

SUPPLEMENTARY DOCUMENT 5: FINANCIAL MANAGEMENT ASSESSMENT

I. INTRODUCTION

1. This report presents the results and findings of Financial Management Assessment (FMA) of the Department of Social Welfare and Development (DSWD) in its role as the implementing agency of the proposed *Kapit-Bisig Laban sa Kahirapan* (Linking Arms against Poverty)– Comprehensive and Integrated Delivery of Social Services (KALAHI–CIDSS) National Community-Driven Development Project (KC–NCDDP) in compliance with Operations Manual Section G2/BP and Operations Manual Section G2/BP issued by the Asian Development Bank (ADB) on 29 October 2003.

2. The FMA has been prepared in accordance with ADB’s Guidelines for the Financial Management and Analysis of Projects¹ and Financial Due Diligence: A Methodology Note.² It incorporates the required financial management internal control and risk management assessment as well as the financial management assessment questionnaire (FMAQ) in Appendix 1.

3. The FMA was drafted during the project reconnaissance mission on 3–7 December 2012, and updated during fact-finding mission on 11–22 February 2013 and consultation mission on 5–8 March 2013. The FMA conducted interviews, focus group discussions, review of related studies, and field visits to selected subproject areas of the KALAHI–CIDSS.³ Key informants included local government officials, members of area coordinating teams (ACT) and municipal coordinating teams (MCT), volunteers, DSWD officials in main and regional offices, and representatives of the national and regional program management offices of KALAHI–CIDSS.

II. SUMMARY OF FINDINGS AND CONCLUSIONS

A. Project Description

4. The KC-NCDDP will support the Government of the Philippines (GOP) as it implements its NCDDP. It will assist NCDDP implementation through community planning and investment grants, capacity development activities, and program management and monitoring and evaluation (M&E) support. The NCDDP is the government’s flagship program under the Philippine Development Plan (PDP) 2011–2016 and the National Anti-Poverty Framework (NAPF) to bring about more equitable access to basic services, reduce poverty, achieve inclusive growth, and improve human development outcomes in the poorest areas of the country. It provides a platform for enhancing participatory planning and budgeting in national and local government systems as well as in harmonizing community-driven development (CDD) with efforts to strengthen public accountability mechanisms. Building on the experiences of KALAHI–CIDSS and other CDD programs, The NCDDP will expand ongoing KALAHI–CIDSS operations from 364 poor municipalities in 49 provinces to 900 poor municipalities in 63

¹ ADB. 2005. *Financial Management and Analysis of Projects*. Refer to page 14 of Knowledge Management Addendum for more information on the Financial Management Assessment. Accessible at: <http://www.adb.org/sites/default/files/pub/2005/financial-governance-management.pdf>

² ADB. 2009. *Financial Due Diligence A Methodology Note*. Refer to page 3 for more information on the Financial Management Assessment. Accessible at: <http://www.adb.org/sites/default/files/financial-due-diligence.pdf>.

³ The assessment builds on the financial management and disbursement arrangement conducted by the World Bank for its additional financing of KALAHI–CIDSS in August 2010.

provinces, covering an estimated 5 million households in about 17,000 *barangays*.⁴ NCDDP will provide (i) block grants for planning and implementation of CDD subprojects, (ii) capacity building and implementation support (CBIS), and (iii) program management and M&E. ADB, the World Bank (WB), and other development partners have coordinated with the government in the design of NCDDP, including preparatory and analytical work.⁵

5. **Impact, Outcome, and Outputs.** The impact of KC-NCDDP will be reduced average poverty incidence in the poorest areas of the country. The outcome will be communities in targeted poor municipalities empowered to achieve improved access to services and to participate in more inclusive local planning, budgeting and implementation. In times of natural disaster, the CDD mechanism adopted under NCDDP has been used internationally to support governments in providing an informed, coordinated, accelerated response at scale, to meet community needs. Disbursements can be accelerated without compromising the project's robust fiduciary controls and principles of participation and good governance. KC-NCDDP has the following outputs (i) CDD subprojects selected, implemented, and completed, (ii) institutional and organizational capacity strengthened, and (iii) program management and M&E systems enhanced.

6. **Output 1: CDD subprojects selected, implemented, and completed.** Planning and investment grants will be provided to about 6,900 participating *barangays* (villages), benefiting and estimated 1.1 million households across the targeted municipalities of the NCDDP.⁶ The planning grants will support participatory and gender-inclusive planning by *barangay* residents as well as technical assistance to ensure effective subproject selection and implementation.⁷ Investment grants will support subprojects and activities that respond to community priorities.⁸ Subproject eligibility will be based on an open menu and subject to an exclusion list.⁹ The open menu will include community proposals on local disaster response and prevention. Investment grants will be released in three tranches, based on physical and financial accomplishment presented in a community assembly and verified by program staff.

7. **Output 2: Institutional and organizational capacity strengthened.** This output will sustain NCDDP capacity building and implementation support by underwriting capacity development at the municipal level of DSWD program staff that will provide facilitation support,

⁴ The provinces covered by the NCDDP are listed in Appendix 1 of the project administration manual. The provinces were selected according to the presence of poor municipalities that were identified using small-area estimates.

⁵ ADB. 2012. *Policy and Advisory Technical Assistance to the Philippines for Enhancing Social Protection through Community-Driven Development Approach*. Manila; ADB. 2013. *Small-Scale Project Preparatory Technical Assistance to the Philippines for Preparing Support for National Community-Driven Development Program*. Manila. The WB and the Australian Agency for International Development also provided technical assistance support. The WB and the Japan International Cooperation Agency developed a framework on community-driven enterprise development to transition CDD beneficiaries into local economic activities.

⁶ The KC-NCDDP is supporting the NCDDP as a national program of the government and does not have a specific geographic focus.

⁷ Planning grants are equivalent to about 15% of the investment grants for participating municipalities.

⁸ Investment grant amounts are based on a formula using population size and poverty incidence.

⁹ The menu of subprojects includes community water systems, schools, day-care centers, health stations, electrification, tribal housing, access roads, small bridges or footbridges, pre- and post-harvest facilities, equipment and materials support, irrigation, drainage, sanitation, flood control, seawalls, soil protection, and artificial coral reef sanctuaries. The exclusion list includes activities that may be harmful to the environment or indigenous peoples such as weapons, chainsaws, explosives, pesticides, insecticides, herbicides, asbestos, and other potentially dangerous materials and equipment; fishing boats and nets above the government-prescribed size and weight; road construction into protected areas; the purchase of or compensation for land; political and religious activities, rallies, and materials; and activities that employ children under 16 or that unfairly exploit women or men of any age.

technical assistance, subproject oversight, and local coordination.¹⁰ About 5,200 newly hired program staff and their local government unit (LGU) counterparts will be trained in CDD, development planning and management, conflict resolution, mediation within and between *barangays*, quality review, local poverty assessment, and M&E. Skills transfer will be emphasized to support program implementation and ensure benefit sustainability.

8. Capacity development will enhance national and regional program and financial management systems to support scaling up and an increased number of transactions. Program staff and NCDDP stakeholders will be trained to (i) apply environmental and social safeguard policies; (ii) respond to special circumstances such as vulnerability to disasters and climate change and the presence of indigenous communities; (iii) facilitate community organization in ways that ensure the inclusion and participation in subprojects of the poor, women, and indigenous peoples; and (iv) embed participatory approaches in government systems and processes. This output will support training to strengthen NCDDP grievance redress and social accountability mechanisms. Knowledge development and exchange will be supported.

9. **Output 3: Program management and M&E systems enhanced.** This output will strengthen NCDDP program management and M&E systems by supporting the development and maintenance of a management information system for tracking, measuring, and reporting progress against key performance indicators. The system will include national and regional electronic file management of community requests for fund release and their supporting documentation. This output will support at least two special studies, third party M&E, pilot testing of additional features and elements under the NCDDP, and capital expenditure requirements for program management. In addition, the NCDDP operations manuals will be reviewed and harmonized with ADB policies and procedures.

10. The NCDDP has an estimated cost of \$1,132.0 million (excluding finance charges) from 2013 to 2019. The proposed ADB loan will finance 33% of NCDDP. GOP will finance 24% and has requested the WB to finance 42% of the program. The Government of Australia will provide a grant equal to 1%. The KC-NCDDP is estimated to cost \$663.7 million. The government requested a loan of \$372.1 million from ADB's ordinary capital resources to cofinance NCDDP. The government will provide \$291.6 million in counterpart financing including taxes and duties, and financing charges. The government will allocate the counterpart funds mainly to cover a share of the community block grants, capacity building, and administrative costs.¹¹

11. ADB financing will have the following distribution in terms of project components and subcomponents: 83% investment block grants, 13% planning and community capacity building block grants, 3% for capacity building and implementation support, and 1% for project management and M&E.

B. Risk Assessment

12. Significant challenges remain in public financial management, particularly accountability mechanisms, overall capacity and integrity of government agencies, procurement, and local governance.

¹⁰ In response to a government request, capacity development technical assistance (CDTA) in the amount of \$1.5 million will be prepared and financed separately. It will complement capacity development under the KC-NCDDP with the (i) formulation of training development framework, curriculum, and modules; (ii) establishment of institutional support systems; and (iii) identification of training needs in Autonomous Region in Muslim Mindanao.

¹¹ This includes the full government contribution to the overall program, and is not limited to the counterpart for the ADB loan.

