

## FINANCIAL MANAGEMENT ASSESSMENT

### EXECUTIVE SUMMARY

This report presents the results of the financial management assessment (FMA) of the Department of Health (DOH) as the executing agency and implementing agency of the proposed Health System Enhancement to Address and Limit COVID-19 (HEAL). It builds on the previous FMA of DOH conducted in 2018 for the Philippine emergency assistance for the reconstruction and recovery of Marawi.<sup>1</sup> The FMA for this project is further informed by updated data and information on financial management reforms as well as issues and challenges in DOH.

The FMA of DOH was conducted in accordance with the Asian Development Bank (ADB) Guidelines for the Financial Management and Analysis of Projects and the Financial Due Diligence: A Methodology Note (2015). The FMA evaluated the capacity of DOH, including funds-flow arrangements, staffing, accounting and financial reporting systems, financial information systems, and internal and external auditing arrangements. Based on the assessment, key financial management risks identified pertain to the absorptive capacity of DOH, inaccurate financial reporting, and unresolved prior-year audit observations by the Commission on Audit (COA).

The FMA concluded that the overall pre-mitigation financial management risk of DOH is substantial as indicated in Table 1 of Section V (Risk Analysis). The identified risks are expected to be moderate as a result of the proposed key mitigating measures outlined in Table 2 of Section IV, which include: (i) engagement of implementation consultants, including a financial management specialist and a procurement agent; (ii) identification of financial management focal persons in DOH; (iii) quarterly monitoring of HEAL; and (iv) establishment of financial management arrangement for HEAL and rolling it out through trainings and workshops.

### I. INTRODUCTION

1. The government of the Philippines has requested ADB to provide a loan of \$125 million to fight the outbreak of coronavirus disease (COVID-19) in the Philippines.
2. Following the World Health Organization Strategic Preparedness and Response Plan for COVID-19, the Philippines has established a whole-of-society coordination mechanism, involving all relevant government actors, private sector, and non-government organizations, including the Philippine Red Cross. The DOH Emergency Operating Center under the Secretary of Health is leading the national contingency planning process while the World Health Organization is assisting in development partner coordination in support of the national contingency plan implementation.
3. HEAL will have three outputs.
4. **Output 1: Disease surveillance and diagnostic capacity upgraded.** HEAL will (i) increase the testing capacity of at least 10 government molecular laboratories<sup>2</sup> by providing testing kits, chemicals, reagents, personal protective equipment, and consumables for COVID-19

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<sup>1</sup> The FMA of DOH was completed after project effectiveness and not yet disclosed. A copy is available upon request.

<sup>2</sup> The proposed DOH laboratories are Baguio General Hospital, Caraga Regional Hospital, Governor Celestino Gallares Medical Center, Ilocos Training & Regional Medical Center, Jose B. Lingad Memorial Regional Hospital, Lung Center of the Philippines, Northern Mindanao Medical Center, RITM, San Lazaro Hospital, Southern Philippines Medical Center, Vicente Sotto Memorial Medical Center, and West Visayas Medical Center.

testing, and patient transport vehicles to deliver specimens to molecular laboratories; (ii) build and equip two biosafety level (BSL)-2 laboratories, and upgrade equipment of one BSL-3 laboratory and nine other BSL-2 laboratories; (iii) install computed tomography scan machines in 33 hospitals to improve the clinical diagnosis of COVID-19 cases; and (iv) train laboratory technicians on the use of medical equipment and the management of test results data (disaggregated by sex, age, and pre-existing medical conditions) at supported laboratories.

5. **Output 2: Infection prevention and control measures expanded.** HEAL will provide personal protective equipment for frontline health workers and laboratory technicians to selected DOH hospitals, local government unit (LGU) hospitals, and national and local government isolation facilities. It will support the renovation and/or construction of negative pressure isolation wards in selected 12 DOH hospitals (including 7 hospitals supported under output 1).<sup>3</sup> These isolation wards will have equipment to monitor heart rate, blood pressure, respiratory rate, temperature, oxygen saturation level, and other vital signs, as well as hazardous waste treatment facilities. HEAL will also strengthen the infection prevention capacity of health workers in obstetrics, pediatric, and emergency departments through training and communication activities, with the aim of controlling vector transmission in maternal and child health service delivery during public health outbreaks.<sup>4</sup>

6. **Output 3: Treatment capacity of COVID-19 scaled up.** HEAL will provide 90 ventilators—and training for respiratory technicians and staff to operate them—to 70 DOH hospitals and 20 island LGU hospitals (including the hospitals under outputs 1 and 2). It will also provide the hospitals under outputs 1 and 2 with associated critical care equipment, including electrocardiography machines, defibrillators, and a critical care monitoring system. The HEAL will train technicians and other staff on operation and maintenance to ensure the sustainability of the ventilators and other critical care equipment. Through training, HEAL will also increase the capacity of healthcare workers in detecting and preventing domestic gender-based violence providing psycho-social support to patients and families, including pregnant and vulnerable women affected by COVID-19.

7. DOH will be the executing and implementing agency for the HEAL. Given the urgency of the required support and the government's constrained human resources, DOH has requested ADB's support in the urgent procurement of critical medical equipment and supplies and in the selection and mobilization of civil works contractors.

