

## FINANCIAL MANAGEMENT ASSESSMENT

### EXECUTIVE SUMMARY

1. The Government of the Philippines (the Government) requested a loan of \$400 million from ADB under its Asia-Pacific Vaccine Access Facility (APVAX) for the procurement of corona virus disease (COVID-19) vaccines. The Loan will be provided under the Second Health System Enhancement to Address and Limit COVID-19 under the Asia Pacific Vaccine Access Facility (HEAL 2) project which is structured to provide the government with immediate and flexible financing.
2. APVAX comprises a Rapid Response Component (RRC) to provide financing for vaccine procurement based on an agreed list of eligible expenditures. HEAL 2 complements ADB's initial support to tackle the COVID-19 pandemic which was provided under the first Health System Enhancement to Address and Limit COVID-19 (HEAL) project.<sup>1</sup> HEAL 2 will be jointly financed by the Asian Infrastructure Investment Bank (AIIB) with a loan of \$300million. The combined value of the ADB and AIIB financing is \$700million.
3. This report builds on the financial management assessment (FMA) carried out on the Department of Health (DOH) as the executing and implementing agency of the HEAL project (footnote 1).
4. The financial due diligence for the HEAL 2 project was conducted in January 2021 in accordance with the Asian Development Bank (ADB) Guidelines for the Financial Management and Analysis of Projects<sup>2</sup> and its Financial Due Diligence: A Methodology Note.<sup>3</sup> The FMA evaluated the capacity of DOH, including funds-flow, staffing, accounting, and financial reporting, financial information systems, and internal and external auditing arrangements. As the focus of the project relates to the rapid response on the procurement of COVID-19 vaccines for the Government of the Philippines, the FMA emphasized the internal control around supply chain management and specifically on inventory management systems, cold chain storage, vaccine security, deployment and IT systems availability and data management.
5. A detailed Risk Assessment and Risk Management Plan is included below. Risk without mitigating measures is assessed as **High** due to the scale and complexity of the project. Risk after mitigation measures is assessed as **Substantial**. The Government of the Philippines and the DOH have agreed to address deficiencies in the deployment plan to mitigate the risks.

**Table 1: Detailed Risk Assessment and Risk Management Plan**

Mitigating Action	Responsible Party	Timeframe
1. Identification of DOH focal persons to be assigned to the project. Detailed stakeholder engagement plans with delegated responsibilities clearly outlined.	DOH	Q1 2021
2. Establishment of financial management arrangements and rolling it out by conducting orientation, trainings, or workshops.	DOH, ADB	Within 6 months from effectiveness

<sup>1</sup> ADB. Philippines: Health System Enhancement to Address and Limit COVID-19

<sup>2</sup> ADB. 2005. *Financial Management and Analysis of Projects*. Manila.

<sup>3</sup> ADB. 2009. *Financial Due Diligence, A Methodology Note*. Manila.

<b>Mitigating Action</b>	<b>Responsible Party</b>	<b>Timeframe</b>
3. Quarterly monitoring of project including physical and financial progress.	DOH	Q2-Q4 2021 Q1-Q4 2022 Q1-Q4 2023
4. Updated inventory management procedures with cold storage handling protocols along with training for key stakeholders.	DOH	Q2 2021
5. Engage external experts to support project delivery where necessary and appropriate.	DOH/ADB	Q2 2021
6. Enhanced due diligence performed on private sector capacity prior to engaging for project critical roles in transportation, storage deployment and providing IT support.	DOH	Q2 2021
7. Contingency plans developed if GOP funding is not available when needed to support logistics and other vaccine deployment costs.	DOH/DBM/DOF/ADB	Q1 2021
8. Vaccine deployment plans to be updated to clearly identify responsibility and accountability for vaccines between regional warehouses and local government facilities/sites for administering vaccines.	DOH/LGUs	Q1-Q2 2021
9. Establishment of asset registers for all cold storage facilities.	DOH/ADB	Q1-Q2 2021
10. Completion of the assessment of LGUs capacity to oversee vaccine deployment at sub national level prior to vaccine distribution. This should include a review of facilities, management, technical and administrative skills available at the LGUs.	DOH	Q2 2021
11. During project implementation, DOH to closely coordinate with COA regarding annual audit arrangements to ensure timely submission of acceptable audit reports in accordance with ADB standards.	DOH/COA	Q1 2021
12. COA to undertake performance audits on project activities.	DOH/COA	Annual
13. COA and DOH Internal Audit Service (IAS) to perform routine inventory management audits of vaccine storage facilities and vaccine distribution sites.	COA/IAS	Annual