13. At the project level however, implementation risk is moderate. A Risk Assessment and Risk Management Plan undertaken by ADB in 2009 concluded that DSWD has a well-functioning financial management regime, with strong leadership and sufficient systems and controls in place to minimize corruption risks.¹² The Integrity Development Review of DSWD and independent corruption surveys rated DSWD as among the cleanest government agencies.¹³ DSWD also has robust engagement with civil society organizations (CSOs). Corruption has not been a significant issue in the implementation of KALAH–CIDSS. Audit findings and recommendations to date have been mainly directed towards the DSWD field offices in only a few regions. Inherent risk is borne principally by the sizeable scale-up of CDD operations, coupled with expansions in other programs on social protection, sustainable livelihood, and disaster response. It is anticipated that NCDDP will strain DSWD’s existing management and oversight capacity. Other implementation challenges from a governance perspective include (i) coordination with different government actors at the national and sub-national levels; (ii) interface with government planning and budgeting reforms, including LGU performance enhancing measures; (iii) subproject locations in remote and inaccessible areas, (iv) fiduciary risks due to higher volume of transactions especially for subproject investments; and (v) political interference.

14. In a post disaster context, local governments are often non-existent or dysfunctional, overwhelmed by the size of recovery task at hand. Competition for prices has increased the process of materials and labor. A shortage of human resources to provide oversight and technical assistance in the face of increased demand for replacement of rehabilitation of basic community infrastructure increases the risk of inefficient or fraudulent use of funds.

15. These challenges will be mitigated by the following elements in the program design (i) inter-agency governance structures at the national and sub-national levels; (ii) enhanced program management support systems, including provision of adequate personnel complement and decentralization of functions to the regional offices; (iii) capacity development for program staff and stakeholders; (iv) strengthened grievance redress system; (v) simplified procedures and reporting requirements; and (vi) robust monitoring and audit systems, including third party conduct of M&E and CSO oversight.

C. Implementation Requirements

16. The KC-NCDDP will strengthen program management systems and decentralization of functions to DSWD regional offices, providing adequate staff complement, and effective human resource development. It will support the establishment of electronic management information and accounting systems to facilitate the complete and timely capture and verification of transactions, and qualitative and quantitative statistical data at the municipal level. Transactions will undergo technical and compliance review at subregional level and authorization at regional level. Reports will be consolidated to meet national and regional level data needs.

17. The Commission on Audit (COA) will continue to perform regular audits of DSWD activities at national and field levels.

¹² ADB. 2009. *Report and Recommendation of the President to the Board of Directors: Proposed Loan, Technical Assistance Grant, and Administration of Technical Assistance Grant to the Republic of the Philippines for the Social Protection Support Project*. Manila. Linked document: Risk Assessment and Risk Management Plan. Accessible at <http://www.adb.org/sites/default/files/linked-docs/43407-01-phi-ra.pdf>.

¹³ Pulse Asia’s March 2011 Nationwide Survey on Corruption. <http://www.pulseasia.ph/files/Download/3-28-2011%20MR3%20-%20UB2011-1%20MR%20on%20Corruption.pdf>

III. DETAILED FINDINGS

A. Country Issues

1. Public Financial Management Environment

18. At the country level, weak public financial management is a key concern.¹⁴ The dispersion of responsibilities among several oversight agencies has impeded critical reforms and resulted in perceived ambiguity of guidance received by line agencies and local government units. There is a need for strengthening government agencies' capacity to execute the budget and implement programs. The Governance Risk Assessment and Management Plan (footnote 12) noted delays in cash releases, which distort the implementation of government activities. In addition, the excessive use of in-year budget reallocations limits the credibility of the budget composition, and impacts negatively on agency capacity to execute the budget. There is also a need to improve external audit and oversight as the lack of scrutiny of audit reports compromises effectiveness of the audit function. The lack of transparency makes it difficult for civil society to hold government accountable.

19. Among the key reforms introduced by the current government to address financial risks are (i) zero-based budgeting approach to eliminate inefficient, and irrelevant programs and projects, and re-channel funds to priority social programs; (ii) a more effective public expenditure by ensuring that spending are within the government's means and on the right priorities; (iii) faster and more efficient implementation of the budget and delivery of priority programs (e.g., disaggregating lump sum funds into specific programs and projects); (iv) more robust performance management and performance budgeting; and (v) sustained implementation of the roadmap for public financial management reforms (e.g., the Single Treasury Account and the Government Integrated Financial Management Information System).¹⁵

20. Trends in intergovernmental financing over the past few years have seen relative increases in total resources available to LGUs primarily from the internal revenue allotment (IRA). The IRA has been criticized, however, for (i) its inability to equalize sufficiently, at the expense of poorer municipalities and provinces and in favor of comparatively "rich" cities; and (ii) the perception that IRA funds have not been spent in an efficient manner to improve the daily life of ordinary citizens.

21. Recently, the national government introduced the Performance Challenge Fund (PCF) providing additional resources for infrastructure on a competitive basis, for LGUs that have met a series of good governance conditions, enveloped in the Seal of Good Housekeeping (SGH).¹⁶

2. Management Capacity of DSWD

22. DSWD has a well-functioning financial management regime, with strong leadership and sufficient controls and systems for budget execution, monitoring and accounting. It has

¹⁴ ADB. Country Partnership Strategy: Philippines, 2011–2016, Risk Assessment and Management Plan Summary. Based on ADB. *Forthcoming*. Country Governance Risk Assessment and Management Plan: Philippines. Manila. Accessible at: <http://www.adb.org/sites/default/files/cps-phi-2011-2016-ra.pdf>.

¹⁵ Presentation of Department of Budget and Management (DBM) Secretary Florencio Abad at the Philippine Development Forum - Plenary Presentation, Davao City (February 4, 2013).

¹⁶ ADB. 2013. Public Sector Management Subsector Assessment (Summary): Decentralization and Local Governance, Country Operations Business Plan: Philippines 2013–2015.

established effective control mechanisms to minimize corruption risks. Its budget, disbursement, monitoring and reporting systems are well developed. However, the expansion of operations under NCDDP is expected to increase financial risks observed under KALAHÍ–CIDSS.

B. Risk Analysis

23. At the national level, challenges remain in the preparation and implementation of its financial management plan and adherence to accounting rules. The Integrity Development Review (IDR) reported that for the year 2006-2008, a number of agency bureaus reported expenditures that exceeded budget level by more than 10% and that the agency regularly deviates from its annual planned expenditure because of unpredictability in the budget system and delayed approval of the budget.

24. However, the 2009 IDR of the DSWD reported that the agency has a well-developed and fully functioning system for financial control, utilization, monitoring and reporting. This was confirmed by the financial management assessment conducted by the WB in 2010, which concluded that the agency's financial management system complies with its requirements, subject to the implementation of mitigating action. World Bank's financial management assessment rated DSWD's financial management system as moderately satisfactory.¹⁷ It has sound internal controls and complies with relevant laws, rules and regulations in handling and reporting collections from donations, block grants, fees for use of DSWD facilities, payments for licenses, affiliation fees, proceeds of fund raising campaigns, duty free entry fees and refunds of excess cash advances to employees. Systems, internal policies and procedures are also in place to ensure that (i) all payments made are authorized, covered with available funds and budget authority, supported with appropriate documentation; and (ii) the preparation and submission of financial statements comply with universally recognized principles and standards to ensure efficiency and reliability of its accounting and management reporting systems.

25. Under NCDDP, financial risks will result principally from the volume of transactions, which will be two to three times larger than current levels, thereby stretching the organizational and financial management capacity of the DSWD.¹⁸ Reduced oversight and quality control will increase fiduciary risks. The decentralization to regional level of tasks and authority to approve requests for funds release (RFRs) will lead to more workload for the regional offices through increased responsibilities and increased volume of work traffic.

26. The potential confusion on the interface between NCDDP and the grassroots participatory budgeting process (GPBP)¹⁹ initiative of the government is another significant risk. Like NCDDP, GPBP seeks to make the planning and budgeting processes of both local and national governments more participatory through the involvement of grassroots organizations and communities. Both aim for better collaboration with, and leveraging of resources from, different national government agencies in service delivery. A related risk pertains to the still unclear procedures for identifying local counterpart contribution (LCC) under the GPBP regime since the NCDDP requires LCC. Some delays in subproject implementation occurred during KALAHÍ–CIDSS for failure to allocate LCC especially during the first cycle, either because of

¹⁷ WB. 2010. Financial Management Assessment, KALAHÍ–CIDSS Additional Financing.

¹⁸ WB. 2012. NCDDP Project Concept Note with Operational Risk Assessment Framework.

¹⁹ Formerly known as bottom-up budgeting (BUB). It is a recent initiative of the government in the preparation of the budget proposal of agencies, taking into consideration the development needs of poor cities/municipalities as identified in their respective local poverty reduction action plans that shall be formulated with strong participation of basic sector organizations and other civil society organizations (DBM-DILG-DSWD-NAPC Joint Memorandum Circular No. 2. Series of 2012, December 19, 2012).

financial incapacity or lack of appropriation in the LGU budget. This however has not been a significant issue during KALAHI–CIDSS.

27. Ensuring that NCDDP gets the needed annual budgetary allocation during the lifetime of the program is another major risk. Although the government has declared NCDDP as its flagship anti-poverty program, budget appropriation is still a congressional function, which, in the past has politicized the steep increases in the budget of the DSWD. A good communication plan to explain the merits of CDD that involves as many stakeholders as possible can mitigate this.

28. Another potential public financial management (PFM) risk during the scale up is budget execution difficulties caused by delay in the approval and implementation of subprojects. The assessment identified the following factors that can cause delay during the NCDDP implementation: (i) initial difficulties of introducing the concepts and requirements of the CDD approach; (ii) additional capacity building and procedural requirements for pilot areas where enhancements will be introduced (e.g., disaster response management, conflict-affected areas, etc.); (iii) difficulties in completing documents for RFRs and request for reimbursements of operational costs (including consultant field visit costs), which can reduce focus on quality of implementation in the field; and (iv) delay in the approval of RFRs. DSWD will manage this risk by adding and training staff, deconcentrating functions of the national program management office to its regional management offices, and reviewing and streamlining financial management documentations and requirements.

