

PROGRAM FIDUCIARY SYSTEMS ASSESSMENT

A. Introduction

1. The Senior High School Support Program (SHSSP) in the Philippines will support the government's nationwide establishment and implementation of the senior high school (SHS) component of its kindergarten-to-grade 12 (K to 12) basic education program during 2014–2019. The program aims to lift the quality of basic education, develop lifelong learners, and prepare graduates for tertiary education, middle-level skills development, employment, and entrepreneurship.

2. The SHSSP will be implemented with Asian Development Bank's (ADB) financing using ADB's results-based lending (RBL) modality and the government's financial management, procurement, and anticorruption systems. This fiduciary systems assessment was conducted in accordance with ADB's policy and guidance on piloting RBL and is intended to determine the degree to which the systems—for public financial management (PFM), procurement management, and anticorruption measures—will be able to manage fiduciary risks and provide assurance that RBL program funds will be used for the intended purposes, with due consideration for economy and efficiency.¹

B. Information Sources

3. This assessment was undertaken from July 2013 to October 2014 and included a review of the country- and program-level PFM and procurement systems and anticorruption mechanisms. The primary focus is on the Department of Education (DepEd) as the executing agency for the SHSSP. The assessment is based on existing diagnostics, document reviews, and interviews with counterparts and donor representatives.

4. The primary PFM assessments include (i) the Public Expenditure and Financial Accountability (PEFA) PFM assessment,² and (ii) a review of financial controls and accountability requested by the Department of Budget and Management (DBM).³ The procurement system assessment was based on ADB's 2012 country procurement assessment report⁴ and supported by agency-level procurement assessments focusing on the performance, practices, and status of procurement systems of DepEd and the Department of Public Works and Highways (DPWH).⁵ The procurement assessment also benefited from the availability of various reports, notably the agency procurement compliance and performance indicator (APCPI) reports, procurement monitoring reports, reports of the Commission of Audit, (COA) and other relevant reports on projects and programs managed by these two departments.⁶ The

¹ ADB. 2013. *Piloting Results-Based Lending for Programs*. Manila; ADB. 2013. *Staff Guidance for Piloting Results-Based Lending for Programs*. Manila.

² World Bank. 2010. *Philippines, Public Expenditure and Financial Accountability*. Report No. 54584-PH. Washington, DC. The PEFA report was based on information and data as of mid-2007 but was found to remain largely valid. An updated PEFA PFM exercise was under way as of October 2014.

³ World Bank. *Financial Control and Accountability in the Philippines*. Draft final report. 27 June 2011. The report was based on a review of existing policies and practices in DBM and in DepEd, DPWH, and the Armed Forces of the Philippines.

⁴ ADB. 2013. *Philippines Country Procurement Assessment Report 2012*. Manila.

⁵ DepEd holds the budget for school construction and determines location and design. The government may tap DPWH to administer the bidding process for some school construction, with DepEd monitoring construction. Schools are DepEd assets, and DepEd is responsible for their operation and maintenance.

⁶ Various reports prepared by ADB, Australian Aid, and World Bank were used for analysis.

anticorruption assessment reflects the government's Good Governance and Anti-Corruption Cluster Plan, 2012–2016.⁷

C. Financial Management System

5. The fiduciary-related financial management system assessment focused on accountability and transparency of the financial management system.

6. **Previous assessments.** Country-level PFM arrangements have many strengths, including the use of double-entry bookkeeping, a mixed cash-accrual accounting base, a cadre of well-trained accountants, and potential access to a large external pool of trained accountants. However, diagnostic studies have identified issues, including elevated risks of funds waste, diversion, and misuse; a weak internal control environment; weak cash control; limited budget analysis; and conflict between COA's auditing and accounting roles.