ADB = Asian Development Bank, COA = Commission on Audit, COVID-19 = Coronavirus Disease, DBM = Department of Budget and Management, DICT = Department of Information Communication Technology, DOF = Department of Finance, DOH = Department of Health, eNGAS = electronic New Government Accounting System, IAS = Internal Audit Service, PFM = public financial management, Q = quarter.

Source: Asian Development Bank.

## I. INTRODUCTION

1. The Government of the Philippines (the Government) requested a loan of \$400 million from ADB under its Asia-Pacific Vaccine Access Facility (APVAX) for the procurement of COVID-19 vaccines. The Loan will be provided under the Second Health System Enhancement to Address and Limit COVID-19 under the Asia Pacific Vaccine Access Facility (HEAL 2) project which is structured to provide the Government with immediate and flexible financing.

2. APVAX comprises a Rapid Response Component (RRC) to provide financing for vaccine procurement based on an agreed list of eligible expenditures. HEAL 2 complements ADB's initial support to tackle the COVID-19 pandemic which was provided under the first HEAL project. HEAL 2 will be jointly financed by the Asian Infrastructure Investment Bank (AIIB) with a loan of \$300 million. The combined value of the ADB and AIIB financing is \$700 million.

3. The FMA was undertaken in accordance with the ADB's Financial Management and Analysis of Projects; its Financial Management Technical Guidance Note and its Financial Due Diligence, A Methodology Note. The financial due diligence for the HEAL project was completed in May 2020. It concluded that the overall pre-mitigation financial management (FM) risk of Department of Health (DOH) was substantial. The risk rating was expected to reduce to moderate if the following key mitigating measures were implemented: (i) engage a financial management specialist and an internal control specialist to support DOH during project implementation; and (ii) establish project financial management arrangements and procedures and roll out the procedures through trainings and workshops. Neither measure had been implemented by December 2020 therefore the FM risk continues to be substantial for the HEAL project.

4. The FMA for the HEAL 2 project was completed in January 2021. The findings of the FMA from the first HEAL project remain valid with the updated assessment focusing on the: (i) planning and budgeting for additional costs associated with COVID-19 vaccine procurement; (ii) management of vaccine inventory including transportation, storage, vaccine security and inventory information system capacity; (iii) human resource numbers and capacity to support the vaccination rollout; (iv) accounting and reporting vaccine costs; and (v) oversight, verification and audit procedures in place to ensure that adequate numbers of vaccines are received, that they are of appropriate quality and that they are managed in a manner which ensures that the vaccines are deployed for the intended recipients and purpose.

5. The procurement and rollout of the COVID-19 vaccines nationwide is a complex project with multiple stakeholders. The additional risks are incorporated along with the original FMA findings in the remainder of this report.

## II. PROJECT DESCRIPTION

6. HEAL 2 will finance the procurement of safe and effective COVID-19 vaccines through the APVAX's RRC, in consonance with its vaccine eligibility criteria. The project has one output: new COVID-19 vaccine swiftly and professionally delivered. The project investment will be co-financed between the ADB (\$400 million) and the AIIB (\$300 million) and used to procure up to 110 million of vaccines, which will be administered to approximately 32 million Filipinos. The unit price and quantity of vaccines will be determined during contract negotiations with approved vaccine suppliers however indicative vaccine unit costs range from \$5 to \$30 per dose depending on the supplier.