29. The 2009 IDR cites DSWD's internal policies and procedures that ensure financial statements comply with generally recognized accounting principles and standards, contributing to the efficiency and reliability of its accounting and management reporting systems. DSWD's Accounting Division has won awards for excellence in financial reporting and management. NCDDP provides training, procedures, forms and support for budgeting, recording and reporting subproject expenditure at the barangay level.

30. Community accountability is a key feature of CDD. Budgets and reports showing use of funds are posted on public bulletin boards and accounts are read out and discussed at community meetings. These accountability measures are mandatory triggers for release of funds. As long as adequate numbers of trained facilitators are active in the field to provide capacity building, facilitation and oversight, risks in the scale up can be effectively mitigated.

31. Several layers of monitoring and evaluation exist within the program. KALAHI–CIDSS's public grievance redress system provides an effective pillar to the fiduciary risk reduction strategy. Information flows through monthly reports submitted from municipalities to the regions, then on to national level. Regional and municipal consultants and local government staff monitor the project cycle including disbursements. Communities are active participants in project monitoring. In addition to 'pushing' information out to the communities through bulletin boards and at community meetings, several community bodies are appointed to monitor various aspects of the subproject implementation including procurement and financial management.

32. COA is working with DSWD to provide comfort in accounting processes as KALAHI–CIDSS scales up. Additional auditors will need to be trained in the NCDDP in order to perform an effective audit function. A key function of external audit is to act as a deterrent to misuse of funds. As such audits must pose a credible threat. A reasonable audit sample size of municipalities audited needs to be agreed to. As important, the fact that audits will be carried out must be pre-announced to all program actors and communities at the start of every cycle.

33. In order to support recovery in a post disaster context, the community decision making process will be shortened and the disbursements process simplified, without removing layers of review and exposing funds to risk.

34. Risks during the scale-up can be mitigated by (i) adequately trained staff in place at national, regional and municipal levels; (ii) adherence to the NCDDP operations manual, (iii) pre-announced audits by trained auditors of an effective audit sample size.

35. The inherent risks are summarized in Table 1.

Table 1: Summary of Inherent Risks and Mitigation Measures

Risk	Risk Assessment	Risk Description	Mitigation Measures
Inherent Risk			
1. Country-Specific Risks	H	Weak financial management, dispersion of responsibilities among several oversight agencies and ineffective accountability mechanism	Ongoing reforms include the introduction of zero-based budgeting; more robust performance management and performance budgeting; sustained implementation of the roadmap for public financial management reforms; and effective public expenditure by ensuring that spending are within the government's means and on the right priorities
	M-H	Confusion with ongoing government planning and budgeting reforms	National and more interagency governance structures set up; national joint memorandum circular with national government agencies; adoption of common standards and procedures with other agencies on subproject financing
2. Entity-Specific Risks	H	Inadequate institutional and personnel capacity to implement, and monitor the program	Emphasize strengthening program management systems, decentralizing functions to DSWD regional offices, providing adequate staff numbers, and human resource development Rationalizing deployment of program staff and introducing competency-based hiring; sustained capacity development programs for program staff and program stakeholders; phased implementation of scale up
	M	Lack of clear procedures on LCC	Memorandum of agreement between the Department of the Interior and Local Government and the DSWD
3. Project-Specific Risks	M	Delays in the implementation of subprojects	Expansion of authority of regional offices to approve requests for fund release and disburse community grants; simplified procedures and reporting requirements, particularly in a post-disaster context
	H	Corruption in procurement	Procurement of goods and services only at central and regional levels and tracked through an electronic procurement tracking system and with prior ADB review; community monitoring of

Risk	Risk Assessment	Risk Description	Mitigation Measures
			subproject procurement; strengthened grievance redress system; direct payment to community bank accounts; and robust information monitoring and audit systems, including third-party evaluations and oversight by civil society organizations
	H	Local political interference	To be mitigated by the underlying principles of community participation and transparency in resource allocation and decision making during the subproject planning cycles. KALAHI-CIDSS experience shows community priorities prevailing even in the face of changes in political leadership
	M	Errors in recording and reporting project transactions and other information	Support the establishment of electronic management information and accounting systems toward the complete and timely capture and verification of transactions and other relevant information. Transactions will undergo subregional technical and compliance review and regional authorization. Reports will be consolidated to meet national and regional data needs
	H	Poor quality and lack of regularity in the conduct of external audit	Clarification of COA guidelines. Socialization for and training of additional COA auditors in the project's financial management policies and procedures and its loan covenants and conditions Announcement of audits at the start of project cycle to deter misuse
Overall Inherent Risk	H	Rating: H = High, S = Substantial, M = Moderate, N = Negligible or Low.	

CEAC = community empowerment activity cycle, COA = Commission on Audit, CSO = civil society organization, DILG = Department of the Interior and Local Government, DSWD = Department of Social Welfare and Development, LCC = local counterpart contribution, MOA = memorandum of agreement, RFR = request for funds release.
Source: Asian Development Bank.

36. The control risks are summarized in Table 2.

Table 2: Summary of Control Risks and Mitigation Measures

Risk	Risk Assessment	Risk Description	Mitigation Measures
1. Implementing Entity	N	Reduced quality of oversight as geographical spread widens and the volume of transactions increases.	National and regional level management will be strengthened through increased staff positions, additional training, and increased focus on oversight and control functions. Fund release approval authorities will be decentralized to regional offices.
2. Funds Flow	N	Risk of delays in loan	DSWD will continue to work with DBM

Risk	Risk Assessment	Risk Description	Mitigation Measures
		proceeds being credited into to the Imprest Account from the BSP, leading to delays in funding community subprojects.	and Department of Finance (DOF) to make loan proceeds funds flows more efficient. DSWD has experience in tracking and following up the credit of loan proceeds to designated accounts.
3. Staffing	M	Risk of insufficient qualified candidates available for field consultant positions could lead to reduced oversight in the field.	Recruitment will be planned well ahead of time and performed nationwide. DSWD will broaden the qualifications requirements to capture more applicants. Salary levels and contract terms have been made more attractive. All new field staff will receive adequate training. Additional living and travel costs provided to facilitators in post-disaster context.
4. Accounting Policies and Procedures	M	As release of funds is delegated to regional level, accounting procedures used at national level will also be replicated at regional level. The risk of non-compliance and/or reduced quality of oversight increases.	National, regional and municipal level finance staff will be trained to monitor strict adherence to these policies and procedures. Regional management will be accountable for approvals of funds releases
5. Internal Audit	M	Current level of Internal Audit human resources will be strained.	Additional internal audit staff will be recruited and assigned regional oversight responsibility.
6. External Audit	N	Availability of COA auditors and understanding of the program	DSWD will socialize the program to COA auditors and work with COA to ensure resources are available to meet audit requirements.
7. Reporting and Monitoring	M	Adequacy of current reporting and monitoring systems	Monthly reporting to be streamlined. Grievance Redress System to be strengthened. Increased oversight of field offices by national management team and of subproject implementation by subregional field office teams.
8. Information Systems	M	Current data capture and accounting system will be strained with recording and reporting increased level of transactions.	ADB is supporting the design and implementation of a financial management and reporting systems and adequate user training.

Risk	Risk Assessment	Risk Description	Mitigation Measures
Overall Control Risk	M	Rating: H = High, S = Substantial, M = Moderate, N = Negligible or Low.	

ADB = Asian Development Bank, BSP = Bangko Sentral ng Pilipinas, COA = Commission on Audit, CSO = civil society organization, DBM = Department of Budget and Management, DSWD = Department of Social Welfare and Development, DOF = Department of Finance, LCC = local counterpart contribution.

Source: Asian Development Bank.

C. Project Financial Management System: Strengths and Weaknesses

37. Disbursements from the Regional Peso Accounts will be executed by regional finance management, monitored by national finance management. Using comprehensive check lists the regional finance staff will ensure that management controls governing block grant releases are fully adhered to.

38. Under KALAHI–CIDSS, robust fiduciary control at the community level is the result of clear standard operating procedures, regular oversight and the project’s grievance reporting system. The KALAHI–CIDSS project manuals, tried and tested over the past 10 years, are being updated to reflect improvements in the program design under NCDDP. Block grants will be managed by communities following the community finance and procurement manuals. Oversight is provided by program facilitators and community volunteers. Accountability and transparency are ensured through public accountability meetings between tranches at barangay level, with financial records published on community information boards. The program’s Grievance Redress System is being improved to better capture, filter, monitor and report grievance resolution.

39. At a systems level, currently under KALAHI–CIDSS, municipal project staff input financial data into spreadsheets, with manual consolidation at regional and national levels. Regional level financial management staff interviewed reported that as the volume of transactions has increased under KALAHI–CIDSS, the current system has become inefficient in terms of inputting, approving and reporting, and therefore impacting on the timing of disbursements and financial reports. National and regional financial management staff expressed the need for an improved financial management system to handle the increased volume of transactions under NCDDP.