## II. COUNTRY AND SECTOR FINANCIAL MANAGEMENT ISSUES

8. The Risk Assessment and Risk Management Plan in ADB's Country Operations Business Plan 2014–2016 for the Philippines have identified public financial management (PFM)-related risks, which adversely affect transparency and accountability.<sup>5</sup> These include distortions in fund allocation, unpredictable funding for critical programs, low effectiveness of internal controls, weak internal audit, inadequate quality and timeliness of in-year budget reports and annual financial

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<sup>3</sup> The proposed hospitals are Bataan General Hospital, Davao Regional Medical Center, Dr. Paulino J. Garcia Memorial Research and Medical Center, Ilocos Training & Regional Medical Center, Jose B. Lingad Memorial Regional Hospital, Luis Hora Memorial Regional Hospital, Lung Center of the Philippines, Mariveles Mental Hospital, Northern Mindanao Medical Center, San Lazaro Hospital, Southern Philippines Medical Center, and Western Visayas Medical Center.

<sup>4</sup> The activities will be financed by the proposed HEAL as well as on-going technical assistance. ADB. 2019. *Regional Technical Assistance for the Support of Human and Social Development in Southeast Asia*. Manila; and ADB. 2018. *Technical Assistance to the Philippines for Strengthening Social Protection Reforms*. Manila.

<sup>5</sup> The last risk assessment was done in 2014–2016.

statements, lack of scrutiny of audit reports, and lack of capacity of civil society organizations make it difficult to make full use of transparency measures.

9. ADB's 2015 Governance Risk Assessment for the Philippines noted improvements in the PFM system, particularly in terms of comprehensiveness of information, fiscal risk oversight, annual budget process, and in-year reporting.

10. The 2016 Public Expenditure and Financial Accountability (PEFA) assessment showed performance improvements in eight indicators, compared to the 2010 ratings. In the 2016 PEFA performance assessment, the country obtained satisfactory ratings in 19 out of 31 indicators, particularly in the PFM pillars of transparency, policy-based budgeting, and asset and liability management. The PFM pillar of predictability and control in budget execution is evenly balanced in terms of satisfactory and unsatisfactory ratings. The remaining 3 PFM pillars - budget reliability, accounting and reporting, and external scrutiny were assessed as weak, in terms of the following aspects:

- (i) **Budget reliability.** The current lack of budget reliability does not ensure good fiscal discipline and constrains effective and timely provision of services. The lack of budget credibility can lead to funding shortfalls especially for priority expenditures. Improving budget outcomes would require an emphasis on both revenue and expenditure, which depends on prompt and focused financial reporting processes. A well-performing information system within a strong regulatory framework could help achieve this objective. The budget preparation arrangements need to be reviewed, integrating best practices, to improve budget planning.
- (ii) **Accounting and reporting.** Financial data integrity processes and in-year budget reporting require substantial improvement. Most financial reports are compiled using spreadsheets and prepared manually, without the necessary controls to ensure data integrity. The enhanced National Government Accounting System (eNGAS) has been rolled out to many agencies. The audit opinion in majority of individual agencies' financial statements are qualified. It may not be possible to ascertain the integrity and completeness of the overall financial data for the government. This has been a continuing significant weakness in the annual financial accountability framework. The current processes do not meet the PEFA higher-score requirements for bank reconciliations; advance account reconciliations; integrity of financial data, including adequacy of audit trails; timeliness and information quality of in-year budget execution reports; and reliability of departmental and government-wide annual financial reports prepared in accordance with accepted international accounting standards. The development of an integrated accounting and financial management system will enhance informed decision-making, ensure adequate budget allocation to finance development priorities and substantially improve budget execution, fiscal discipline and service delivery.
- (iii) **External scrutiny.** Despite a strong external audit performance, there is the lack of a complete revenue audit. Formal legislative scrutiny, in line with Congress' oversight function, is not included in the budget cycle process. The external audit arrangements, wherein the COA independently reviews and reports on public finances, are adequate and in line with international standards. However, legislative scrutiny is also highly desirable, and in its absence a higher standard of Executive response is needed. The role of internal audit also needs to be strengthened to address external audit findings and implement system improvements.

11. The 2016 PEFA highlighted the capacity improvements within the agencies such as the Department of Budget and Management (DBM) in budget preparation. However, several line

agencies have inadequate capacity to prepare accurate and timely reports. The use of technology in PFM needs to be expanded to enable line agencies to manage financial transactions in accordance with budget regulations and intentions. It will also help to obtain real-time financial reporting and improve budget execution and service delivery. Improved accounting systems should help agencies to produce timely and fairly presented annual accounts. It was also mentioned that eNGAS and current information technology development plans need to be reviewed in line with international practices and in relation with the PEFA results, and revised as necessary to provide the much-needed PFM information and management systems.