7. The most recent comprehensive assessment was the 2010 PEFA PFM assessment.⁸ The findings for the six PFM dimensions were as follows:

- (i) **Budget credibility.** Payment arrears were not high, and comparisons of revenue forecasts and outturns were possible. However, budget credibility was undermined by difficulties in comparing appropriations to outturns.
- (ii) **Comprehensiveness and transparency.** DBM's budget classification was reasonable, but DBM and COA use execution classifications that differ from the budget classifications. Other aspects of comprehensiveness and transparency were assessed as good, except for public access to key fiscal information, which was deemed limited.
- (iii) **Policy-based budgeting.** The annual budget process was relatively orderly, but approval of appropriations was often delayed. While DBM incorporated a multiyear perspective into budgeting through a medium-term expenditure framework, its usefulness in resource allocations was limited.
- (iv) **Predictability and control in budget execution.** With the exception of the treasury and procurement functions, other areas of budget execution were deemed weak, particularly payroll integrity, internal controls over non-salary expenditures, and internal audit.
- (v) **Accounting, recording, and reporting.** This was the weakest dimension. Accounts reconciliations were often not undertaken. Comprehensive data on resource provision to service delivery units was not collected. Departmental in-year budget reports were incompatible. COA's annual consolidated financial statement was considered inadequate, because departmental financial statements were based on pre-closing trial balances, among other things.
- (vi) **External scrutiny and audit.** The scope and quality of audit performed was deemed satisfactory, and evidence was found of follow-up on audit recommendations. However, legislative scrutiny of external audit reports was lacking, and no standing committee charged with audit existed.

8. More recent assessments are generally consistent with the PEFA report's findings. These include a DBM-requested review of financial controls and accountability, which

⁷ Government of the Philippines. 2012. *Good Governance and Anti-Corruption Cluster Plan: 2012-2016*. Manila.

⁸ World Bank. 2010. *Philippines, Public Expenditure and Financial Accountability*. Report No. 54584-PH. May. Manila.

concluded that (i) there is excessive fragmentation and inappropriate delegation of roles, responsibilities, and separation of duties, as well as a lack of central oversight; (ii) many rules, procedures, and organizational arrangements intended for control are overly complex to the extent of being ineffective and undermining achievements of their control objectives; and (iii) an explicit focus on risk is absent, and internal audit units do not yet have a risk-based approach. These assessments are also fully in line with the 2011 ADB risk assessment and risk management plan, which was prepared as part of ADB's Philippines country partnership strategy for 2011–2016 and identified PFM risks involving (i) organizational capacity, (ii) budget formulation, (iii) budget execution, (iv) budget accounting and reporting, and (v) external audit and oversight.⁹

9. **PFM reform initiatives.** In line with above assessments, the government has developed and is implementing a comprehensive and coherent suite of PFM reforms to address identified issues and strengthen PFM arrangements, with development partner support.

10. **Stand-alone actions.** Several stand-alone actions and plans target specific aspects of PFM:

- (i) **Internal audit.** COA, DBM, and the president's office, with support from ADB and Australian Aid, are training trainers to implement the 2011 Philippines government internal audit manual (PGIAM).
- (ii) **Performance monitoring.** In December 2011, the government established an interagency task force to develop a unified and integrated results-based performance management system (RBPMS), which will be used to determine entitlement to performance-based allowances and incentives for personnel.
- (iii) **Expenditure oversight.** Congress established a Joint Congressional Oversight Committee on Public Expenditures in 2012.
- (iv) **Online submission of budget proposal system.** In January 2013, DBM introduced an online submission of budget proposal system through which departments and agencies enter budget data directly into DBM's system and make real-time submissions of their consolidated 2014 budget proposals. This is improving budget preparation processes, including data aggregation.
- (v) **Results linkages.** Beginning with the 2014 budget process, DBM introduced requirements to incorporate results linkages in budget presentations.
- (vi) **Disbursement improvements.** In August 2013, DBM announced fund-release reforms that should improve the timeliness of disbursements and enhance operational efficiency.

11. **Good Governance and Anti-Corruption Cluster Plan: 2012–2016.** In January 2012, the government launched the Good Governance and Anti-Corruption Cluster Plan, 2012–2016 aimed at improving transparency, accountability, and citizen engagement. The plan includes several PFM-related items, including zero-based budgeting, enhanced civil society participation in budgeting, publication of a people's budget, provision to the public of more comprehensive information on funds disbursement by legislators, and publication of a statement of fiscal risks. The cluster plan has high-level support within the government of the Philippines.

⁹ ADB. 2011. *Country Partnership Strategy: Philippines, 2011–2016*. Manila.