40. Table 3 identifies the weaknesses of the program’s financial management system and measures to address them.

Table 3: Financial Management System Weaknesses and Resolution

Significant Weakness	Resolution
Financial information is captured in spreadsheets, leading to inefficiencies in transaction processing and reporting under the current level of transactions under <i>Kapit-Bisig Laban sa Kahirapan</i> (Linking Arms against Poverty)– Comprehensive and Integrated Delivery of Social Services (KALAHI–CIDSS).	<p>An improved Financial management system, in which data is captured once and consolidated for approval and reporting at national and sub-national levels, will improve the quality and timing of disbursements and financial reporting.</p> <p>Adequate user training will be provided.</p> <p>National and regional support center will be available</p> <p>Provincial offices will provide hands-on training and support to municipal offices.</p>

Source: Asian Development Bank

D. Risk Mitigation

41. To mitigate the risks to the investment program from a PFM perspective, technical assistance will be provided in the following areas (i) budget preparation and oversight; (ii) implementation of an improved and secure financial management system (iii) strengthening the internal oversight function; (iv) identification and design of training materials for regional, field, and community-level program actors.
42. The following mitigation actions are to be undertaken by the DSWD:
- (i) Authority of regional program management offices (RPMOs) to approve RFRs and disburse community block grants will be expanded; procedures and reporting requirements will be simplified.
 - (ii) Internal controls and procedures will follow the existing KALAHI–CIDSS manual. The Project Financial Management manuals will be reviewed.
 - (iii) The organizational structure of DSWD and terms of reference of staff and consultants are being adjusted to meet the needs of the program.
 - (iv) Work plans with nominated core activities for all executing agency (EA)/implementing agency (IA) personnel will be developed.
 - (v) Procedures for reporting fraud, waste, and misuse of assets to be strengthened including the grievance redress system, which is being improved to better capture and process complaints.
 - (vi) Program staff and consultants will be remunerated at market rate, with longer contract tenure, to enable recruitment and retention of competent staff.
43. In addition, the following will be undertaken during the implementation of the KC-NCDDP:
- (i) DSWD and ADB staff will coordinate regularly to ensure that ADB guidelines are being adhered to.
 - (ii) Regular interagency coordination at all levels will be put in place to discuss the portfolio performance of the loan.
 - (iii) Regular training on ADB's disbursement policies will be provided.
 - (iv) Separate accounts will be maintained for all program components financed by ADB and the Government, and to be audited by an independent auditor.
 - (v) Program staff and consultants will be adequately trained to support and oversee subproject financial management by community volunteers.
 - (vi) Community volunteers will be adequately trained to be able to perform basic project level financial management. Accounting duties will be rotated where feasible.
 - (vii) Community accountability meetings will be held and accounting records will be displayed publicly to ensure that communities exercise oversight of use of subproject funds.
 - (viii) Regular backups of all accounting systems and appropriate security measures over backed-up data will be put in place.
 - (ix) Quarterly and annual progress reports on project implementation and operation will be prepared.
 - (x) Annual project accounts and underlying working papers will be prepared on a timely basis in preparation for the annual financial statement audit.
 - (xi) Compliance with loan covenants will be monitored including submission of audited project accounts.
 - (xii) Prompt reporting to stakeholders after the period-end.

IV. EXECUTING AGENCY

44. DSWD has built a reputation as a highly competent and well-governed agency. In recent years, DSWD has gained extensive experience in implementing and successfully managing large-scale foreign assisted programs including the Social Protection Support Program (ADB and WB supported) and KALAHÍ-CIDSS (WB supported). The Millennium Challenge Corporation (MCC) and the Spanish Agency for International Development Cooperation (AECID) are financing KALAHÍ-CIDSS, in addition to WB. DSWD also manages the Technical Assistance Facility funded by the Government of Australia. The WB has found DSWD's systems for procurement of goods and services, including community-level procurement, to be in line with its procurement policies and procedures. DBM recently cited DSWD as the "Most Improved Department" among the Account Management Team – guided departments in terms of disbursement performance in 2012.²⁰ In summary, DSWD has proven itself as a capable, reliable, honest, and cost efficient agency to implement KC-NCDDP.

45. In order to improve operational efficiency as the project scales up, DSWD will decentralize fund management from the national to the regional level. The national financial management team will ensure the continuation of fiduciary control by focusing on compliance, quality of process, capacity building and ongoing program development. DSWD is recruiting and training additional financial management staff to meet the needs of NCDDP.

46. Overall, DSWD's financial management arrangements meet ADB requirements described under *OM Section G2/BP*, whereby the executing agency is required to adopt sound accounting policies, adequate accounting records, proper internal control systems, timely reporting to management, and sound and timely auditing practices.

A. Staffing

47. Project financial management is mainstreamed within DSWD finance units. The Finance Service and its Accounting and Budget Divisions shall undertake day-to-day financial management tasks. The national program management office (NPMO) will lead in project financial management. The National Finance Director, assisted by a team of accountants, budget officers and bookkeepers, will continue to oversee the financial operations and report to the Undersecretary for Finance.

48. At the regional levels, the Finance and Administration Divisions shall manage the finances of the KC-NCDDP. They will be assisted by a team of program-hired accountants and bookkeepers to cope with the increased transactions. Regional offices have prepared recruitment and training plans in order to ensure that this is achieved in time for the first cycle of community block grants to be disbursed under the project.

49. In each municipality, roving bookkeepers will be deployed to assist communities in subproject financial management. In a post-disaster context additional staff will be trained and deployed to ensure adequate oversight and community support.

50. At the barangay level, community volunteers will perform financial management of subproject finances including withdrawing cash from the community bank account, handling cash, recording and reporting disbursements, and ensuring that adequate transparency and

²⁰ DSWD. 2013. DBM cites DSWD as the "Most Improved Department." Accessible at: <http://www.dswd.gov.ph/2013/02/dbm-cites-dswd-as-the-most-improved-department>.

accountability is performed at barangay level through community meetings and by publishing accounts on community information boards.

B. Accounting Policies and Procedures

51. As required by ADB's Guidelines for the *Financial Management and Analysis of Projects* (footnote 1), appropriate International Financial Reporting Standards will be applied for project reporting.

C. Internal Audit

52. Internal Audit Service (IAS) of DSWD carries out an annual audit focusing on internal project management controls. In addition they are responsible to investigate any complaints or grievances that arise. These reports will be available to ADB missions. The Department of Budget and Management has issued a circular that adopts international internal audit standards and guides the IAS of DSWD.

D. External Audit

53. COA performs regular transactions based audits on DSWD. COA staff members are assigned to attend the regional DSWD offices to perform ex-post audits of the prior month's transactions. Since 2003 COA audit reports have been used to assist some DSWD field offices in meeting required standards of financial management.

54. DSWD has communicated with COA to ensure that under NCDDP an adequate sample size is audited annually. Under NCDDP, DSWD will cause the detailed consolidated project accounts to be audited in accordance with International Standards on Auditing and/or in accordance with the government's audit regulations by an auditor acceptable to ADB. The audit will be funded through Government of the Philippines budget allocations for COA. The audited accounts will be submitted in the English language to ADB within 6 months at the end of the fiscal year by the DSWD. The annual audit report and management letter, will include a separate audit opinion on the use of the ADB loan proceeds, including operation of Imprest Fund, SOE procedures, financial statements (and associated notes) and compliance with financial covenants under the ADB loan. The Government and DSWD have been made aware of ADB's policy on delayed submission, and the requirements for satisfactory and acceptable quality of the audited accounts. ADB reserves the right to verify the project's financial accounts to confirm that the share of ADB's financing is used in accordance with ADB's policies and procedures. ADB's disclosure requirements under Public Communications Policy (PCP) 2011 require that Audited Project Accounts are submitted to ADB by the borrower as sovereign projects will now be posted on the ADB website.

Table 4: Required audit reports and submission dates

Audit Report.	Due Date
Audited Financial Statements for period ended 31–12–13	30 June 2014
Audited Financial Statements for period ended 31–12–14	30 June 2015
Audited Financial Statements for period ended 31–12–15	30 June 2016
Audited Financial Statements for period ended 31–12–16	30 June 2017
Audited Financial Statements for period ended 31–12–17	30 June 2018
Audited Financial Statements for period ended 31–12–18	30 June 2019

Source: Asian Development Bank.

E. Financial Reporting and Monitoring

55. Disbursements will be consolidated in and reported from the financial management system at least on a monthly basis. DSWD will share its internal financial management reports with ADB missions upon request.

56. The ADB loan Imprest Account will be replenished, at minimum, on a quarterly basis, based on standard ADB disbursements reports and bank reconciliation.

57. The DSWD will submit audited accounts to ADB within 6 months of the end of the fiscal year.

F. Information Systems

58. In response to a request from DSWD, ADB has agreed to support the design and implementation of an electronic Financial Management System²¹ to handle all financial transactions under NCDDP.

59. The system will facilitate the timely capture of subproject financial commitments and disbursements, providing a full audit trail. Robust systems security will ensure only authorized approval for withdrawals. Key features will include:

- (i) Verification of data input and approval at pre-determined authority levels;
- (ii) Service levels built in to drive timely approval and disbursements;
- (iii) Automation of data aggregation and reporting from municipality to province to region to national;
- (iv) Automated transmission from provincial to regional and national levels;
- (v) RFRs for individual tranches (both planned and disbursed) are matched against source of funding.
- (vi) System scalable as project size increases;
- (vii) Supports Imprest Account replenishment applications including preparing SOEs; and
- (viii) Full audit trail established.

60. The current practice of the Conditional Cash Transfer Program, also supported by ADB, will be reviewed to feed lessons on data transfers and their protocols. Virtual private networks may be explored to allow for secure transmissions.

²¹ Financial Management technical expertise is being provided by ADB under TA-8319 PHI: Support for National Community-Driven Development Program. It is expected that improved NCDDP Financial Management System will be in operation at national, regional and municipal levels by 31 December 2013.

61. The system will be rolled out across 15 regions and 900 municipal sites. Users will receive formal training prior to roll-out. National and regional level financial management staff will provide user support and perform regular oversight.

G. Procurement Arrangements

62. ADB funds will largely finance block grants to communities. These will be implemented according to KC-NCDDP's Community-Based Procurement Manual (CBPM)²². ADB funds will also finance training programs, goods and other services that may require the hiring of firms and consultants.

63. DSWD has established a separate Bids and Awards Committee (BAC) in order to ensure compliance with procurement requirements of foreign-assisted projects. Adequate staff capacity exists and systems are in place to ensure that procurement activities will be undertaken in accordance with ADB policies and guidelines.

64. Within two months from the date of loan effectiveness, DSWD will incorporate information on the project in its website, including general information, public procurement, progress and contact details in English and Filipino. The website shall also provide a link to the ADB's Integrity Unit (<http://www.adb.org/Integrity/complaint.asp>) for reporting to ADB any grievances or allegations of corrupt activities. For each contract, the website shall include information on, among others, the list of participating bidders, name of the winning bidder, basic details on bidding procedures adopted, amount of contract award, and the list of goods/services including consulting services procured.

