human resource allocation necessary for operations and maintenance of such Project assets post transfer of ownership to IPHO and CHO. Borrower shall further ensure that the Project assets are used only for purposes intended under the Project.</p>
Output 4: Social Services and Livelihoods Improved	Incremental recurrent cost analysis to determine the capacity of Department of Education to absorb the additional operating and maintenance costs required of the project.	To be completed within first 6 months of project implementation.	The Borrower shall ensure that DepEd has the required budgetary and human resource allocation necessary for the operations and maintenance of the project assets.

CHO = City Health Office, DepEd = Department of Education, DPWH = Department of Public Works and Highways, IPHO = Integrated Provincial Health Office, LWUA = Local Water Utilities Authority, MCWD = Marawi City Water District, O&M = operations and maintenance.

FINANCIAL MANAGEMENT ASSESSMENT REPORT – Output 1

I. Introduction

1. This financial management assessment was prepared in accordance with Asian Development Bank (ADB) guidelines on Financial Management Assessment⁶ and Financial Due Diligence: A Methodology Note.⁷ ADB requires that, during loan preparation and processing, sufficient analysis is undertaken to enable an informed assessment that the borrower's financial management systems are, or will be, sufficiently robust to ensure that funds are used for the purpose intended and that controls will be in place to support project monitoring and supervision. This assessment considers the robustness of the government's public financial management (PFM) systems through which project funds will be channeled and the measure which are being taken to mitigate identified weaknesses. Consideration was given also to the application of ADB's policy on disaster and emergency assistance, with relevance to financial management matters.⁸
2. The capacity of the Department of Finance (DOF) to manage and implement its financial reporting deliverables under the loan agreement will be assessed after loan approval but before loan implementation.

II. Brief Project Description

3. On 31 August 2018, the Government of the Republic of the Philippines requested for an emergency assistance loan (EAL) in the amount of \$200 million, split equally between infrastructure project financing and fiscal support. On 18 September 2018, DOF followed up with written correspondence requesting the fiscal support component to be increased from \$100 million to \$300 million for a total EAL loan amount of \$400 million. The \$300 million quick disbursing component (Output 1: Fiscal Support of the Recovery Program) of the EAL is requested by the DOF because of the large financing gap for the reconstruction and economic and social recovery estimated at approximately \$1.3 billion. The quick disbursing component will be used to finance necessary expenditures for the recovery of Marawi using government systems (budget support).
4. The project loan (Output 2: Connectivity Reestablished), amounting to \$100 million, will be used to help reestablish connectivity within Greater Marawi and on National highways connecting with Marawi. The project will finance repair, upgrade, rehabilitation, reconstruction or otherwise improvement works for roads, bridges and drainage included in the Bangon Marawi Comprehensive Rehabilitation and Recovery Program (BMCRRP). The project will support the improvement of about 25 km of roads, and of 1,700 linear meters of bridges and viaducts.
5. The proposed EAL amounts are to be funded from ADB's ordinary capital resources. Two grants proposed to be \$5 million each are to be provided by Urban Climate Change Resilience Trust Fund (UCCRTF) under the Urban Financing Partnership Facility and the Japan Fund for Poverty Reduction (JFPR). The grants will support Output 3: Water Utilities and Health

⁶ ADB. 2015. *Financial Management Technical Guidance Note: Financial Management Assessment*. Manila

⁷ ADB. 2009. *Financial Due Diligence: A Methodology Note*. Manila.

⁸ OM D7/OP (Disaster and Emergency Assistance). "Standard ADB operational policies, including those on procurement, consulting services, financial management, and disbursement, should 'be liberally interpreted to ensure speedy and effective rehabilitation' in the case of emergency assistance." Para. 13.

Infrastructure Restored, which will provide immediate financing to rehabilitate public water utilities and health infrastructure, and Output 4: Social Services and Livelihoods Improved, which will provide immediate financing to improve social services and livelihoods of affected persons.

III. Implementation Arrangements

a. Executing Agency and Implementing Agencies

6. The Government of the Republic of the Philippines will be the borrower and will be responsible for the repayment of the Loan.