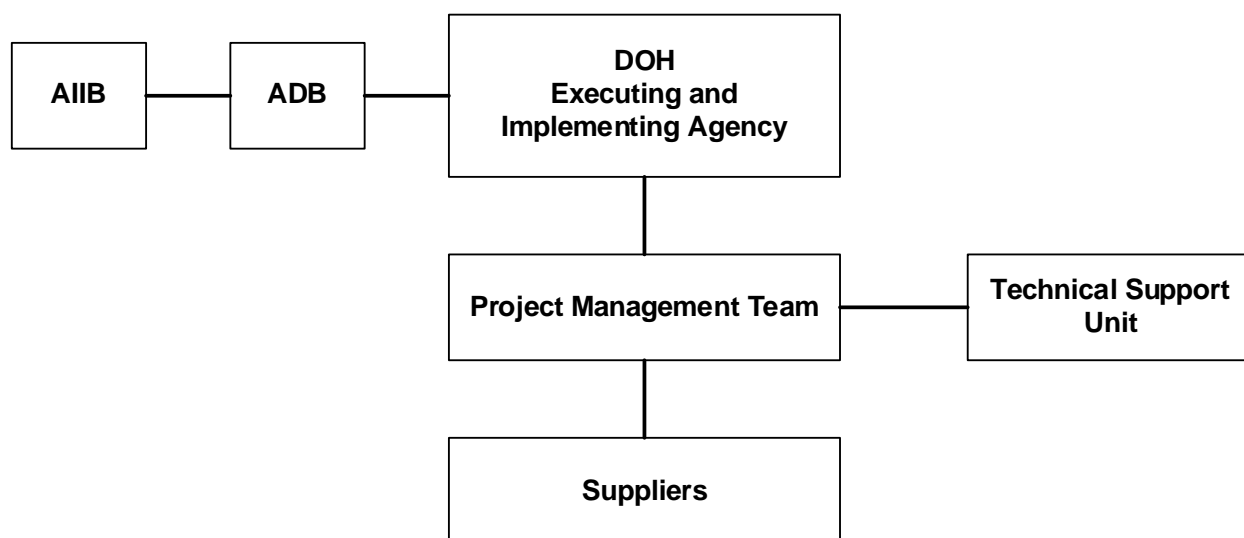
7. The government will also make a significant financial contribution to the project through providing a tax exemption of \$79.5million on the procurement of the COVID-19 vaccines. The Government will also provide a cash contribution of \$52.75million to support the rollout of the vaccine which includes: (i) transportation, and delivery of vaccines from point of manufacture to designated central and/or regional hubs or storage facilities; (ii) providing the cold chain system and storage facilities at the central and regional levels meeting required temperature and equipment set-up standards; and (iii) ensuring effective vaccine management systems, protocols and procedures for COVID-19 vaccination including new IT inventory management and immunization monitoring systems.

8. The rollout of the COVID-19 vaccine is a complex logistical effort requiring inputs from several stakeholder organizations including DOH, Department of Finance, Department of Budget and Management, Department of Education, Department of Interior and Local Government, Department of Transportation, Department of Information and Communication Technology, security services including Armed Forces of the Philippines and the Philippines National Police, multiple Local Government Units (LGUs) Non-Government Organizations (NGOs) and the private sector. Significant levels of human resources are required to support the vaccine rollout including the clerical and clinical personnel needed to administer the vaccines, inventory personnel, security personnel, IT personnel to develop and support IT systems along with transportation personnel. The personnel required to support the vaccine rollout along with the facilities at which the vaccines will be stored and administered represent a significant in-kind contribution from the Government to the project.

#### A. Organization Structure

9. The DOH organization structure along with the structure of the financial management service is set out in annex 2 of this assessment.