V. FUNDS FLOW

A. Disbursement Arrangements

65. ADB loan proceeds will be disbursed in accordance with ADB's *Loan Disbursement Handbook* (2012, as amended from time to time),²³ and detailed arrangements agreed upon between the Government and ADB. Figure 1 presents the overall funds flow arrangement of ADB's loan proceeds. Detailed discussions on the disbursement of loan funds are found in the Project Finance Management and Community Financial Management manuals.

66. Pursuant to ADB's *Safeguard Policy Statement* (SPS 2009),²⁴ ADB funds may not be applied to the activities described on the ADB Prohibited Investment Activities List set forth in Appendix 5 of the SPS.

67. **Imprest Account.** At the national level, DSWD, in coordination with the Bureau of Treasury (BTr), will open an Imprest Account in US dollars designated for the exclusive use of the project and only for ADB's share of expenditures. Before the submission of the first withdrawal application, the DSWD should submit to ADB sufficient evidence of the authority of the person(s) who will sign the withdrawal applications on behalf of the borrower, together with the authenticated specimen signatures of each authorized person.

²² Refer to Project Administration Manual, Section VI.

²³ Available at: <http://www.adb.org/sites/default/files/loan-disbursement-handbook.pdf>.

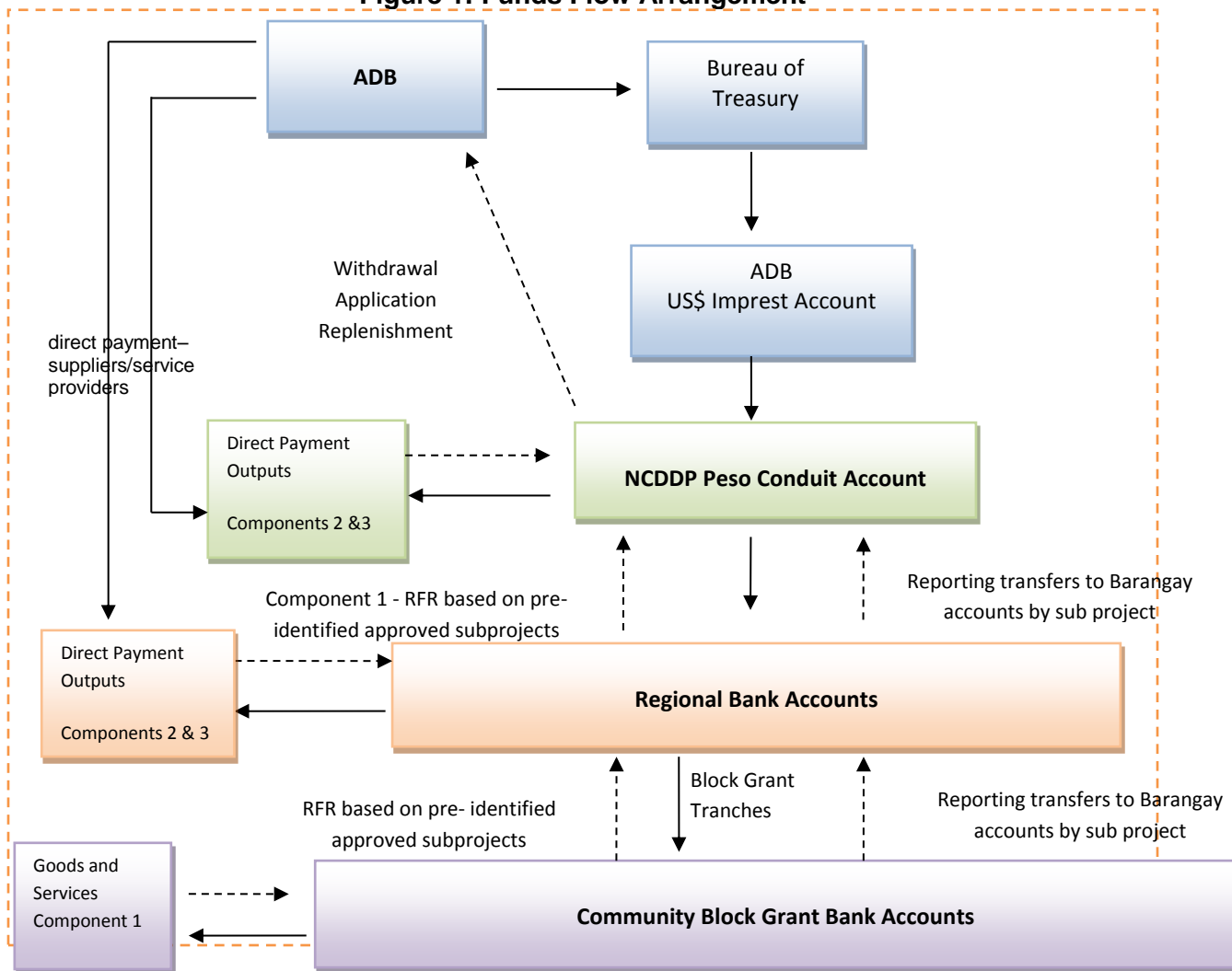
²⁴ Available at: <http://www.adb.org/sites/default/files/pub/2009/Safeguard-Policy-Statement-June2009.pdf>.

68. Unless otherwise agreed, the Imprest Account's maximum ceiling will not exceed the estimated ADB-financed expenditures to be paid from the Imprest Account for the subsequent six months, or 10% of the loan amount, whichever is lower.

69. DSWD will be responsible for (i) preparing disbursement projections; (ii) ensuring supporting documentation is held on file for audit and review purposes; and (iii) preparing documentation for reimbursement of the Imprest Account including withdrawal applications, bank statements and bank account reconciliation statements.

70. **Initial Loan Withdrawal Application.** For the initial advance, a withdrawal application, supported by a projection of ADB's share of eligible project expenditure for the forthcoming six months will be submitted by the DSWD-NCDDP NPMO. ADB will advance funds to the account of BTr with the *Bangko Sentral ng Pilipinas* (BSP) for transfer to the ADB US dollar Imprest Account maintained at the Land Bank of the Philippines, upon DBM's issuance of the Notice of Cash Allocation (NCA).

71. **Conduit Bank Account.** To facilitate payment for outputs 1, 2 and 3 of KC-NCDDP, DSWD will open and manage a peso current account at the national level as conduit for funds to be disbursed from the US dollar Imprest Account to the regional bank accounts. The peso conduit bank account will be designated for the exclusive use of the project and only for ADB's share of expenditures. The effect of any foreign exchange gains or losses in the operation of the peso conduit account will be borne by the government. Figure 1 (Appendix 2) shows the overall project funds flow for both ADB and GOP resources.

Figure 1: Funds Flow Arrangement

ADB = Asian Development Fund, NCDDP = National Community-Driven Development Program, RFR = request for fund release.

Legend:

RFR = request for fund release.

→ = funds flow

--▶ = documents flow

Source: Asian Development Bank.

72. **Regional Bank Accounts.** Peso bank accounts will be opened by each RPMO, to be operated according to the Project Financial Management Manual. The regional peso bank accounts will be designated for the exclusive use of the project and only for ADB's share of expenditures. The bank account will receive and disburse community planning and subproject block grants to community bank accounts at Land Bank under component 1; funds under components 2 (CBIS) and funds under component 3 (Project Management and M&E). In accordance with the Project Financial Management Manual, funds under component 1 for block grants will be transferred to community bank accounts in tranches, while funds under

components 2 and 3 will be withdrawn and expended according to the approved regional budget.

73. Figures 2 and 3 (Appendix 2) illustrate the block grants funding arrangements and the transfer of funds to the field offices. Investment block grants under Component 1 will only be disbursed according to a list of pre-identified community subprojects to be financed 100% by loan proceeds from ADB. Based on the results of the municipal inter-barangay forum (MIBF), the RPMO will submit subproject implementation (SPI) work plans to the NPMO for an advance of funds for block grants and other costs. The SPI will include a list of identified subprojects with the total amount requested for each subproject and the amounts and timing of planned tranches. At the national level, all approved subprojects will be allocated a specific identifier number. The subproject identifier number will be used as the transaction reference throughout the disbursement and reporting process. Following approval of the SPI work plans, and based on the cash flow indicated under the SPI work plan, the NPMO issues a sub-allotment advice (SAA) and prepares disbursements vouchers (DV) to disburse the amount requested from the US Dollar Imprest Account, through the DSWD pesos conduit account, to the regional project bank account.

74. **Community Bank Accounts.** Under the authority of Municipal and Barangay Council special resolutions, community bank accounts will be opened at the Land Bank for block grant funds under Component 1. These funds will be withdrawn and disbursed according to the Project Community Financial Management Manual, which is currently being reviewed and updated to align with ADB policies and procedures. The RPMO receives RFRs for each subproject tranche from the ACTs, through the subregional offices. Upon approval of the RFR, following the prescribed approval process, disbursement vouchers are prepared and the funds are disbursed to barangay community subproject accounts. Communities withdraw and utilize funds for subprojects, according to their approved project plan and following the project community finance and procurement manuals. Figure 4 (Appendix 2) shows the process of RFR review, approval and subsequent transfer of funds from the RPMO to the communities.