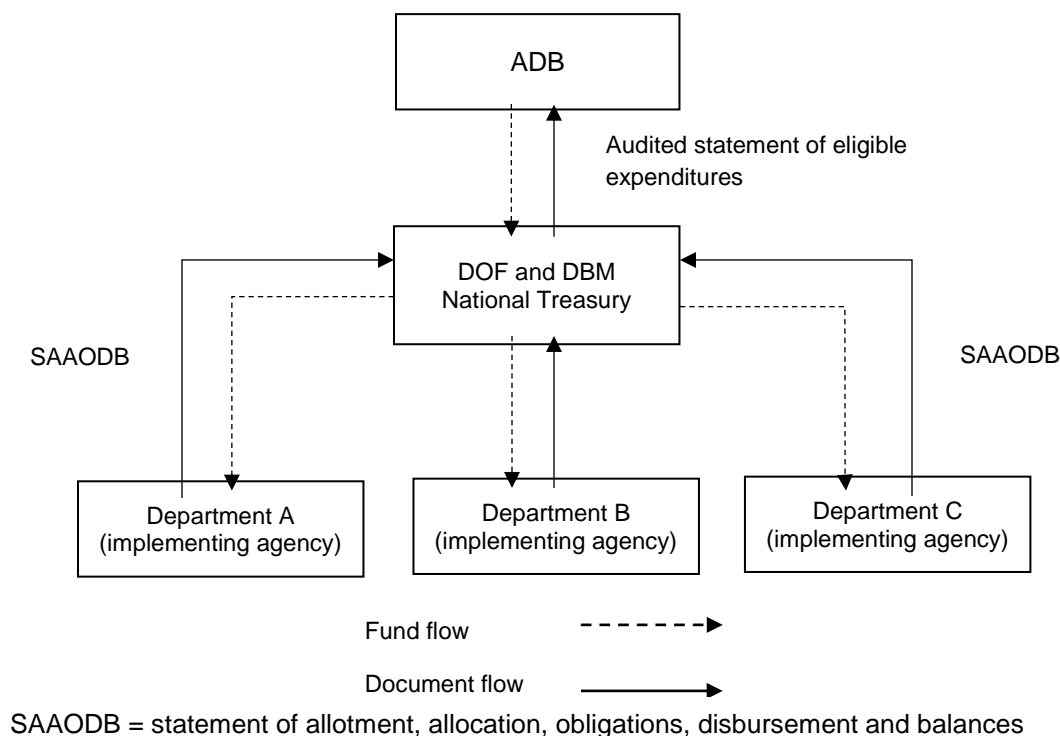
7. The DOF will be the executing agency for Output 1, the quick disbursing component of the EAL. DOF's main role and responsibility is to ensure the preparation of the Statement of Eligible Expenditures in coordination with the Department of Budget and Management (DBM) and the relevant line agencies and facilitate the audit requirements as indicated in the loan agreement. The line agencies which will be involved in the programs, projects, and activities for the BMCRRP will be the implementing agencies under Output 1.

8. The Department of Public Works and Highways (DPWH) will be the executing agency for Output 2 – 4. The Unified Project Management Office (UPMO) Roads Management Cluster II will be the implementing agency for Output 2; the Local Water Utilities Administration (LWUA) and Department of Health (DOH) will be the implementing agencies for Output 3; and the Save the Children Philippines will be the implementing consultant for Output 4. DPWH and the implementing agencies are wholly responsible for the implementation of the ADB-financed project, as agreed jointly between the borrower and ADB, and in accordance with the policies and procedures of the government and ADB. ADB staff are responsible for supporting implementation including compliance by DPWH and the implementing agencies of their obligations and responsibilities for the project implementation in accordance with ADB's policies and procedures.

b. Funds Flow / Disbursement Arrangements

9. For Output 1, which amounts to \$300 million, the funds will go directly to the Government's national treasury⁹. A positive list of eligible expenditures will be included in the loan agreement and will be used as basis for disbursements. The projects, programs and activities shall be listed for each eligible expenditure ensuring that expenditures can be tracked and recorded.