12. **PFM Reform Roadmap: 2011–2016.** In 2011, the government launched a PFM reform road map for 2011–2011. It aims to strengthen PFM arrangements through six projects, including the following:

- (i) Budget reporting and performance management aims to harmonize budget and accounting classifications, simplify and consolidate formats for data collection, and apply a consistent set of accounting rules and regulations for generating financial reports. Planned activities include revising the chart of accounts;¹⁰ designing a common results-based reporting framework; and codifying laws, rules, regulations and processes in a new PFM manual. The aim is to make departments more accountable for using appropriations, and make oversight agencies more effective in ensuring that performance accords with plans and policies. DBM and COA have developed a harmonized budget classification and unified accounts code structure (UACS), which addresses the lack of integration between budgeting and accounting, and enables proper financial reporting and monitoring.¹¹ It allows for accurate and timely reporting on appropriations, allotments, obligations, and disbursements; and streamlines financial reporting requirements. The UACS is also a prerequisite for the implementation of the government integrated financial management information system (GIFMIS).
- (ii) The GIFMIS will facilitate the phasing out of unintegrated financial management processes and systems by implementing a common system through a two-track approach: (i) track I, which will focus on developing the comprehensive human resource information system; and (ii) track II, which is the design and development of GIFMIS as an integrated system for fiscal planning, budget preparation, budget execution, and financial reporting. The full GIFMIS is intended to be operational by 2016 and fully introduced by the end of 2017.
- (iii) Treasury cash management operations seek to improve treasury management through a treasury single account (TSA). The TSA will increase operational efficiency of departments while minimizing the cost of treasury operations.
- (iv) Accounting and auditing reforms aim to enhance the accounting system and a new government accounting system (NGAS), and strengthen external audit capability and practices. Activities conducted so far include reviewing 25 Philippine public sector accounting standards, which, once approved, will be harmonized with international public sector accounting standards. Also, COA has adopted Philippine public sector standards on auditing, which are largely consistent with international standards on auditing.

13. ADB is providing comprehensive support to the government's PFM reform program.¹² Positive progress is being made. An interim stocktaking in mid-2013 showed that, while the

¹⁰ A chart of accounts usually covers all classification dimensions, but COA has traditionally used the term to refer only to the object codes (assets, liabilities, equity, revenue/income and expenses), hence excluding codes for funding source, organization, location and major final output/program, activity, and project.

¹¹ Government of the Philippines. 2013. *Unified Accounts Code Structure Manual*. Manila. 6 August. This was a joint circular of DBM, the Department of Finance, and COA No. 2013-1.

¹² Recent ADB support for PFM reforms included ADB. 2013. *Strengthening Results-Based Human Resource Processes at the Department of Finance*. Manila; ADB. 2013. *Strengthening Treasury's Liquidity Management*. Manila; ADB. 2014. *Local Government Finance and Fiscal Decentralization Reform Program*. Manila; ADB. 2014. *Strengthening Treasury Operations and Capital Market Reform*. Manila.

government's PFM reforms have not yet had significant measured impacts on actual financial management performance, up to 7 of the 28 PEFA indicators may be expected to improve when the PEFA assessment is completed in early 2015.¹³ Further recent improvements in PFM are highlighted in the Global Competitiveness Index for 2014, which showed that the Philippines had significantly improved its ranking in the functioning of public institutions and ethics and corruption—from 135th in 2010 to 81st in 2014.¹⁴

14. At the agency-level, DepEd's financial management system is largely decentralized to 17 regional and 202 district offices and about 2,141 implementing units and schools. The system is essentially a collection of independent, manually-based systems. Technical manuals have not been routinely maintained. In response, DepEd is preparing a consolidated financial management and operating manual, and staff will be trained in its application.¹⁵ DepEd has adequate and qualified financial management staff in its central office, but staff numbers and capabilities at the subnational levels are inadequate. In part to address this, a DepEd reorganization plan is supporting governance and accountability improvements.

15. Budget execution processes are also decentralized, and regional offices interact directly with DBM's regional offices to allow flexibility. However, this impedes the central office's ability to track and report on fund releases. Bank account reconciliations and cash advance liquidations were often delayed, but improvements are being made with support from COA recommendations. DepEd prepares financial reports for COA and DBM, but their submission is delayed due to lower-level report delays and consolidation. To address this, DepEd has begun implementing NGAS, which will replace the database system and manual systems. Internal audit is the responsibility of the DepEd's internal audit service (IAS). The IAS has 17 permanent positions. In addition, DepEd has engaged internal audit personnel as contractors. Nevertheless, the IAS's efficacy is hindered by lack of staff, which will be addressed by establishing additional positions and recruiting staff into those positions.