75. **Liquidation of Advances and Replenishment of Imprest Account.** The Imprest Account will be liquidated and replenished at least on a quarterly basis. However, there will be periods where more frequent liquidations and replenishments will be required. For every liquidation and replenishment of the Imprest Account, DSWD will submit to ADB a documentation in accordance with ADB's *Loan Disbursement Handbook* (2012, as amended from time to time) to include Withdrawal Application (Appendix 10A)²⁵ and Summary Sheet (Appendix 7B)²⁶ if full documentation is required, or SOE (Appendixes 9B and 9C)²⁷ if SOE procedure, bank statement where the Imprest Account is maintained and Bank Account Reconciliation Statement (IARS) (Appendix 10C).²⁸

76. If the requested level of advance is larger than appropriate level of advance (items 7 and 8 of Appendix 10C) (footnote 23) or additional advances are required for project activities, DSWD should submit the estimate of expenditures (Section 10.14 and Appendix 10B)²⁹ to ADB's Human and Social Development Division, Southeast Asia Department, which will review and endorse it to the Controller's Department. If justified, replenishment and/or additional advance may be provided. Figure 5 (Appendix 2) shows the Imprest Account Replenishment

²⁵ Footnote 23, pp. 99–100.

²⁶ Footnote 23, p. 78.

²⁷ Footnote 23, pp. 96–97.

²⁸ Footnote 23, p. 102.

²⁹ Footnote 23, pp. 33,101.

Process. Under KALAHI–CIDSS, the replenishment process has taken an average of 6 weeks to complete.

77. **Withdrawal Applications.** The minimum value per withdrawal application is \$100,000, unless otherwise approved by ADB. DSWD is to consolidate claims to meet this limit for reimbursement and Imprest Account claims. Withdrawal applications and supporting documents will demonstrate, among other things that the goods and/or services were produced in or from ADB members, and are eligible for ADB financing.

78. SOE procedure will be used for reimbursement and liquidation and replenishment of Imprest Account. The maximum ceiling of \$100,000 per payment will apply. SOE records should be maintained and made readily available for review by ADB's disbursement and review mission or upon ADB's request for submission of supporting documents on a sampling basis, and for independent audit.

79. At the regional level, the RPMO will consolidate disbursements and submit SOEs to the NPMO based on funds disbursed at least on a monthly basis. The NPMO will consolidate the SOEs for submission to ADB for replenishment to the Imprest Account. SOEs will utilize the same subproject identifier numbers that triggered the corresponding prior withdrawal from the Imprest Account.

80. Government funds shall be disbursed in accordance with the Philippine budgetary system and the New Government Accounting System (NGAS). All GOP disbursements shall be covered by allotments and NCA issued by DBM, and shall be always subject to existing budgetary, accounting and auditing rules and regulations.

B. Agreed Action Plan

81. The following action plan (Table 5) has been agreed upon with the DSWD and will be carried out in the course of the project implementation:

Table 5: Action Plan

Agreed Action	Responsible Person	Agreed Completion Date
Recruitment and training of adequate numbers of staff and consultants	Program Director, Department of Social Welfare and Development	3 rd quarter, 2013 – National and Regional 1 st quarter, 2014 – Municipal
Project Finance Manuals updated	Program Director, Department of Social Welfare and Development	4 th quarter, 2013
Implementation of Financial Management System	Program Finance Director	4 th quarter, 2013

Source: Asian Development Bank.

C. Conditions

82. Given the level of fiduciary control, no conditions are recommended.

D. Financial Covenants

83. The following issues should be covenanted in the Loan Agreement.

- (i) The government should cause independent annual audit to take place.
- (ii) Adequate consultants to implement the project as per the Project Administration Manual.
- (iii) Funds provided by ADB pass through separate bank accounts to funds provided from other sources and separate financial records maintained.

E. Supervision Plan

84. ADB will field financial management missions at least annually. CDD financial management specialists will support ADB mission staff in assessing the adequacy of implementation of project financial management arrangements and management controls at national, regional, municipal and subproject levels. Observations and recommendations will be formally communicated to DSWD and an action plan for implementation of recommendations will be agreed to.

85. Observations on financial management will form part of more regular field missions undertaken throughout the year. ADB controllers may from time to time perform a review of disbursement documentation held on file by DSWD.

APPENDIX 1: FINANCIAL MANAGEMENT ASSESSMENT QUESTIONNAIRE

Project: KALAHI–CIDSS National Community-Driven Development Project

1. This Financial Management Assessment Questionnaire (FMAQ) has been completed for the proposed KALAHI–CIDSS National Community-Driven Development Project (KC-NCDDP) in accordance with the publications *Financial Management and Analysis of Projects* (ADB, 2005)¹ and *Financial Due Diligence, A Methodology Note* (ADB, 2009).²

Questionnaire

Topic	Response	Remarks
1. Executing Agency	DSWD	
1.1 What is the entity's legal status/ registration?	The DSWD was created under the Administrative Code, amended under the Revised Administrative Code of 1990. Subsequent Executive Orders and issuances strengthened the mandate of DSWD and defined its relations with local government units.	
1.2 Has the entity implemented an externally-financed project in the past (if so, please provide details)?	Yes, DSWD has implemented several externally funded projects, the most recent of which are the WB- ADB funded CCT-SPSP, 2010 and the Early Childhood Development Project. The MCC and the AECID also provided support to KALAHI–CIDSS. DSWD also manages the Technical Assistance Facility funded by the Government of Australia.	
1.3 What are the statutory reporting requirements for the entity?	DSWD is a cabinet level agency and reports to the President of the Republic of the Philippines.	
1.4 Is the governing body for the <u>project</u> independent?	A PSC will oversee the investment program implementation, and monitor progress, approve reports for subsequent projects and provide guidance to the EA.	The governing body for the project is not independent.
1.5 Is the organizational structure appropriate for the needs of the <u>project</u> ?	Yes	Additional staff and decentralization of authorities are being undertaken by DSWD for the project.
2. Funds Flow Arrangements		
2.1 Describe (proposed) project funds flow arrangements, including a chart and explanation of the flow	Description in the main body of the FMA, with the charts.	

¹ Accessible at: <http://www.adb.org/sites/default/files/pub/2005/financial-governance-management.pdf>. Refer to page 15 of Knowledge Management Addendum.

² Accessible at: <http://www.adb.org/sites/default/files/financial-due-diligence.pdf>. Refer to page 4.

Topic	Response	Remarks
of funds from ADB, government and other financiers.		
2.2 Are the (proposed) arrangements to transfer the proceeds of the loan (from the government / Finance Ministry) to the entity satisfactory?	Yes	
2.3 What have been the major problems in the past in receipt of funds by the entity?	None identified.	
2.4 In which bank will the Imprest Account be opened?	LBP	LBP is a government financial institution.
2.5 Does the (proposed) PIU have experience in the management of disbursements from ADB?	Yes	
2.7 Does the entity have/need a capacity to manage foreign exchange risks?	No. Management of foreign exchange risks will be undertaken by the Department of Finance, as is the case for all foreign denominated loans.	
2.8 How are the counterpart funds accessed?	<p>Counterpart contributions come from 3 sources: national government, local government units and communities.</p> <p>The government will provide counterpart financing of 44% including taxes, duties and financing charges. The government will allocate the counterpart funds mainly to cover a share of the community block grants, capacity building, and administrative costs. The Bureau of Treasury, upon approval by the DBM, will transfer national counterpart financing to DSWD, which shall then be disbursed according to cost components of the proposed project. Funds are released to DSWD based on the approved budget and cash flow projections on a quarterly basis. LGUs provide counterpart resources, in kind and cash, to augment subproject requirements, based on the approved budget of LGUs and the need of communities. Communities provide counterpart contributions in cash and kind, as part of the criteria for subproject prioritization and approval. In-kind contribution will be valued and reported to the project management. Cash contributions from both the LGUs, communities and any other source, will be comingled with community funds for subprojects.</p>	

Topic	Response	Remarks
2.9 How are payments made from the counterpart funds?	Regular disbursement procedures under the National Procurement Law, rules of the DBM and the Commission on Audit will be followed.	.
3. Staffing		
3.1 What is the (proposed) organizational structure of the accounting department? Attach an organization chart.	The DSWD Undersecretary for finance exercises oversight over financial management. The Undersecretary oversees the Finance Service with two divisions (Accounting and Budget), all fully staffed with competent personnel. Assisting the Finance Service are program consultants and contracted accountants, analysts, clerks and bookkeepers under the finance unit of the NPMO (see figure 1 of the PAM). The Finance unit of the NPMO is staffed by 23 personnel reporting to the National Finance Analyst.	
3.2 Identify the (proposed) accounts staff, including job title, responsibilities, educational background and professional experience. Attach job descriptions and CVs of key accounting staff.	See above	CVs to be requested from EA
3.3 Is the <u>project</u> finance and accounting function staffed adequately?	Yes – additional staff will be hired and properly trained.	
3.4 Is the finance and accounts staff adequately qualified and experienced?	Yes	
3.5 Is the <u>project</u> accounts and finance staff trained in ADB procedures?	Yes	DSWD is currently implementing a \$400M loan on CCT-SPSP and the same units and staff will manage the financial management of the proposed project
3.6 What is the duration of the contract with the finance and accounts staff?	Annual contracts for the program-hired consultants and accountants. Open-ended, permanent staff members manage the Finance Service of DSWD.	
3.7 Indicate key positions not contracted yet, and the estimated date of appointment.	Regional Finance Specialists for the 15 regions, to be hired as the roll-out in the regions are done. Accountants and clerks to be hired as the roll-out is scheduled to occur. Municipal Roving Bookkeepers for the target municipalities, to be hired 6 months prior to project launch in the municipalities.	