**Figure 1: Project Organization Structure**



ADB = Asian Development Bank, AIB = Asian Infrastructure Investment Bank, DOH = Department of Health  
Source: Asian Development Bank

10. Project Management Structure. DOH will be the executing agency. The DOH will set up a Project Management Team with a Project Director (Undersecretary level) and Project Manager

(Director level). A technical support unit comprising individual consultants (health experts, a gender specialist, a financial management specialist, a procurement specialist, and administration staff) will be engaged to support the Project Management Team in all stages of the implementation. The project will be implemented from March 2021 to August 2023 and expected to close in February 2024.

### III. COUNTRY AND SECTOR FINANCIAL MANAGEMENT ISSUES

#### B. Country Level

11. The ADB's Country Partnership Strategy 2018 to 2023<sup>1</sup> indicates that the Philippines has made significant progress in its Public Financial Management (PFM) reforms since 2008. The government continues to implement several reforms to improve public expenditure management and raise national tax revenue collections. It has moved from the commitment-based budget system to cash-based budgeting in 2019 and implemented a series of tax policy reforms to raise excise taxes, reduce personal income and corporate taxes and consolidate tax exemptions. Despite the progress made in PFM at the national level, more needs to be done to improve the quality of public service delivery by LGUs. This includes expanding reforms and capacity development to local planning and public expenditure management and developing municipal finance systems.

12. 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 financial reporting.

13. The 2016 Public Expenditure and Financial Accountability (PEFA) assessment<sup>2</sup> was supported by multiple development partners including the ADB. Each dimension was scored separately on a four-point ordinal scale: A, B, C, or D, with "A" indicating high levels of performance while a score of "D" means that the indicator being measured is present at less than the basic level of performance or is absent altogether, or that there is insufficient information to score the dimension. A summary of the 31 dimensions assessed indicates eight A scores, eleven B scores, eight C scores and four D scores as illustrated in the table below.

**Table 2: Summary of 2016 PEFA Assessment Scores**

PFM Performance Indicator		Overall Rating
<b>I. Budget reliability</b>		
PI-1	Aggregate expenditure outturn	D
PI-2	Expenditure composition outturn	D+
PI-3	Revenue outturn	B
<b>II. Transparency in public finances</b>		
PI-4	Budget classification	C
PI-5	Budget documentation	A
PI-6	Central government operations outside financial reports	B+
PI-7	Transfers to sub-national governments	A
PI-8	Performance information for service delivery	B+
PI-9	Public access to fiscal information	A

<sup>1</sup> ADB. 2018. *Country Partnership Strategy, Philippines 2018-2023 – High and Inclusive Growth*. Manila

<sup>2</sup> 2016. GOP and Development Partners. *Republic of the Philippines PFM Strategy Implementation Support Public Financial Management and Accountability Assessment*. Washing D.C.

PFM Performance Indicator		Overall Rating
<b>III. Management of assets and liabilities</b>		
PI-10	Fiscal risk reporting	B
PI-11	Public investment management	A
PI-12	Public asset management	C+
PI-13	Debt management	B
<b>IV. Policy-based fiscal strategy and budgeting</b>		
PI-14	Macroeconomic and fiscal forecasting	A
PI-15	Fiscal strategy	B
PI-16	Medium-term perspective in expenditure budgeting	A
PI-17	Budget preparation process	A
PI-18	Legislative scrutiny of budgets	B+
<b>V. Predictability and control in budget execution</b>		
PI-19	Revenue administration	B
PI-20	Accounting for revenue	A
PI-21	Predictability of in-year resource allocation	B+
PI-22	Expenditure arrears	C+
PI-23	Payroll controls	B+
PI-24	Procurement management	C+
PI-25	Internal controls on non-salary expenditure	B+
PI-26	Internal audit	C+
<b>VI. Accounting and reporting</b>		
PI-27	Financial data integrity	C+
PI-28	In-year budget reports	D+
PI-29	Annual financial reports	C+
<b>VII. External scrutiny and audit</b>		
PI-30	External audit	C+
PI-31	Legislative scrutiny of audit reports	D