16. COA audits DepEd annually in accordance with the Philippine public sector standards on auditing, which are equivalent to international standards on auditing. It prepares and publishes the consolidated annual audit report (CAAR) which is disclosed publicly on COA's website.¹⁶ COA's audit opinions on DepEd are becoming more positive over time. Until 2009, COA issued adverse audit opinions on DepEd's financial statements, but since 2009 these opinions have been qualified. The 2009–2012 CAAR observations focus on internal control weaknesses, especially at the subnational level. DepEd implementation of COA's audit recommendations has been rated partial in most cases, rather than full, although almost all recommendations are being addressed. The timeliness of CAAR transmittal continues to improve. The 2012 DepEd CAAR was signed and transmitted within 16 months of fiscal year end (on 7 March 2013), while the 2012 DepEd CAAR was signed and transmitted within 12 months of the fiscal year end (on 18 December 2013). Table 1 summarizes financial management risks and mitigation measures.

¹³ World Bank. 2013. Philippines Public Expenditure and Financial Accountability (PEFA) Performance—Interim Stocktaking. Paper presented at the Public Financial Management Reform Learning Conference and Planning Workshop. Tagaytay. 18–20 September.

¹⁴ World Economic Forum. 2014. *The Global Competitiveness Report, 2014–2015*. Geneva.

¹⁵ World Bank. 2014. *Learning, Equity and Accountability Program Support Project*. Washington DC. Subcomponent 2.3.

¹⁶ COA. 2013. *Consolidated Annual Audit Report on Department of Education for Calendar Year 2012*. 18 December 2013. Available from <http://www.coa.gov.ph/index.php/national-government-agencies/2012/category/74-department-of-education> (accessed on 7 October 2014).

Table 1: Financial Management Risks

Risk Type	Risk Description	Risk Rating^a	Management Plan/ Mitigation Measures
Inherent Risk^b			
Country-specific	Weak country PFM system, especially regarding budget execution, accounting, reporting, and budget credibility	S	ADB will continue to support implementation of the PFM reform road map for 2011–2016, especially the GIFMIS, reporting and performance management, and accounting and auditing reform projects ADB will support the 2014–2015 updated PEFA PFM assessment
Agency-specific	DepEd's financial accountability framework is ill-defined, insufficiently supported by skilled staff, and inadequately enforced.	H	Implement the DepEd rationalization program (2013) to support restructuring and governance and accountability improvements Ensure that adequate number of financial management positions created, filled and deployed, and staff trained
Overall Inherent Risk		S	
Control Risk^c			
Planning and budgeting	Inappropriate and unreliable data on performance as basis for decision-making	S	Introduce in 2014 enhanced performance monitoring through unified and integrated results-based performance management system, implementation of online submission of budget proposal system, and performance-informed budgeting Continue ADB support to DBM for performance-based budgeting (with DepEd pilot)
Budget execution	Decentralization, weak central oversight, and limited information from DBM limit DepEd's ability to monitor consolidated fund releases and spending	S	Introduce UACS under PFM reform road map (2011–2016) Continue phased introduction of GIFMIS under PFM reform road map
Accounting and internal control	DepEd manual bookkeeping and accounting processes, combined with a weak and fragmented internal control environment	H	Prepare time-bound action plan in 2015 to implement UACS and GIFMIS to support improved accounting. Enhance DepEd accounting through expanded NGAS implementation Implement Philippine public sector accounting standards
Financial reporting	Delayed preparation of DepEd's consolidated financial reports	S	Implement UACS and GIFMIS to support improved monitoring and reporting Enhance DepEd accounting through expanded NGAS implementation
Internal audit	Efficacy of DepEd internal audit function may be limited by staff resources and methodology	S	DepEd will fill vacant internal audit positions Strengthen internal audit function through implementation of the 2011 Philippine government internal audit manual, supported by train-the-trainers program Prepare and submit annual internal audit report to DepEd executive committee, beginning 2014
External audit	Scope and quality of audit satisfactory and evidence of follow-up on audit recommendations, but legislative scrutiny lacking	S	Strengthen external audit capability and practices as part of PFM reform road map, including the Commission on Audit's adoption of new Philippine public sector standards on auditing