Topic	Response	Remarks
3.10 Does the <u>project</u> have written position descriptions that clearly define duties, responsibilities, lines of supervision, and limits of authority for all of the officers, managers, and staff?	Yes, under specific TORs for program-hired staff and under the regular Position Description Sheet (PDS) of the HR Department of DSWD.	
3.11 At what frequency are personnel transferred?	There is no policy on personnel transfer.	
3.12 What is training policy for the finance and accounting staff?	Regular training provided by the Human Resource Department. Specialized training on project financial management and procurement provided by the KC-NCDDP at least annually to all new staff, with refresher or coaching as the need arises.	
4. Accounting Policies and Procedures		
4.1 Does the entity have an accounting system that allows for the proper recording of project financial transactions, including the allocation of expenditures in accordance with the respective components, disbursement categories, and sources of funds? Will the project use the entity accounting system?	Yes	
4.2 Are controls in place concerning the preparation and approval of transactions, ensuring that all transactions are correctly made and adequately explained?	Yes	
4.3 Is the chart of accounts adequate to properly account for and report on project activities and disbursement categories?	Yes	
4.4 Are cost allocations to the various funding sources made accurately and in accordance with established agreements?	Yes	
4.5 Are the General Ledger and subsidiary ledgers reconciled and in balance?	Yes	
4.6 Are all accounting and supporting documents retained on a permanent basis in a defined system that allows authorized users easy access?	Yes. Maintained for at last 5 years from date of transaction as per COA regulations	
<i>Segregation of Duties</i>		

Topic	Response	Remarks
4.7 Are the following functional responsibilities performed by different units or persons: (i) authorization to execute a transaction; (ii) recording of the transaction; and (iii) custody of assets involved in the transaction?	Yes	
4.8 Are the functions of ordering, receiving, accounting for, and paying for goods and services appropriately segregated?	Yes	
4.9 Are bank reconciliations prepared by someone other than those who make or approve payments?	Yes	
<i>Budgeting System</i>		
4.10 Do budgets include physical and financial targets?	Yes	
4.11 Are budgets prepared for all significant activities in sufficient detail to provide a meaningful tool with which to monitor subsequent performance?	Yes	
4.12 Are actual expenditures compared to the budget with reasonable frequency, and explanations required for significant variations from the budget?	Yes	
4.13 Are approvals for variations from the budget required in advance or after the fact?	Required in advance	
4.14 Who is responsible for preparation and approval of budgets?	Preparation is done by the project financial specialists, reviewed by the Director for Finance and the Project Manager and approved by the Project Director and the Undersecretary for Finance.	
4.15 Are procedures in place to plan <u>project</u> activities, collect information from the units in charge of the different components, and prepare the budgets?	Yes	
4.16 Are the <u>project</u> plans and budgets of project activities realistic, based on valid assumptions, and developed by knowledgeable individuals?	Yes	

Topic	Response	Remarks
<i>Payments</i>		
4.17 Do invoice-processing procedures provide for (i) copies of purchase orders and receiving reports to be obtained directly from issuing departments? (ii) comparison of invoice quantities, prices and terms, with those indicated on the purchase order and with records of goods actually received? (iii) comparison of invoice quantities with those indicated on the receiving reports? (iv) checking the accuracy of calculations?	Yes	
4.18 Are all invoices stamped PAID, dated, reviewed and approved, and clearly marked for account code assignment?	Yes, standard invoice processing procedures are followed.	
4.19 Do controls exist for the preparation of the payroll and are changes to the payroll properly authorized?	Yes	
<i>Policies And Procedures</i>		
4.20 What is the basis of accounting (e.g., cash, accrual)?	Cash	
4.21 What accounting standards are followed?	Internationally accepted accounting procedures are followed, contained in the government's accounting rules issued by DBM and approved by COA.	
4.22 Does the <u>project</u> have an adequate policies and procedures manual to guide activities and ensure staff accountability?	Yes	
4.23 Is the accounting policy and procedure manual updated for the <u>project</u> activities?	Yes	
4.24 Do procedures exist to ensure that only authorized persons can alter or establish a new accounting principle, policy or procedure to be used by the entity?	Yes	
4.25 Are there written policies and procedures covering all routine financial management and related administrative activities?	Yes. Finance manuals are prepared to guide the project.	
4.26 Do policies and procedures clearly define conflict of interest and related party transactions (real and	Yes, as contained in the Code of Ethical Standards for Pubic Officials and Civil Service	

Topic	Response	Remarks
apparent) and provide safeguards to protect the organization from them?	Guidelines.	
4.27 Are manuals distributed to appropriate personnel?	Yes	
<i>Cash and Bank</i>		
4.28 Indicate names and positions of authorized signatories in the bank accounts.	Two signatories are required from amongst the Secretary, Undersecretary, Assistant Secretary and Finance Director. The levels of authorities as to amounts are defined by surety bonds submitted by the public officials to answer for any misallocation, as well as defined in memorandum circulars of the agency. For regional accounts, the circulars will be reviewed and revised to authorize Regional Directors and Asst. Directors and increase surety bond requirements, if necessary.	
4.29 Does the organization maintain an adequate, up-to-date cashbook, recording receipts and payments?	Yes	
4.30 Do controls exist for the collection, timely deposit and recording of receipts at each collection location?	No collections applicable under the project.	
4.31 Are bank and cash reconciled on a monthly basis?	Yes	
4.32 Are all unusual items on the bank reconciliation reviewed and approved by a responsible official?	Yes	
4.33 Are all receipts deposited on a timely basis?	Standard cash and bank controls are followed.	
<i>Safeguard over Assets</i>		
4.34 Is there a system of adequate safeguards to protect assets from fraud, waste and abuse?	Yes	
4.35 Are subsidiary records of fixed assets and stocks kept up to date and reconciled with control accounts?	Standard asset control procedures are followed.	
4.36 Are there periodic physical inventories of fixed assets and stocks?	Standard asset control procedures are followed.	
4.37 Are assets sufficiently covered by insurance policies?	Not all. The Government service Insurance System (GSIS) insures most assets but not all are covered.	To be verified with EA

Topic	Response	Remarks
<i>Other Offices and Implementing Entities</i>		
4.38 Are there any other regional offices or executing entities participating in implementation?	Yes	
4.39 Has the project established controls and procedures for flow of funds, financial information, accountability, and audits in relation to the other offices or entities?	Yes	Refinements to existing guidelines are on-going, in view of the decentralization of grant funds for subprojects
4.40 Does information among the different offices/implementing agencies flow in an accurate and timely fashion?	Yes	
4.41 Are periodic reconciliations performed among the different offices/implementing agencies?	Yes	
<i>Other</i>		
4.42 Has the project advised employees, beneficiaries and other recipients to whom to report if they suspect fraud, waste or misuse of project resources or property?	Yes	
5. Internal Audit		
5.1 Is there an internal audit department in the entity?	Yes	
5.2 What are the qualifications and experience of audit department staff?	Management, Accounting and Social Welfare and development degrees, at minimum.	
5.3 To whom does the internal auditor report?	To the Secretary / head of agency	
5.4 Will the internal audit department include the project in its work program?	Yes	Staffing and budget needs being assessed further
5.5 Are actions taken on the internal audit findings?	Yes	
6. External Audit		
6.1 Is the <u>program/project</u> financial statement audited regularly by an independent auditor? Who is the auditor?	The constitutionally independent audit office – COA performs the external audit regularly.	
6.2 Are there any delays in audit	No, but reports are sometimes delayed.	

Topic	Response	Remarks
of the entity? When are the audit reports issued?		
6.3 Is the audit of the entity conducted according to the International Standards on Auditing?	Yes	
6.4 Were there any major accountability issues brought out in the audit report of the past three years?	None reported	
6.5 Are there any recommendations made by the auditors in prior audit reports or management letters that have not yet been implemented?	Some are still ongoing implementation, particularly the liquidation of advances that require voluminous documentation	
6.6 Is the <u>project</u> subject to any kind of audit from an independent governmental entity (e.g., the supreme audit institution) in addition to the external audit?	No	
6.7 Has the <u>project</u> prepared acceptable terms of reference for an annual project audit?	No, the COA regular audit will be used.	Discussions are being held with COA to expand the coverage of the audit
7. Reporting and Monitoring		
7.1 Are financial statements prepared for the <u>entity</u> ? In accordance with which accounting standards?	Annual financial statements are prepared in accordance with standards issued by the Department of Budget and Management and internationally recognized standards.	
7.2 Are financial statements prepared for the <u>program/project</u> ?	No, not as yet.	Project not yet effective
7.3 What is the frequency of preparation of financial statements? Are the reports prepared in a timely fashion so as to useful to management for decision making?	Monthly financial information is presented to Project Management. Quarterly reports are to be submitted to ADB. Annual reports to be submitted to DBM, COA and ADB as well. More information in the FMA main document	
7.4 Does the reporting system need to be adapted to report on the project components?	No	
7.5 Does the reporting system have the capacity to link the financial information with the project's physical progress? If separate systems are used to gather and compile physical data, what controls	Yes. Community reports cover both financial and physical.	