12. The government recently implemented budget and disbursement reforms, including zero-based budgeting, the use of General Appropriations Act as release document, and the adoption of the one-year validity of appropriations beginning fiscal year (FY)2017. Moreover, the national government will shift from an obligation-based budget to annual cash-based appropriations approach starting FY2020. Agencies will be allowed to pay until an extended period only those contractual obligations that are actually delivered within the fiscal year. Also, the Senate Committee on Finance has approved the proposed Budget reform Act in 2018, which seeks to institutionalize changes to address weaknesses in the PFM systems.

13. On the other hand, the Philippines scored 34 out of 100 (from 35 in 2016) that ranked 111<sup>th</sup> out of 180 countries globally in the Corruption Perceptions Index of 2017 by Transparency International. The country is 21<sup>st</sup> among 31 countries and territories in Asia and the Pacific. Nonetheless, the national government has intensified measures in preventing and addressing corruption issues at all levels.

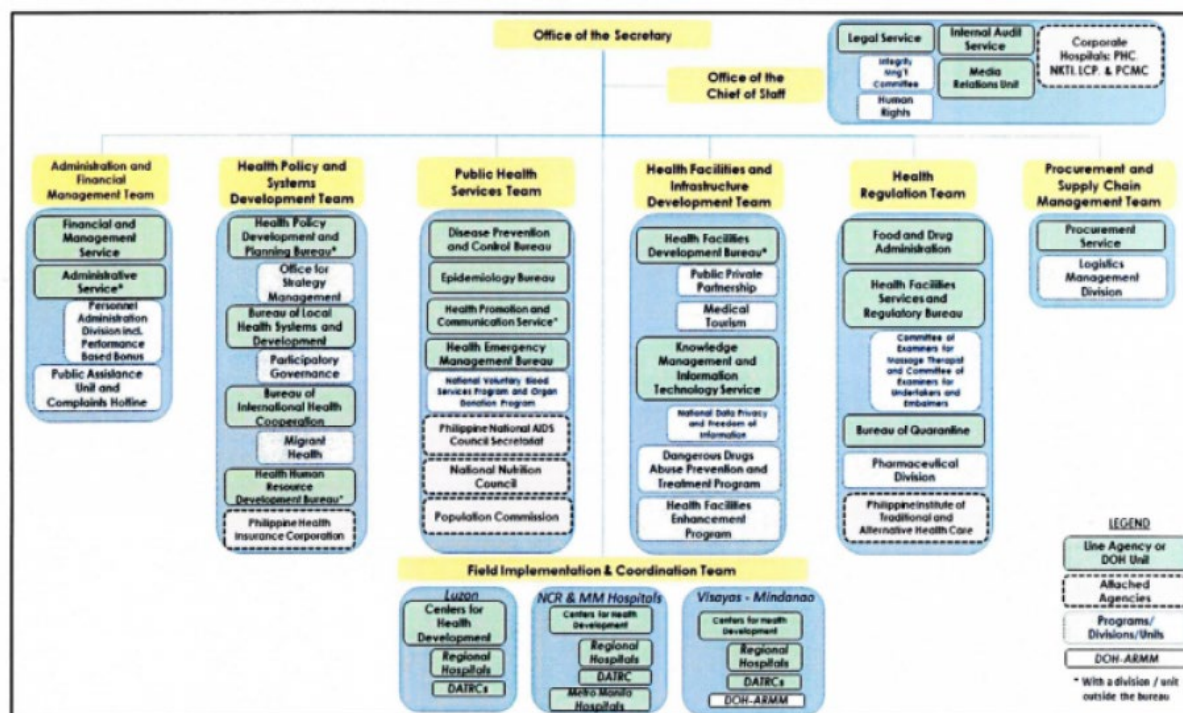
### **III. PROJECT FINANCIAL MANAGEMENT SYSTEM**

#### **A. Overview**

14. DOH is the principal health agency in the Philippines. It is responsible for ensuring access to basic public health services to all Filipinos through the provision of quality health care and regulation of providers of health goods and services. DOH is mandated to support LGUs, people's organizations, and other members of civil society in effectively implementing related programs, projects, and services.

15. DOH is composed of the Central Office, 16 Regional Offices, 66 retained hospitals, 2 attached bureaus, 13 treatment and rehabilitation centers, 2 attached government corporations, and 2 attached agencies. DOH functional management teams are shown below.

Figure 1: Department of Health Functional Management Teams



Source: DOH. [DOH Organizational Chart](#).

16. The regional offices are responsible for DOH field operations in every region and for providing catchment areas with efficient and effective medical services. Regional offices are also tasked to coordinate with their counterparts in other offices and agencies for health-related concerns, as well as with LGUs and DOH partners, in the implementation of various public health programs in their respective localities.

17. DOH is appropriated with ₱500 million in Quick Response Fund as a standby fund for disaster response activities. The proposed agency budget under the National Expenditure Program FY2019 is ₱70,124,638,000. DOH-retained hospitals were provided fiscal autonomy, which allows full retention and use of hospitals' income to improve health facilities.

18. DOH is subject to audit of the COA, the country's Supreme Audit Institution. The COA is mandated under Article IX-D of the Philippine Constitution to audit all government agencies or entities; and to submit to the President and the Congress an annual report covering the financial condition and operation of the government, its subdivisions, agencies, and instrumentalities, including Government Owned and Controlled Corporations, and non-governmental entities subject to its audit. The COA posts full Annual Audit Reports of all national government agencies on its website, including the consolidated annual audit reports for DOH.