Source: 2016 PEFA Assessment

**Table 3: 2010 and 2016 PEFA Ratings Compared by Pillar (Old PEFA Methodology)**

Core Pillar of PFM Performance	2010 Rating		2016 Rating		Total Indicators
	A/B	C/D	A/B	C/D	
Credibility of the budget	1	3	1	3	4
Comprehensiveness and transparency	3	3	5	1	6
Policy based budgeting	1	1	2	-	2
Predictability and control in budget execution	2	7	6	3	9
Accounting, recording, and reporting	-	4	1	3	4
External scrutiny and audit	1	2	2	1	3
<b>Total</b>	<b>8</b>	<b>20</b>	<b>17</b>	<b>11</b>	<b>28</b>

Source: 2016 PEFA Assessment

14. The PEFA assessment methodology changed between 2010 and 2016. However, with many of the indicator's remaining similar it is possible to make a direct comparison to ascertain

the improvements in PFM in GOP. Table 2 illustrates performance improvements in nine indicators, when compared to the 2010 PEFA ratings with the area's comprehensiveness and transparency and predictability and control of budget execution making the largest improvements.

15. According to the 2016 assessment, the areas where further improvements in the PFM system are required are as follows:

(i) **Budget reliability**

**Aggregate expenditure outturn (D):** The 2016 PEFA assessment indicates that the GOP is unable to spend its annual budget allocation at the whole of Government level over a three-year period between 2012 and 2014 with an average underspend of 20.57% over the three-year period. One possible reason for the large underspend is due to delays in approving the annual budget allocation.

**Expenditure Composition Outturn (D+):** This dimension measures the variance between the original, approved budget and end-of year outturn in expenditure composition by program, administrative, or functional classification. An average underspend of 16.88% over the three-year period from 2012 to 2014 indicates that the Government is unable to fully implement its policy objectives due to reduced levels of expenditure targeted at specific programs etc.

The lack of budget reliability impacts 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) **Transparency of public finances**

**Budget classification (C):** GOP has a comprehensive Unified Account Code Structure (UACS) with supporting documentation which acts as the classification system for all government revenue and expenditure. The UACS has a 54-digit coding structure and therefore requires a fully automated financial management environment to operate effectively. The GOP is moving gradually towards an automated environment with the introduction of the Budget and Treasury Management System (BTMS), but that system is yet to be fully implemented in all National Government Agencies (NGA's). DOH continues to operate the electronic New Government Accounting System (eNGAS) which is a legacy system and due to be replaced with the BTMS moving forward.

(iii) **Management of assets and liabilities**

**Public asset management (C+):** This PEFA indicator assesses the management and monitoring of government assets and the transparency of asset disposal. The assessment states that the Commission on Audit (COA) has consistently raised substantive audit findings and observations that indicate ineffective monitoring of financial assets of the government which have resulted in qualified audit opinions being raised. Non-financial asset registers for property, plant and equipment are required to be maintained by each government agency. However, COA reports

that while asset registers exist, the data contained on the registers is either not updated or reconciled on a regular basis which limits the value of control over non-financial assets.

(iv) **Predictability and control in budget execution**

**Expenditure arrears (C+):** COA has raised observations on the accuracy and reliability of accounts payable ledgers/registers and also the monitoring of expenditure arrears by a number of NGAs.

**Internal audit (C+):** The score was provided due to delays with issuing of internal audit reports. The assessment also notes that the role of internal audit needs to be strengthened to address external audit findings and implement system improvements.

(v) **Accounting and reporting**

**Financial data integrity (C+):** The PEFA assessment noted major issues with the failure to prepare, record and submit bank reconciliations by government agencies. There are also significant issues with the liquidation of cash advances and limited rollout and usage of the eNGAS developed by COA for use in NGAs with many NGAs preparing financial reports on spreadsheets without the necessary controls to ensure data integrity. In 2014, 23 out of 25 audit opinions issued by COA on NGAs were either qualified or adverse opinions which provides a clear indication of the challenges faced in PFM within GOP. DOH received a qualified audit opinion from COA every year from 2011 to 2014.