Risk Type	Risk Description	Risk Rating ^a	Management Plan/ Mitigation Measures
Overall		S–H	
Control Risk		S	
	Overall Risk	S	

DBM = Department of Budget and Management, DepEd = Department of Education, GIFMIS = government integrated financial management information system, NGAS = new government accounting system, PAP = program action plan, PFM = public financial management, UACS = unified chart of accounts.

^a Pre-mitigation risk. N = negligible, M = moderate, S = substantial, H = high.

^b Inherent risk is the susceptibility of the program financial management system to factors arising from the environment in which it operates, such as country rules and regulations and the agency's working environment (assuming the absence of any counter checks or internal controls).

^c Control risk is the risk that the program's accounting and internal control framework is inadequate to ensure that funds are used economically and efficiently and for the purposes intended, and that funds use is properly reported.

17. **Conclusion.** Based on the assessments made and risks identified, this assessment rates pre-mitigation PFM risk as substantial. This risk level is considered acceptable, given (i) the comprehensive PFM reform program the government and DepEd have in place, as well as the evidence of positive impacts; and (ii) the commitments they have made under the program action plan to address financial management and internal audit staff gaps.

D. Procurement System

18. **Program profile.** The SHS program will involve significant procurement of classrooms, textbooks and instructional materials, and technical advisory and consultancy services. Up to 40,000 classrooms may be procured at an estimated cost of \$1,024 million, as well as textbooks costing about \$39 million. DepEd is the executing agency for the SHSSP, and the main procurement management responsibility rests with its procurement service. Procurement activities will be executed by program implementing units, including the physical facilities, schools, and engineering division for school building and the instructional materials coordination secretariat for textbooks. Service contracts, such as those for consultancies, will be managed by the intended users. For classroom procurement, DPWH may administer tendering on behalf of DepEd. Both DepEd and DPWH systems will be used for procurement under the SHSSP. These departments will also use their subnational offices to implement the program.

19. For SHS construction procured through the traditional approach, the contract size will be generally small, typically below ₱2.0 billion (\$4.5 million) and the public bidding method prescribed in the government procurement reform act (GPRA)—Republic Act (RA) 9184—will be the default. Under the current administration, a public-private partnership (PPP) modality was adopted for provision of schools through which DepEd clustered school building projects and bid them out in large packages. Procurement was done by the physical facilities, schools, and engineering division in accordance with the Philippines' build-operate-transfer law (RA 6957), as amended in 2012 by RA 7718. Some SHSs may be procured using a PPP modality. While some of the existing PPP contracts for classroom construction exceed the RBL ceiling of \$50 million,¹⁷ the SHSSP is not procuring schools and so is not affected.¹⁸

¹⁷ To date, five education sector PPP contracts have been awarded—three in 2012 and two in 2013. Those awarded in 2012, which used a build, lease, and transfer modality, included the cost of construction and lease payments over 10 years. The value of these contracts ranged from \$77 million–\$170 million. Those awarded in 2013, which used a build and transfer modality, had lower contract values that ranged from \$36 million–\$50 million.

¹⁸ The ceiling amounts are currently \$50 million for works, turnkey and supply, and installation contracts; \$30 million for goods; \$20 million for information technology systems and non-consulting services; and \$15 million for consulting services. The amounts may be changed from time to time, and the thresholds for high-value contracts for RBL for programs will also be changed accordingly.

20. Textbooks and instructional materials are procured under a centralized system and managed by DepEd's procurement service, in coordination with the instructional materials coordination secretariat and end users. DepEd's procurement strategy separates the acquisition of copyright authorization from printing and delivery. However, given the nature and size of contracts, direct contracting and other methods such as shopping may be used, while public bidding remains the default method in accordance with the GPRA. Contracts for services such as for hiring consultants and training providers and for outsourced technical services are processed at the central office. These contracts are expected to be few and small in value.