19. DOH is required to submit quarterly reports on financial and physical accomplishments, and quarterly reports on the utilization of funds to the DBM, the Speaker of the House of Representatives, the President of the Senate, the House Committee on Appropriations, and the Senate Committee on Finance by posting said reports on DOH website for a period of 3 years, in accordance with the Special Provisions for the agency's budget approved under the General Appropriations Act. The DBM also issues relevant guidelines, rules, and pronouncements for compliance of DOH and all government agencies.

**B. Strengths and Weaknesses**

20. **Strengths.** DOH has financial management systems in place including a fully operational automated accounting system, complies with international accounting and auditing standards, and has an internal audit function.

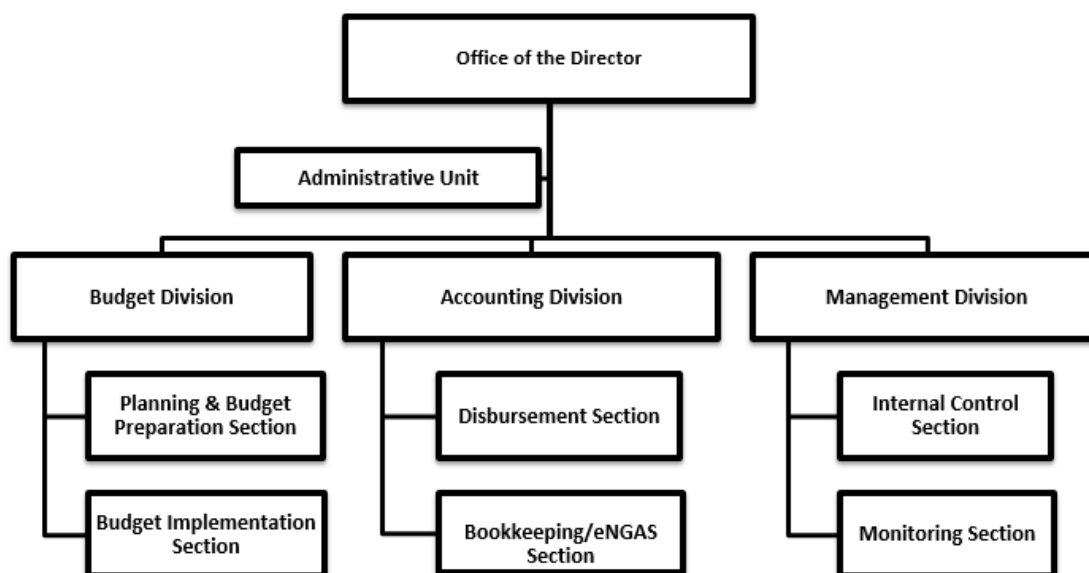
21. **Weaknesses.** DOH needs to address the following weaknesses which has implications to project implementation: absorptive capacity exacerbated by pandemic crises, unfilled staff positions, misstatements in financial reporting, and audit staff not familiar with ADB requirements.

**C. Implementing Entity**

22. A Secretary heads DOH and is assisted by 7 Undersecretaries and 6 Assistant secretaries. The Central Office is composed of 6 functional clusters: Office of the Secretary; and Offices for Technical Services; Health Regulations, Policy and Health Systems; Administration, Finance and Procurement; and Health Operations.

23. General functions of the Financial Management Service (FMS), which is under the Office for Administration, Finance, and Procurement include the following: prepares and consolidates the budget of DOH; maintains books of accounts; collaborates and coordinates with various fiscal and regulatory government agencies in establishing budgeting and accounting systems and policies; assists management in decision-making with regards to financial matters; monitors, evaluates, and reports on fund utilization against performance of outputs; and reviews and appraises adequacy and compliance to internal control system. Divisions and sections under the FMS are presented below.

**Figure 2: Divisions and Sections under the Financial Management Service**



eNGAS = enhanced New Government Accounting System.  
Source: Department of Health.

24. The FMS has 78 warm bodies, 48 of which hold regular plantilla positions while 30 are job order employees. At this staffing level, FMS can hardly cope up with the demand and are heavily understaffed.

25. The Budget Division handles budget cycle processes from preparation up to budget accountability, and liaises with the DBM for concerns on budget policies and budget reports. The Accounting Division processes and records financial transactions, ensures compliance with generally accepted accounting and auditing rules and regulations, and is in charge of the implementation of eNGAS. The Management Division also reviews policies, guidelines, methods, systems, and processes pertaining to financial matters relative to improvement of the internal control system.

26. With the COVID-19 pandemic, DOH has been at the forefront in addressing the health crisis in the country. It leads the Inter-agency Task Force for the Management of Emerging Infectious Diseases. With limited personnel, the capacity of DOH is already stretched and it may not be in a position to give due attention to HEAL during implementation.

#### **D. Personnel**

27. Based on the DBM staffing summary report for FY2019, there are a total of 71,887 authorized permanent positions with 54,987 positions filled. Key permanent positions numbered 355, which include 2 Financial and Management Offices II, 1 Chief Accountant, 2 Internal Auditors V, and 39 Chief Administrative Officers.