**In year budget reports (D+):** There are delays with the submission of Budget and Financial Accountability Reports (BFARs) with only 20% of agencies and departments having submitted their reports for all 2015 quarters as of 29 February 2016.

**Annual financial reports (C+):** It was also noted in the assessment that COA had flagged the delay of annual reports as being a concern in PFM. Given the number of qualified and adverse audit opinions issued by COA, the accuracy, completeness and reliability of the financial reports being issued by NGA's is questionable.

(vi) **External scrutiny and audit**

**External audit (C+):** COA performs financial and compliance audits of all NGAs, LGUs, and Government Owned Corporations. It also carries out performance, fraud and other special audits when required. The audits are performed in accordance with the Philippines Public Sector Standards on Auditing (PPSSA) which are aligned with international standards. The scope of the audit covers all expenditures; however, the audit of revenues is limited to the collection of receipts and remittances meaning that approximately 70% of government revenues are not audited by COA.

**Legislative scrutiny of audit reports (D+):** Formal legislative scrutiny, in line with Congress' oversight function, is not included in the budget cycle. The external audit arrangements, wherein 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.

16. The 2016 PEFA highlighted the capacity improvements within some 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.

17. Improved accounting systems should help agencies to produce timely and fairly presented annual accounts. It is understood that this has partially commenced with the introduction of the BTMS developed by DBM and which has commenced rollout in some NGAs however the rollout in DOH has not yet commenced. It is expected that the rollout of a new financial management system will take time to fully implement across the financial management service at DOH. Furthermore, it is understood that the BTMS will not provide a complete automated solution for PFM within GOP and plans are already in place for further upgrades to a more sophisticated Government Integrated Financial Management Information System (GIFMIS) in the longer term.

18. As part of its PFM reform plans, the national government shifted from an obligation-based budget to cash-based budgeting commencing FY2019. Agencies are permitted an extended period to pay contractual obligations that are delivered within the fiscal year. Also, the Senate Committee on Finance approved the proposed Budget reform Act in 2018, which institutionalizes changes to address historic weaknesses in PFM systems.

19. The Philippines scored 34 out of 100 (down from 35 in 2016) in the 2019 Transparency International Corruption Perceptions Index. It is ranked 113 out of 180 countries globally. The country is 21 among 31 countries and territories in Asia and the Pacific according to the same index indicating that there is a perception that the Philippines struggles with corrupt practices in government, which in turn impacts the credibility of its PFM systems and processes.

### C. Health Sector / Executing Agency Level

20. The health care system in the Philippines faces significant challenges which have been exacerbated by the COVID-19 pandemic. The core development problem is inequitable access to quality health care services, resulting in poor health outcomes that perpetuate poverty and inequality. Some of the major constraints relative to PFM facing the sector are: (i) fragmented health financing and service delivery system; and (ii) weak governance at all levels within the sector. Institutional arrangements in health service delivery are weak; and accountability for performance, particularly in subnational governments and the private sector, is poor<sup>3</sup>.

21. **Fragmented health financing.** The question “*who pays for which health service*” remains unanswered and the fragmented health delivery system can be explained by several factors, including an unreliable expenditure framework for the government’s health financing system, the absence of an incentive structure for LGUs to invest in health, the lack of a regulatory framework over private spending for health, and weak monitoring and evaluation systems.

22. **Weak governance and institutional capacity** at central and local government health units is weak. The DOH and LGUs have insufficient capacity to manage fiscal resources for

<sup>3</sup> ADB. 2020. [Philippines: COVID-19 Active Response and Expenditure Support Program](#). Manila.

population-based interventions efficiently which leads to weak financial control and fraudulent transactions. It also results in highly centralized health expenditures and imbalances in health financing. In addition to low capacity, accountability and performance management systems are underdeveloped and not interoperable.