21. **Country-level procurement system.** The legal and institutional framework for the government's procurement system is underpinned by the GPRA. According to a country procurement assessment report (CPAR) conducted in 2012 by the government procurement policy board in collaboration with development partners, the GPRA is sufficient to meet standards for a well-functioning public procurement system. The CPAR gave the Philippine procurement system a risk rating of medium or moderate. The CPAR, however, notes that the legal framework is not consistent with international procurement practices in a few key areas (i) the use of the approved budget for the contract as the ceiling for bid prices and contract awards, which is considered as a form of price control that may inhibit competition; (ii) the lack of a mechanism for independent reviews of complaints against procuring entities; (iii) the restrictions on foreign ownership of Philippine firms and the nationality requirements for joint venture arrangements, which limit the entry of international bidders; (iv) the absence of procedures for international competitive bidding; and (v) the lack of a system for prequalification of prospective bidders. Notwithstanding these shortcomings, the procurement assessment concluded that the country procurement system is largely in line with the sound procurement principles of open competition, economy and efficiency, transparency, and fairness.

22. **Agency-level procurement systems.** The DepEd and DPWH procurement systems generally follow the procurement procedures specified in the GPRA and its revised implementing rules and regulations. The systems were assessed as having reasonably appropriate institutional arrangements to implement the program, although additional resources may be needed. All the procuring entities at the central and local levels had a bids and awards committee established and functioning in accordance with the GPRA. Annual procurement plans (APPs) were prepared and approved by the head of the relevant procuring entity. Standard bidding documents and procurement manuals were used. Bid opportunities and contract awards were generally uploaded on the web-based Philippine Government Electronic System and on the official agency websites. APCPI reports and statistical data also showed improvement in the procurement performance of these departments. Saving in procurement was noted, and the average lead time for a competitive bidding process was within the timeline specified in the GPRA's revised implementing rules and regulations. Public bidding is the default procurement method for school building. Still, use of direct contracting by DepEd for procurement of instructional materials and textbooks was noted, and it was explained that these goods are copyrighted and supplied exclusively by certain companies. In addition, limited competition in school building was observed, with an average of only two bids received per contract in the sample of DepEd and DPWH school building contracts from 2012 reviewed as part of the procurement assessment. The achievement level of the APPs was found to be low in DepEd and DPWH, which might be caused by system inefficiencies or unrealistic APPs. Further, compliance with the GPRA at the local level remains an issue, with a lack of reports and procurement information at the local level identified during the assessment. Procurement data do not seem to be systematically and routinely reported to the central office.

23. **Strengthening procurement systems in the country.** Development partners are

discussing ways to address policy gaps through the Philippine development forum's subcommittee on procurement. Through the CPAR process, an action plan was agreed upon that was to be implemented by government agencies and development partners. Its aim was to address the identified shortcomings to enhance the country procurement system. Agency performance has been mixed, and compliance by local governments lags that of national agencies. The government procurement policy board continues to push the reform by delivering training for procurement professionals and by providing guidance to implementing agencies.

24. **Key procurement risks.** The key procurement risks identified in relation to the SHSSP include (i) limited procurement capacity of DepEd and DPWH; (ii) delayed procurement of classrooms and instruction materials; (iii) weak procurement planning and compliance monitoring; (iv) limited use of public bidding, especially for procurement of instructional materials, (v) limited competition in classroom construction bidding; and (vi) alternating responsibility for management of the school building program between DepEd and DPWH.

25. **Key mitigating measures.** The key mitigating measures to address the above procurement risks will include (i) timely increase by DepEd of procurement staff to keep pace with the additional procurement workload; (ii) provision by DepEd of procurement training to bids and awards committee members and procurement staff at all levels, with a focus on procurement planning and packaging strategies; (iii) strengthening compliance with submission of APCPI reports and procurement monitoring reports by DepEd; and (iv) enhancing compliance with the requirements on publication and disclosure of procurement information and reports. Key risks and mitigating measures are consolidated and summarized in the integrated risk assessment and mitigating measures and the program action plan.¹⁹