⁹ Department of Budget and Management will issue a Special Allotment Release Order authorizing the line agencies to incur obligations for the amount specified in the document.



IV. Country Financial Management Assessment for Output 1

a. Overview

10. The Public Financial Management and Accountability Assessment of the Republic of the Philippines (June 2016) is embodied in the Public Expenditure and Financial Accountability (PEFA) performance assessment report. The PEFA performance assessment report evaluated the seven core pillars of the public financial management (PFM) system of the Government of the Philippines. The results indicate that transparency, policy-based budgeting, and asset and liability management are strong; predictability and control in budget execution are evenly balanced while budget reliability, accounting and reporting and external scrutiny are weak. Good performance at the beginning of the budget cycle in policy-based budgeting and transparency are not supported by the accounting and external scrutiny elements of the budget cycle leading to poor performance in budget reliability. The lack of capacity of the accounting system to assist budget managers with timely information is a primary cause of the poor results. The continued development of a comprehensive, integrated accounting and financial information system would enhance efficiency in budget execution and effectiveness in service delivery.¹⁰

11. The following main concerns will need to be addressed to improve the delivery of budget outcomes:

- i) **Fiscal discipline** – There are failures and delays in budget execution and accounting systems. They hamper budget delivery.

¹⁰ Republic of the Philippines PFM Strategy Implementation Support Public (Financial Management and Accountability Assessment). International Bank for Reconstruction and Development/The World Bank. June 2016

- ii) Resource allocation – A financial management information system is still in development. Budget allocations increased despite the limited absorptive capacity of executing departments.
- iii) Service delivery – Inadequacies in internal control exist while financial reporting and oversight are inadequate in terms of providing assurance of service delivery.¹¹

b. Integrated Assessment of PFM Performance

i) Budget reliability

12. At the overall level, budget reliability comes out as poor for both revenue and expenditure outturns. There was under-performance in collections of taxes on goods and services and taxes on income, profit and capital gains. Budget reliability at the overall level was reasonable although the difference between allotments and obligations incurred increased from 2012 to 2014. Expenditure outturn by function and by economic type varied substantially from budget. Using continuing appropriations that are difficult to identify separately in the accounting system reduces the clarity of the budget since the remaining expenditures are not disaggregated between those covered by current year appropriations and those incurred against continuing appropriations from previous years.¹²

ii) Transparency of Public Finances

13. Information on public financial management is comprehensive, consistent and accessible to others and is characterized by the following: comprehensive budget classification, transparency of all government revenue and expenditures, publication of information on service delivery performance and ready public access to fiscal and budget documentation. The Unified Accounts Code Structure was initiated in 2014. This is a major step toward a classification system to track transactions through the budget cycle which is according to the Government Finance Statistics / Classification of the Functions of Government standards. Reporting by agencies is not fully compliant with the new system. The budget documentation provided to the legislature is comprehensive.

14. 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. The Government makes available to the public information on government fiscal plans, positions and performance. However, the desired timeframes for in-year and annual budget execution reports are not met.¹³

iii) Management of Assets and Liabilities

15. Most of the annual audited reports of national government agencies, government-owned or controlled corporations and local government units were issued within 9 months. Management of public investments rated well with strong institutional arrangements, an important area for

¹¹ Ibid.

¹² Ibid.

¹³ Ibid.

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.¹⁴

iv) Policy-based Fiscal Strategy and Budgeting

16. The fiscal strategy and the budget are prepared based on government fiscal policies, strategic plans, and adequate macroeconomic and fiscal projections. Procedures for the legislative review of the budget are adequately implemented. However, mid-year and year-end reports on the progress of fiscal strategy are not submitted to the legislature.¹⁵

v) Predictability and Control in Budget Execution

17. This area exhibited a mixed performance. Administrative and accounting procedures for revenue are effective. The system allows spending agencies to receive reliable information on the availability of funds. Controls over procurement, payroll expenditures, and non-salary expenditures are weak. The current processes need to be improved: internal controls over changes in personnel records and payroll, procurement monitoring, use of competitive procurement methods, public access to procurement information, expenditure commitment controls, payment controls, and timeliness and reporting of internal audit results. Internal audit programs are delayed. Management actions to address the concerns raised by the auditors are also delayed.¹⁶