28. The Accounting Division, which is being led by the Chief Accountant and assisted by Section Heads of the Disbursement and Bookkeeping/eNGAS, currently has 11 permanent staff and more than 20 contractual or job-order personnel. DOH needs to augment staff under the supervision of the Bookkeeping/eNGAS Section Head to support financial management

procedures for the loan activities.

29. The organizational structure of DOH ensures adequate segregation of duties with different persons doing the transactions authorization, recording, custody of assets in the transaction and reconciliation of bank accounts and subsidiary ledgers. The implementing agency finance department and the project management unit organization with a proper staff strength will have enough officers to enable complete segregation of duties.

30. The Bureau of International Health Cooperation (BIHC) is tasked to manage all donor-funded projects including this proposed project. BIHC is divided geographically into three teams. However, for financial reporting, BIHC is being supported by the Financial Management Service.

#### **E. Accounting Policies and Procedures**

31. DOH uses the Government Accounting Manual<sup>6</sup> for National Government Agencies, which presents the basic accounting policies and principles in accordance with the Philippine Public Sector Accounting Standards, and other pertinent accounting and budgeting rules and regulations. This is consistent with the International Public Sector Accounting Standards. The Government Accounting Manual for National Government Agencies includes the accounting policies, guidelines and procedures, and illustrative accounting entries; accounting books, registries, records, forms and reports; and revised chart of accounts.

32. Based on the calendar year (CY)2018 audit report, DOH financial statements contain misstatements and various accounting deficiencies.

33. DOH will maintain, or cause to be maintained, separate books and records by funding source for all project expenditures incurred following the accrual-basis of accounting in accordance with the Philippine Public Sector Accounting Standards. DOH will prepare project financial statements in accordance with government's accounting rules and regulations as prescribed by the COA, which may issue updates and relevant guidelines from time to time.

#### **F. Internal Control and Internal Audit**

34. The DBM issued the Philippine Government Internal Audit Manual through Circular Letter 2011-5 dated 19 May 2011, which assists agencies in establishing and developing internal audit functions in government agencies, corporations and instrumentalities. The Philippine Government Internal Audit Manual includes guidelines that outline the policies and standards that will guide government agencies in organizing, managing, and conducting an effective internal audit. It complements the National Guidelines on Internal Control Systems issued by the DBM through Circular Letter 2008-8 dated 23 October 2008, which serves as a guide in designing, installing, implementing, and monitoring internal control systems taking into consideration the requirements of the organization and operations.

35. The DBM Circular Letter No. 2008-05 dated 14 April 2008 provided the guidelines in the organization and staffing of an Internal Audit Service (IAS) or Unit and Management Division or Unit in government agencies and corporations for purposes of strengthening internal control systems, improving existing systems and procedures, and promoting transparency and accountability in government operations.

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<sup>6</sup> COA. 2015. *Circular No. 2015-007*. Manila. Prescribing the Government Accounting Manual for Use of All National Government Agencies.



36. The IAS of DOH is under the Office of the Secretary and is composed of the Management Audit and the Operations Audit Divisions. The IAS functions conducts (i) management, operations, and performance audit; (ii) regular review and evaluation of the adequacy, effectiveness, and efficiency of internal control systems; and (iv) special and investigative audit relative to graft-related complaints and/or existence of perception and malpractices as endorsed by the Internal Affairs Board of the Integrity Development Committee of DOH.

37. The IAS, with specific instructions from the DOH Secretary to prioritize the loan activities in its 2019–2022 audit plan, should be able to perform internal audit activities on the implementation of the health component; and DOH will make corresponding internal audit reports available to ADB.

38. However, in the 2018 annual audit report issued by the COA, deficiencies in the internal control were noted. There was failure on the part of DOH management to implement an orderly storage system and adequate controls to safeguard procured materials and equipment which affected the inventory amounting to ₱24 billion.

### **G. External audit**

39. The COA conducts the annual audit of DOH financial statements in accordance with International Standards of Supreme Audit Institutions which was adopted by the COA through Resolution No 2013-007 dated 29 January 2013.

40. Consolidation of accounts are done every year-end at DOH-Central Office and submitted to the COA on or before 14 February of the following year for its annual audit. The COA issued qualified opinions on the fairness of DOH consolidated financial statements for CYs 2018 and 2017 due to misstatements and various accounting deficiencies.

41. A qualified opinion was rendered on the financial statement of DOH as of 31 December 2018. The audit covered the accounts and operations of DOH-Central Office, 16 Center for Health Development, 16 Treatment Rehabilitation Center, 66 Hospitals, and 2 bureaus for the year ended 31 December 2018. The asset account was misstated by a total of ₱244,897,184.20 or by 0.14% of the total assets, while the liabilities account was misstated by a total of ₱816,654,238.13 or by 3.71% of the total liabilities account. The accumulated surplus/deficit account were misstated by a total of ₱571,757,053.93 or by 0.38% of the total net assets/equity of the agency. Many significant outstanding audit observations starting from CY2012 to date have not been resolved. There were delays in the implementation of various programs, projects and activities of DOH which resulted in its inability to optimize the utilization of its authorized appropriations for CY2018 and CY2017 in the form of low disbursement rates of only 51.67% and 56.98%.