E. Anticorruption System

26. **Country level.** The anticorruption framework in the Philippines is underpinned by (i) the Anti-Graft and Corrupt Practices Act (1960), which defines corrupt practices, and governs investigations and prosecutions; (ii) the 1987 Constitution, which includes articles on accountability of public officials and requires filing of statements of assets, liabilities and net worth; and (iii) the Code of Conduct and Ethical Standards for Public Officials and Employees (1989), which makes agency heads responsible for ensuring transparency and openness of public transactions, such as biddings, purchases, contracts, project status, and other matters of public interest. The government is a signatory to the United Nations Convention against Corruption, which binds countries to implement measures against corruption at the national and international levels. The key anticorruption agencies are the Office of the Ombudsman (OMB) and COA. The OMB was created by the 1987 Constitution to investigate and prosecute public officials violating anticorruption laws and regulations. COA deals with irregularities in public funds-usage through its authority to examine and audit government revenues and spending. In addition, the Civil Service Commission serves as the disciplining authority, determines culpability, and imposes administrative sanctions. Despite this favorable policy environment, many government programs and transactions are exposed to corruption risks.

27. Anticorruption measures are prioritized in the Good Governance and Anti-Corruption Cluster Action Plan for 2012–2016, which includes actions to curb corruption, improve public service delivery, and enhance the business and economic environment (footnote 7). The key aim is to institutionalize open, transparent, accountable, and participatory governance. The

¹⁹ Program action plan (accessible from the list of linked documents in Appendix 2).

initial focus has been on the government's budgeting system and fund use, pro-poor development programs, and internal control in major spending agencies. The government's initiatives to open the budget process to civil society and publish expenditure reports of implementing agencies have been well received by citizens and international development partners. The Philippines' ranking improved from 105th of 176 countries in 2012 on the corruption perception index to 94th of 177 countries in 2013.²⁰ The assessment of anticorruption systems identified potential risks that may affect the SHSSP. Overall, the assessment concluded that, while the Philippines has a legal framework and institutions to protect against corruption, these are undermined by weak enforcement rooted in politically connected vested interests.

28. The current presidential administration has prioritized anticorruption. Most agencies, including DepEd and DPWH have implemented anticorruption measures, which have included formulating integrity development action plans and strengthening of such integrity mechanisms as internal audit units, grievance redress systems, public access to information on financial and procurement matters, and social networks for public feedback and complaints. Recent improvements were highlighted in the Global Competitiveness Index for 2014, which showed significant improvements by the Philippines since 2010 in the functioning of public institutions and ethics and level of corruption (para. 13).

29. **Department of Education.** The integrity development review (IDR), which dates back to 2004, but remains relevant, is a compendium of diagnostic tools—self-assessment scorecards for managers, feedback, survey of employees and corruption vulnerability assessment—for assessing the robustness of corruption resistance mechanisms, and for identifying the vulnerabilities of government agencies to corruption. It seeks to design and implement safeguards to prevent corruption in the public sector. The IDR framework continues to be applied through annual review processes in DepEd, but the process and evaluation ratings are done internally and results are made public. The DepEd text action center receives and processes complaints, feedback, and grievances from individuals sent to DepEd directly or through the Office of the President, the OMB, or the Civil Service Commission. Complaints are received through email, text messages, phone calls, and physical mail, as well as from walk-in complainants. Complaints are sent out to the concerned units within 48 hours, and replies to complainants are made within 5 days of the complaint's receipt.²¹ The assessment found that the anticorruption mechanisms in the two agencies are functioning and have reduced the incidence of corruption.

30. Through its built-in mechanisms of linking results to disbursement, the SHSSP provides an opportunity for ADB to help the government address fraud and corruption. Linking ADB financing to verifiable results will help ensure that funds are used appropriately and for the intended purposes. Confronting systemic weaknesses and fostering institutional development in financial management and procurement systems will also help build robust and transparent public management systems, and this will reduce opportunities for corruption. ADB's RBL policy includes specific guidelines to address corruption risks (Appendix 7), and these have been communicated to DepEd. This includes blacklisting of corrupt service providers and of ADB's Office of Anticorruption and Integrity role in monitoring.²²

²⁰ Transparency International. 2013. Corruption perceptions index. <http://www.transparency.org/country#PHL>.

²¹ Matters that concern SDS and regional directors are referred automatically to the DepEd Legal Office.

²² ADB.2013. *Staff Guidance for Piloting Results Based Lending For Programs*. (Appendix 5). Manila.