vi) Accounting and Reporting

18. Accounting systems and processes did not rate well. Financial data integrity processes and in-year budget reporting require substantial improvement. Basic processes such as the reconciliation of bank accounts and the proper and timely liquidation of cash advances are not properly implemented. Most financial reporting is compiled through spreadsheets which do not have the necessary controls to assure data integrity. There is a need for a comprehensive accounting system. The electronic New Government Accounting System provides computerized accounting solutions and has been rolled out in many agencies and is undergoing development and updating. Majority of the agency financial statements were issued qualified opinions by the Commission on Audit (COA). This makes it difficult to determine the reliability of the financial statements.¹⁷

vii) External Scrutiny and Audit

19. The COA independently reviews and reports on public finances. External audit arrangements are satisfactory. Despite a strong external audit performance, there is the absence of a complete revenue audit. There is no Public Accounts Committee to follow up on the implementation of the audit recommendations. These functions fall on the head of the government

¹⁴ Ibid.

¹⁵ Ibid.

¹⁶ Ibid.

¹⁷ Ibid.

agency. Generally, there is a formal management response to the audit recommendations and actions are taken on majority of the recommendations.¹⁸

c. PFM Strengths and Weaknesses

i) Aggregate Fiscal Discipline

20. Compliance and fiscal discipline at the component level are inadequate. Aggregate expenditure outturn and expenditure composition outturn were rated poorly. There is a need for better information systems to support control and provide budget reliability. Aggregate revenue outturn was rated highly while revenue composition outturn was rated poorly due to problems with the collection of individual taxes which do not match targets. Financial data integrity, timing of in-year budget reports and annual financial reports were rated poorly. There is a need for improvement in the accounting system to ensure proper audit trails and reconciliations. Consolidation of cash balances was rated poorly since Official Development Assistance and trust funds have not have been incorporated in the consolidated cash balances. Payroll controls and non-salary expenditure controls are in place but are not providing sufficient control. External audit was rated medium to poor due to the deficiency in the audit of tax revenue. There is no legislative scrutiny of audit reports since no entity is assigned the function of scrutinizing the audit reports and ensuring that audit recommendations are implemented.¹⁹

ii) Strategic Allocation of Resources

21. There is a strong budget development process which allows the setting of expenditure priorities in accordance with government objectives. However, program allocations are not satisfactorily implemented due to defects in in-year budget execution. Expenditure composition outturn was rated poorly since the final year-end result did not deliver the resource allocation intended at the beginning of the year. The weak scores in accounting and reporting indicate absence of tools that allow budget managers to monitor and manage their budgets. Fiscal risks, assets and liabilities are well managed.²⁰

iii) Efficient Service Delivery

22. There is a strong and effective budget development process. However, the budget is not executed in accordance with the plans. The budget execution fails at the aggregate level and the component level. Expenditure composition outturn is not functioning effectively. Transparency of information on public finances is rated well. Policy-based budgeting with a multi-year perspective provides a sound basis for the budget. Internal audit and external audit arrangements are in place but there is insufficient response to prevent continuing internal control deficiencies. In procurement management, there is a need for a more stringent use of competition and for an independent review of complaints to ensure delivery of services at desired cost and quality.²¹

¹⁸ Ibid.

¹⁹ Ibid.

²⁰ Ibid.

²¹ Ibid.

d. Government's Strategy

i) Philippine Development Plan

23. 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 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.

ii) PFM Reform Roadmap

24. 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.

iii) LGU PFM Reform

25. 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.²² 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.

e. Recent Initiatives

i) Budget Cycle Analytics (BCA) Business Intelligence Solution

26. 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 multiyear 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.

²² DBM-DILG-DOF-NEDA Joint Memorandum Circular No. 2015–1 dated 24 February 2015.

ii) Budget and Treasury Management System (BTMS)

27. 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.

iii) Two-tier Budgeting

28. 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, 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).

iv) Revised Framework of Professional Standards

29. 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. COA also adopted revisions made by INTOSAI regarding the fundamental concepts and principles of the three types of audit; financial, compliance and performance.