42. There was a recommendation in the current audit report to the management to issue a policy consistent with Government Accounting Manual regarding the timely submission of documents, regarding the execution of transactions (e.g., distribution of inventories) to facilitate the immediate recording of the said transactions which should include: (i) a specific period of time to submit the supporting documents of the said transactions after execution and; (ii) penalties/sanctions for the responsible personnel who are not able to comply with the said deadlines.

43. The COA also monitors status of prior years' audit recommendations and provides details as part of the annual audit report. DOH should ensure to address audit issues reiterated. Summary is shown below:

**Table 1: Summary of Prior Years' Audit Recommendations**

<b>Audit recommendations or Percentage of compliance</b>	<b>Fully Implemented</b>	<b>Not Implemented</b>	<b>Total</b>
CY 2017	128	19	147
%	87%	13%	100%
CY 2016	34	14	48
%	71%	29%	100%
CY 2015	32	22	54
%	59%	41%	100%
CY 2014	9	2	11
%	82%	18%	100%
CY 2013	0	3	3
%	0%	100%	100%
CY 2012	3	1	4
%	75%	25%	100%
Total	206	61	267
%	77%	23%	100%

CY = calendar year.

Source: DOH Annual Audit Report for 2018.

44. The COA will conduct annual audit of project financial statements in accordance with the International Standards for Supreme Audit Institutions. DOH will submit to ADB the audited project financial statements together with the auditor's opinion presented in the English language within 6 months from the end of the fiscal year. The audit report for the project financial statements will include a management letter and auditor's opinions, which cover (i) whether the project financial statements present an accurate and fair view or are presented fairly, in all material respects, in accordance with the applicable financial reporting standards; and (ii) whether the proceeds of the loan were used only for the purpose(s) of HEAL.

45. ADB's 2018 Access to Information Policy<sup>7</sup> will guide public disclosure of the audited project financial statements, including the auditor's opinion on the project financial statements. After the review, ADB will disclose the audited project financial statements and the opinion of the auditors on the project financial statements no later than 14 days of ADB's confirmation of their acceptability by posting them on ADB's website. The management letter, additional auditor's opinions, and audited entity financial statements will not be disclosed.

#### **H. Financial reporting and monitoring, including use of information systems**

46. DOH has a fully operational eNGAS, the government's automated accounting system. Consolidation of project accounts is being done at the Central Office every year-end. DOH will record and report project transactions separately using the eNGAS.

47. DOH is also required to submit its quarterly reports on financial and physical accomplishments, and quarterly reports on the utilization of funds, within 30 days from the end of every quarter to the DBM through the Unified Reporting System (URS) or other electronic means

<sup>7</sup> ADB. 2018. [Access to Information Policy](#). Manila.

for reports not covered by the URS.

## I. Disbursement Arrangements and Funds Flow Mechanism

48. The loan proceeds will be disbursed in accordance with ADB's Loan Disbursement Handbook (2017, as amended from time to time),<sup>8</sup> and detailed arrangements agreed upon between the government and ADB. Online training for project staff on disbursement policies and procedures is available.<sup>9</sup> Project staff are encouraged to avail of this training to help ensure efficient disbursement and fiduciary control.

49. HEAL will use direct payment and advance account procedures for disbursements. Direct payment will generally be used for paying suppliers of medical equipment, personal protective equipment, ambulances and civil works. However, where it is appropriate, use of the advance account is recommended for faster and more efficient disbursement.

50. The advance account is to be used exclusively for ADB's share of eligible expenditures. DOH is accountable and responsible for proper use of advances to the advance account. The account shall be audited on an annual basis in line with the audit requirements outlined in the Loan Agreement.

51. The statement of expenditure (SOE) procedure may be used for reimbursement of eligible expenditures or liquidation of advances to the advance account. The ceiling of the SOE procedure is the equivalent of \$100,000 per individual payment. Supporting documents and records for the expenditures claimed under the SOE should be maintained and made readily available for review by ADB's disbursement and review missions, upon ADB's request for submission of supporting documents on a sampling basis, and for independent audit. Reimbursement and liquidation of individual payments in excess of the SOE ceiling should be supported by full documentation when submitting the withdrawal application to ADB.