23. Under the Philippines Development Plan 2017–2022, implementing the Universal Health Care Law, 2019 is a key priority. Part of this plan is the FOURmula One for Health strategy which is designed to generate better health outcomes, a more responsive health care system, and more equitable health care financing. As part of its approach, DOH has prepared a Universal Health Care Medium Term Expenditure Program, 2019–2022 which is a multi-year spending plan for DOH linked to priority spending objectives.

#### **IV. VACCINATION PROGRAM FINANCIAL MANAGEMENT SYSTEM ASSESSMENT**

24. On 15 March 2020, the government announced a COVID-19 response strategy, with several priority actions to address the negative impacts of the crisis and combat the spread of the virus. The government established the Inter-Agency Task Force for the Management of Emerging Infections Diseases (IATF-EID) which is headed by DOH to provide overall policy guidance on containing COVID-19.

25. In November 2020, a coronavirus vaccine readiness assessment was performed by DOH, UNICEF and WHO using the vaccine readiness assessment tool. The assessment indicated that there is central level capacity at DOH to guide COVID19 vaccination, and that the national vaccination allocation plan is in line with the WHO's Strategic Advisory Group of Experts and that the immunization program can be implemented through the existing health system.

26. A national vaccine roadmap has been developed to address key considerations for the selection of vaccines (e.g., safety, efficacy, sensitivity, supply, cold chain requirement), the process and stages of vaccination from scientific evaluation to monitoring and safety surveillance, and the desired end-state of coronavirus vaccination. The roadmap includes a prioritization and allocation strategy for vaccines (sectoral and geographical), along with vaccine deployment, waste management and development coordination.

27. The Philippine National Deployment and Vaccination Plan for COVID-19 vaccines was developed in January 2021. The plan provides more detail on number of stakeholders to be engaged in the vaccine deployment with some detail on the roles which the various stakeholders will play. It also provides more information on vaccine procurement, cold chain and storage facilities, and the vaccine distribution and deployment including the use of IT systems for vaccine inventory management and monitoring.

To access the COVID-19 vaccine, the GOP is initiating a number of strategies including participation in the COVAX facility as well as engaging directly with pharmaceutical companies to procure the vaccine directly.

28. Under the Philippine National Deployment and Vaccination Plan, the vaccine will be procured centrally by the Department of Finance (DOF) and that DOF will pursue advance purchase contracts with the four main vaccine providers (Pfizer, Moderna, AstraZeneca and Novavax) as well as obtaining a 20% vaccine quota through the global COVAX facility. DOH will lead the logistics and the administration of vaccines.

## **A. Budget**

29. The government seeks to appropriate 82.5 billion pesos (\$1,720 million) in 2021 for procurement of COVID-19 vaccines (70 billion pesos) and logistics support (12.5 billion pesos) as part of the 2021 national budget law. The government will seek financial support from multilateral and bilateral donors as well as other lending institutions and the private sector to support the procurement of the vaccines. The government plans to fund the logistics for vaccine deployment from its own resources. The proposed loan from ADB and AIIB of \$700 million will account for approximately 48% of the funding the government requires for the procurement of the vaccine with negotiations ongoing with other major donors such as the World Bank. The government is also considering co-financing from bilateral partners, such as China (Eximbank), the UK (UKEF), the US, India, Singapore, and Australia to fund any shortfall in the vaccine procurement.

30. Regarding the logistics and other supplies support budget of 12.5 billion Pesos or (\$261 million), 2.5 billion Pesos (\$52 million) will be provided directly to DOH through the Government Appropriation Act. The remaining 10 billion Pesos will be provided in accordance with Bayanihan II in relation to Republic Act 11520 on Continuing Appropriations. There were no detailed calculations provided in the Vaccination Deployment Plan. Early drafts of that plan indicated that approximately 5.2 billion pesos was required to support vaccine syringes and personal protective equipment, transportation, storage, waste disposal, operations costs, health promotion and communication and surveillance. The detail of the cost estimates was not provided, however assuming they are correct, DOH would need to provide its full GAA allocation of 2.5 billion pesos just to support the Co-financed loan from ADB and AIIB to ensure sufficient financing is in place for logistics and other costs for the rollout of the vaccines to be procured under the HEAL 2 project. DOH is also seeking additional financing of \$70 million from donor partners to put in place a redundancy program for logistics in the events of disaster or unforeseen circumstances in the deployment.