V. Risk Description and Rating

30. The public financial management assessment was conducted to determine the appropriateness of the existing policies, accounting policies, financial controls, internal and external audit arrangements of the Government. The assessment concludes that the overall resulting financial management risk (pre-mitigation measures) is high as summarized in the financial management risk assessment table below.

Risk type	Risk Assessment²³	Description	Mitigation Measures
Budget reliability	S	Budget credibility undermined by difficulty of comparing appropriations to outturns	<p>The Unified Accounts Code Structure (UACS) was implemented in 2014 for budget formulation, execution and reporting. Full rollout to execution is still underway and reporting is adjusted for compliance at aggregate level.</p> <p>Phased introduction of Government integrated financial management information system (GIFMIS) under PFM Reform Roadmap.</p>
Transparency of public finances	M	Mismatched ex ante and ex post classification systems undermine analysis and transparency, but other aspects of comprehensiveness and transparency assessed as good	The Unified Accounts Code Structure (UACS) was implemented in 2014 for budget formulation, execution and reporting. Full rollout to execution is still underway and reporting is adjusted for compliance at aggregate level.
Management of assets and liabilities	M	A need for better accounting systems for financial and non-financial assets to deal with audit reports of discrepancies leading to qualified audit opinions	<p>UACS and GIFMIS to support improved monitoring and reporting</p> <p>Project to enhance accounting through the new government accounting system (NGAS) as part of PFM Reform Roadmap</p> <p>Planned introduction under PFM Reform</p>
Policy-based fiscal strategy and budgeting	M	Annual budget process orderly, but delayed approval of appropriations and limited medium-term perspective	Introduction in 2014 of enhanced performance monitoring through unified and integrated Results-Based Performance Management System (RBPMS), implementation of online submission of budget proposal system (OSBPS), and performance-informed budgeting (PIB)

²³ H = High, S = Substantial, M = Moderate, N = Negligible or Low.

Risk type	Risk Assessment²³	Description	Mitigation Measures
Predictability and control in budget execution	H	Budget execution is weak; particularly payroll integrity, internal controls over non-salary expenditures, and internal audit	<p>Development of BCA will equip budget analysts with an analytical tool which supports enhanced performance analysis and decision making.</p> <p>Development of two-tier budgeting approach to improve budget preparation.</p> <p>Disbursement improvements through fund-release reforms (from 2013), which are expected to improve disbursement timeliness and enhance operational efficiency</p>
Accounting and reporting	H	Accounts reconciliations are often not undertaken or delayed, comprehensive data on resource provision to service delivery units not collected, lack of assurance for financial data integrity, in-year reports incompatible	<p>Improved performance monitoring through RBPMS</p> <p>UACS and GIFMIS to support improved monitoring and reporting</p> <p>Project to enhance accounting through the new government accounting system (NGAS) as part of PFM Reform Roadmap Planned introduction under PFM Reform</p> <p>Roadmap of Philippine public sector accounting standards (PPSAS), which have been harmonized with international public sector accounting standards (IPSAS)</p>
External scrutiny and audit	S	Scope and quality of audit satisfactory and evidence of follow-up on audit recommendations, but there is no formal scrutiny of audit reports by the legislature.	<p>Establishment in 2012 of Joint Congressional Oversight Committee on Public Expenditures</p> <p>Strengthening external audit capability and practices as part of PFM Reform Roadmap, including COA's adoption of new Philippine public sector standards on auditing</p>
Overall Risk	H		

VI. Conclusion

31. The assessment indicates that the overall financial management risk of the EAL is high, but given the several risk mitigation measures in place, such as the wide-ranging PFM reform program which the government has in place, indications of initial positive impacts, and additional measures which are proposed including monitoring arrangements, the Government's public financial management system is acceptable for the EAL. The Public Financial Accountability Act will help to enforce accountability in the PFM system. In addition, ADB will provide financial support (amounting to \$1.5 million) to DOF for the financial management of Output 1 and monitoring of the implementation of the activities for the overall EAL.