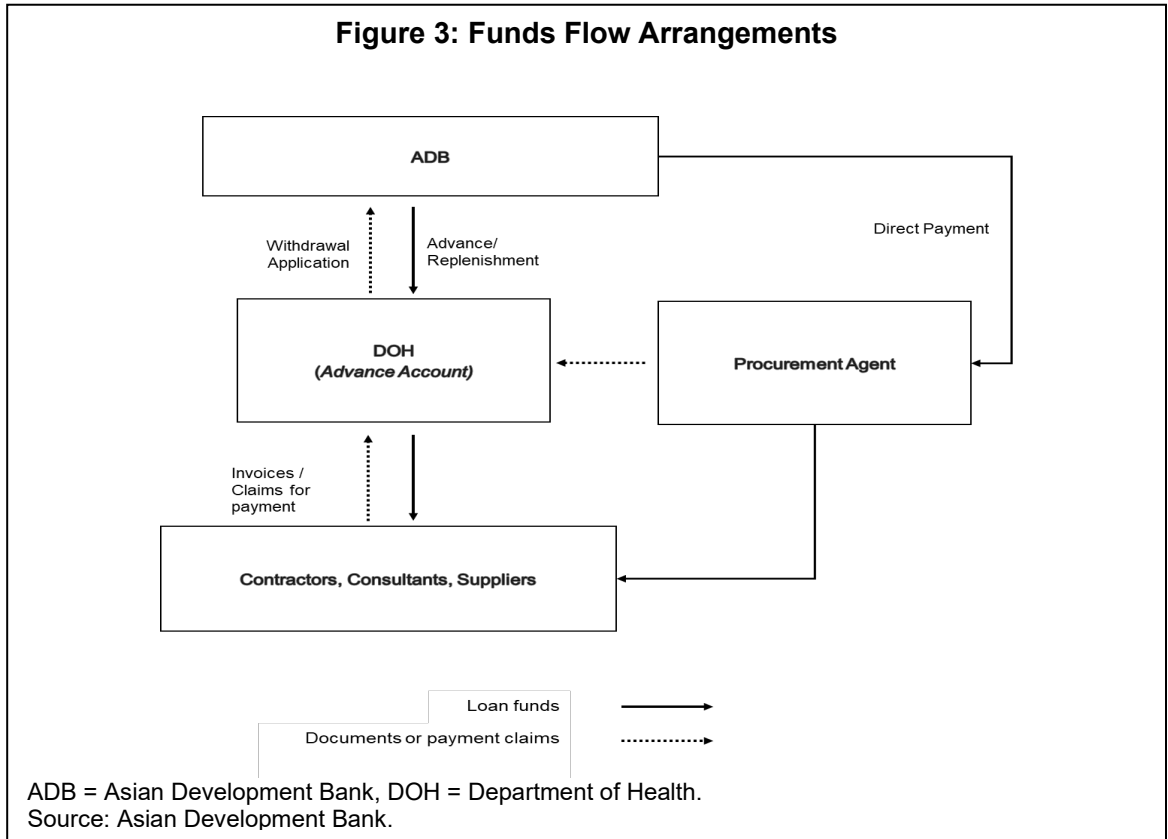
52. At the request of DOH, ADB will directly pay contractors, consultants, and suppliers based on billed invoices or claims validated by DOH.

- (i) Contractors, consultants, and suppliers will submit invoices and required billing documents or reports to DOH for processing of payments.
- (ii) DOH will review and endorse claims and supporting documents to ADB, together with a Withdrawal Application for direct payment.
- (iii) The Bureau of Treasury will forward to DOH the advice of payment or any proof of disbursement received from ADB. DOH will then submit the same to the DBM for issuance of Non-Cash Availment Authority for loan funds availed through payee's credit.
- (iv) DOH will submit to ADB separate Withdrawal Application for each disbursement to be requested.

53. Overall project funds flow is illustrated in Figure 3 below.

<sup>8</sup> ADB. 2017. [Loan Disbursement Handbook](#). Manila.

<sup>9</sup> ADB. [Disbursement eLearning](#).



**IV. RISK DESCRIPTION AND RATING**

54. The summary of risks and the proposed mitigation measures identified for DOH are summarized in Table 2 below.

**Table 2: Financial Management Risk Assessment and Mitigation Measures and Summary Risk Assessment and Risk Management Plan**

Risk Description	Risk Assessment	Mitigation Measures
<b>Country specific</b>		
Weak PFM pillars of budget reliability, accounting and reporting, and external scrutiny. Inconsistent compliance, and various challenges in coping with existing transitions or changes in country PFM policies and procedures; and unfavorable corruption perception.	Substantial	Recipient to ensure close coordination among oversight agencies on the implementation of continuous PFM reforms and related initiatives, such as the PFM Reform Roadmap, and the Good Governance and Anticorruption Cluster Plan.  DOH to participate in various trainings/meeting updates/workshops related to continuous PFM reforms.
<b>Entity specific</b>		