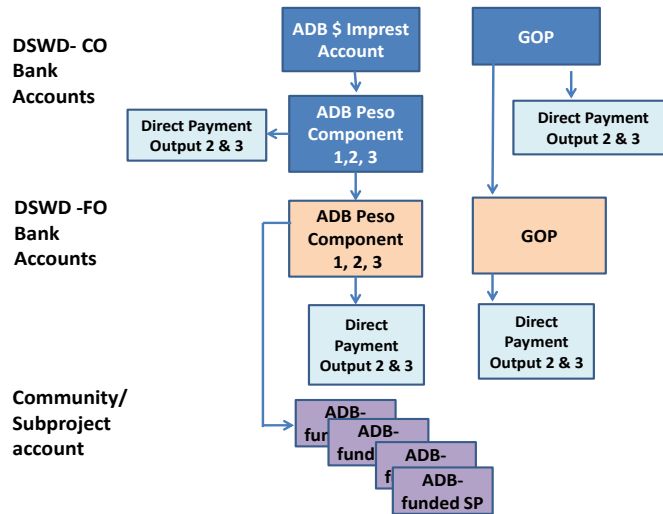
Topic	Response	Remarks
are in place to reduce the risk that the physical data may not synchronize with the financial data?		
7.6 Does the <u>project</u> have established financial management reporting responsibilities that specify what reports are to be prepared, what they are to contain, and how they are to be used?	Yes, contained in Project Financial Management Manuals	
7.7 Are financial management reports used by management?	Yes	
7.8 Do the financial reports compare actual expenditures with budgeted and programmed allocations?	Yes	
7.9 Are financial reports prepared directly by the automated accounting system or are they prepared by spreadsheets or some other means?	Mixed. DSWD is currently automating all transactions. As a back-up, it maintains spread sheets.	
8. Information Systems		
8.1 Is the financial management system computerized?	Yes. For the program, additional refinement will be necessary.	
8.2 Can the system produce the necessary project financial reports?	Yes but with some manual entries for new program sites.	
8.3 Is the staff adequately trained to maintain the system?	System upgrades and maintenance and training of staff are to be undertaken under the program	
8.4 Does the management organization and processing system safeguard the confidentiality, integrity and availability of the data?	Yes	

ADB = Asian Development Bank, AECID = Spanish Agency for International Development Cooperation, CCT = conditional cash transfer, COA = Commission on Audit, CV = curriculum vitae, DBM = Department of Budget and Management, DSWD = Department of Social Welfare and Development, EA = executing agency, FMA = financial management assessment, IA = Implementing Agency, KALAHI-CIDSS = *Kapit Bisig Laban sa Kahirapan*–Comprehensive and Integrated Delivery of Social Services, LBP = Land Bank of the Philippines, LGU = local government unit, MCC = Millennium Challenge Corporation, NPMO = national program management office, PAM = project administration manual, PIU = project implementation unit, PSC = program steering committee, SPSP = Social Protection Support Project, WB = World Bank.

Source: Asian Development Bank.

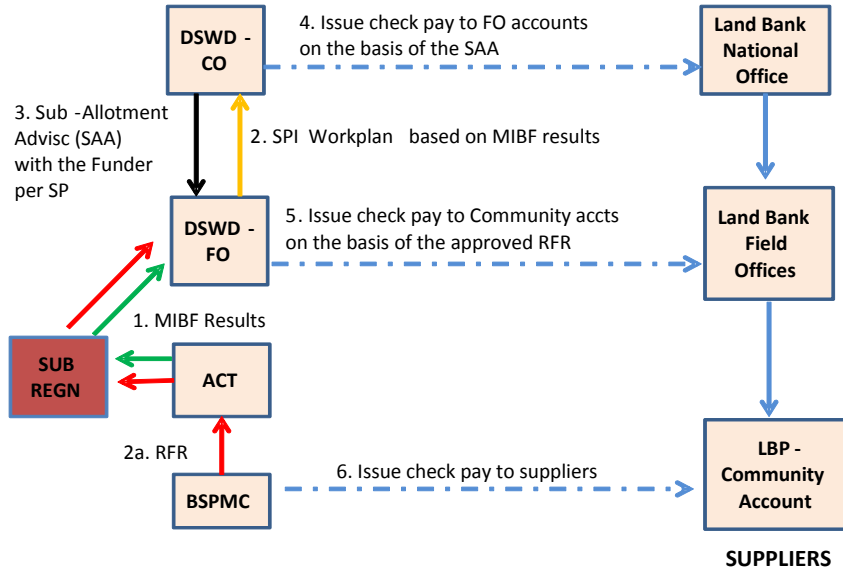
APPENDIX 2: FUNDS FLOW AND DISBURSEMENT ARRANGEMENTS

Figure 1: Overall Project Funds Flow



ADB = Asian Development Bank, CO = central office, FO = field office or regional office, DSWD = Department of Social Welfare and Development, GOP = Government of the Philippines, SP = subproject.
 Source: Asian Development Bank.

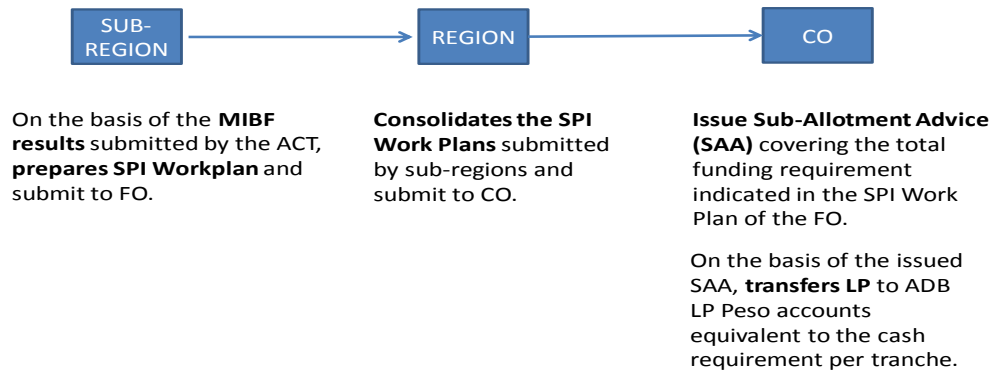
Figure 2: Component 1: Community Block Grants Funding Arrangements



Legend:
 ← Approved Subproject Plan submitted
 ↑ Subproject Implementation Work Plan submitted
 ↓ Sub-Allotment Advice (SAA) notified
 ↓ Funds transferred to fund SSA
 ↑ Request for fund release submitted
 Check issued

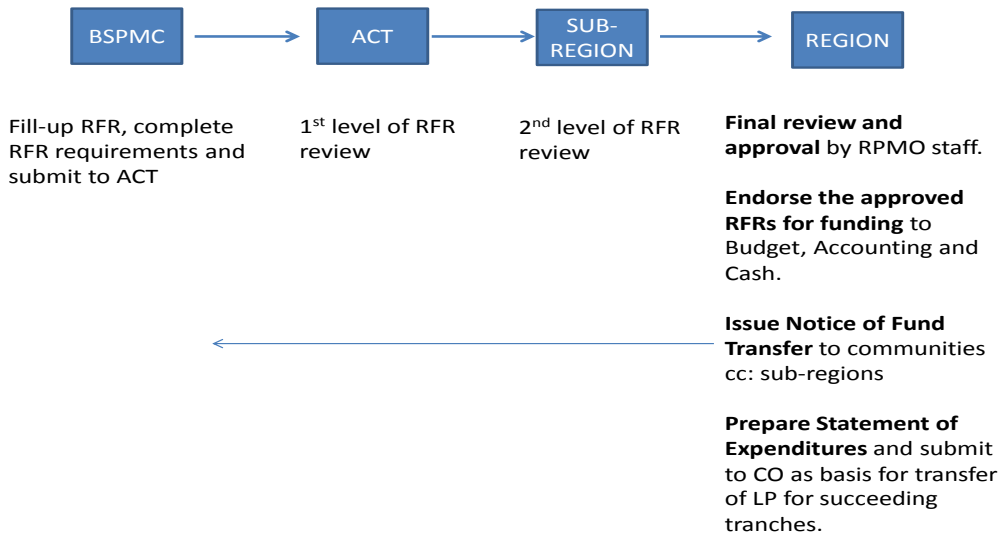
ACT = area coordinating team, ADB = Asian Development Bank, BSPMC = barangay subproject management committee, CO = central office, DSWD = Department of Social Welfare and Development, FO = field office or regional office, GOP = Government of the Philippines, LBP = Land Bank of the Philippines, RFR = request for funds release, SP = subproject, SSA = sub-allotment advice.
 Source: Asian Development Bank.

Figure 3: Transfer of Block Grants to the Field Office (RPMO)



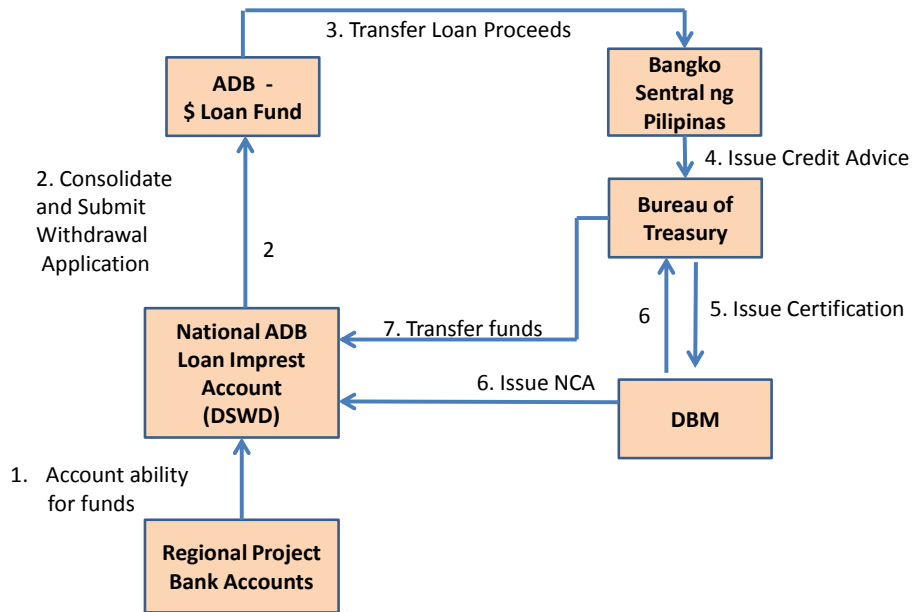
ACT = area coordinating team, CO = central office, FO = field office or regional office, LP = loan proceeds, MIBF = municipal inter-barangay forum, SOE = statement of expenditure, SSA = sub-allotment advice, SPI = subproject implementation.
 Source: Asian Development Bank.

Figure 4: Transfer of Block Grants from Field Office (RPMO) to Communities



ACT = area coordinating team, CO = central office, LP = loan proceeds, RPMO = regional program management office, RFR = request for funds release.
 Source: Asian Development Bank.

Figure 5: USD Imprest Account Replenishment Process



ADB = Asian Development Bank, DBM = Department of Budget and Management, DSWD = Department of Social Welfare and Development, NCA = Notice of Cash Allocation, SOE= statement of expenditures.