Risk Description	Risk Assessment	Mitigation Measures
DOH is at the forefront of addressing the COVID-19 pandemic. As such, its capacity is stretched and may not be able to properly manage the implementation of HEAL.	High	<p>Prior to project implementation, DOH to identify and assign the appropriate offices and personnel to HEAL, and clearly set management and coordination functions.</p> <p>At present, the BIHC is the PMO of DOH. In each Foreign-Assisted Project, there is a focal person which is being assigned internally.</p> <p>Implementation consultants will be engaged to support the PMO on FM and reporting.</p>
<b>Project Risks</b>		
1. Implementing entity—DOH's weak and overstretched capacity may adversely affect its ability to effectively manage HEAL, monitor FM arrangements, ensure fiduciary controls and render accurate and timely financial reporting.	High	FM consultants will be engaged to support DOH compliance with ADB's FM guidelines, fiduciary controls and reporting requirements. FM arrangements for HEAL will be established and rolled out through trainings and workshops.
2. Funds flow—low absorptive capacity and disbursement performance of DOH which resulted to reduction of agency budget and slow implementation of HEAL.	Substantial	<p>DOH to ensure close supervision, monitoring and timely reporting in terms of implementation of capital investments, including COVID-19-related facilities. This will be included in quarterly progress reports of HEAL.</p> <p>Upon loan effectiveness or during the implementation of HEAL, DOH to obtain the required budget authorization from government.</p>
3. Staffing—as per current DBM staffing summary report, only 54,987 out of the 71,887 authorized positions are currently filled up. The unfilled administrative and technical positions could lead to inadequate manpower to be assigned for HEAL.	Substantial	Before loan effectiveness, DOH to ensure adequate staff complement assigned to HEAL to manage its operations. In addition, implementation consultants will be engaged to support DOH staff.
4. Accounting policies and procedures—weak capacity of DOH led to material misstatements and deficiencies in	Substantial	FM arrangement for HEAL will be established including accounting and financial reporting.

<b>Risk Description</b>	<b>Risk Assessment</b>	<b>Mitigation Measures</b>
DOH financial statements. For this reason, qualified opinions were rendered in DOH audited consolidated financial statements for the previous years.		DOH to ensure compliance to prescribed accounting rules and procedures and shall disburse funds in accordance with ADB's Loan Disbursement Handbook 2017, as amended from time to time.
5. Internal Control—DOH management failed to adopt an orderly storage system and adequate controls to safeguard procured medicines and equipment.	Substantial	Project FM arrangement to be established shall include safeguarding of assets procured under HEAL.
6. External audit—the COA conducts annual audit of DOH consolidated accounts. Since DOH is a relatively new EA of ADB-funded projects, the assigned audit staff may not be aware of ADB's financial reporting and auditing requirements.	Moderate	During project implementation, DOH to closely coordinate with the COA regarding annual audit arrangements to ensure timely submission of acceptable audit reports in accordance with ADB standards.
7. Reporting and monitoring—because of DOH's stretched capacity, it might not be able to provide timely and relevant information on the status of project implementation under the loan.	Substantial	During project implementation, DOH with support from implementation consultants will submit quarterly reports and ensure accurate reporting of actual physical accomplishments in project reports.
7. Information systems—DOH has a fully operational eNGAS.	Moderate	During project implementation, DOH to ensure that the implementation of loan funds will be covered in the existing information system.
<b>Overall Project Risk</b>	<b>Substantial</b>	

ADB = Asian Development Bank, BIHC = Bureau of International Health Cooperation, COA = Commission on Audit, COVID-19 = coronavirus disease, DBM = Department of Budget and Management, DOH = Department of Health, EA = executing agency, eNGAS = enhanced New Government Accounting System, FM = financial management, HEAL = Health System Enhancement to Address and Limit COVID-19, PFM = public financial management, PMO = Project Management Office.

Source: Asian Development Bank.

## **V. PROPOSED TIME-BOUND ACTION PLAN**

55. The financial management action plan is provided in Table 3.

**Table 3: Project Financial Management Action Plan**

<b>Mitigating Action</b>	<b>Responsible Party</b>	<b>Timeframe</b>
1. Identify DOH focal persons to be assigned to HEAL	DOH	Before project effectiveness

<b>Mitigating Action</b>	<b>Responsible Party</b>	<b>Timeframe</b>
2. Establish financial management arrangement and roll out by conducting orientation, trainings, or workshops.	DOH, ADB	Within 6 months from effectiveness
3. Conduct quarterly monitoring of project including physical and financial progress	DOH	Within one month from the close of each quarter
4. Engage financial management implementation consultants and internal control specialist to support project implementation	DOH, ADB	Within 3 months from effectiveness
5. Coordinate with and orient the assigned staff of the COA regarding annual audit arrangements for HEAL	DOH	Within 6 months from project effectiveness

ADB = Asian Development Bank, COA = Commission on Audit, DOH = Department of Health.  
Source: Asian Development Bank.

## **VI. SUGGESTED FINANCIAL MANAGEMENT COVENANTS**

56. The following financial covenants are to be considered in the Loan Agreement. The government shall:

- (i) maintain separate accounts and records for HEAL;
- (ii) prepare annual project financial statements in accordance with accounting principles acceptable to ADB;
- (iii) cause such project financial statements audited annually by independent auditors acceptable to ADB, in accordance with international standards for auditing or national equivalent acceptable to ADB;
- (iv) cause the auditors to prepare audit report, and a management letter; and
- (v) furnish to ADB, no later than 6 months after the end of each FY, copies of such audited project financial statements, audit report, and management letter; and
- (vi) conduct of special audit focusing on governance, transparency and accountability at the end of HEAL.

## **VII. CONCLUSION**

57. The assessment indicates that with several risk mitigation measures in place, the implementing agency's FMS is acceptable for the proposed project. Disbursement and documentation of the funds will be carried out by DOH using the procedures for Direct Payment and Advance Account. DOH has adequate capacity to administer the advance account and statement of expenditure procedures.