31. At the time of the assessment, it is still uncertain what is the full budget requirement to implement the whole national vaccination program since the assessment of the logistics is still ongoing. Further, the budget of PhP 70 billion is only meant for the target population in 2021 of 70 million people. The budget for 2022–2023 is yet to be ascertained.

32. However, the government intends to go also through contractual joint venture (JV) agreements between the private sector, the government, and a vaccine manufacturer/supplier to be able to get additional financing. With the private sector proponent initiating the process with its proposal, negotiated procurement may be followed under the Revised NEDA Joint Venture (JV) Guidelines. The procedure for a negotiated JV, and the approvals required depending on the terms of the JV agreement shall be complied with. Ideally, the private sector and GOCC may share in the purchasing process of the vaccine. Generally, no financing cost should be incurred by the Government, however, there may be a need to evaluate the amount of user pay, which can require a subsidy from either the private partner or the Government counterpart.

## **B. Inventory Management**

33. Internal controls around the ordering, transportation, storage, distribution, and disposal of Covid-19 vaccines were reviewed due to the potential impact on the HEAL 2 project. Some key issues are listed in the following paragraphs.

34. The vaccine deployment plan indicates that a review of DOH inventory management including cold chain storage facilities, systems processes, protocols, and procedures was

undertaken as part of the readiness assessment for the COVID-19 vaccine rollout. The deployment plan states that a number of weaknesses were identified in the current inventory management system but does not indicate what the weaknesses are and what action is being taken to address those weaknesses. Furthermore, no timeframe was indicated on when the updated inventory procedures may be available at DOH and how the updated procedures will be rolled out to regional and local areas.

35. It is being proposed that the third-party provider will be responsible for vaccine storage and distribution including data management. No capacity assessment has been made of third-party storage facilities as the volume and type of vaccine to be procured is still unknown as the procurement process is still ongoing at the time of the assessment. Each vaccine will have specific storage requirements. DOH has plans to procure or make storage facilities available at the central and regional hubs.

### **1. Transportation**

36. The vaccine deployment plan indicates that a third-party provider will likely be engaged for the transportation of vaccines from the central hub storage warehouse to regional hub warehouses. It also states that the bulk of the transportation will take place via air and road networks. It is not clear how the vaccines will then be transferred from the central and regional hubs to local distribution centers, hospitals, health clinics etc. DOH will be responsible for engaging the third-party supplier, assessing capacity, and overseeing the delivery of the third-party provider during the vaccine deployment period.

### **2. Storage**

37. Vaccine storage will be determined by the type and quantity of vaccine to be procured as well as the population location that required the vaccine to be administered. This information is still not available in the vaccine deployment plan which limits the effectiveness of the plan.

38. For distributing the vaccine, initial plans included establishing four cold storage rooms and two walk-in freezers in Metro Manila as the central hub for all vaccines. Regional hubs were to be established in Bicol, Cebu, and Zamboanga for distribution at the subnational level. It is unclear from the latest version of the deployment plan if this proposal remains valid.

39. During the Loan Fact Finding, the Government indicated that it had recently procured ten ultra-cold storage freezers capable of storing vaccines at -70 to -80 degrees with five freezers deployed to hospitals and the remaining five ready for distribution to another five hospitals. The latest vaccine deployment plan indicates that the government does not have any ultra-cold storage freezers and it will have to either procure them or outsource this activity should vaccines be procured which require ultra-cold storage environment. The vaccine deployment plan also indicates that some of the vaccine warehousing may have to be outsourced to the private sector, but the plan does not indicate if any surveys were performed to ascertain if such capacity is available in the private sector.

40. An asset register of all cold storage facilities was requested during loan fact finding but none has been provided until now. The availability of suitable vaccine storage facilities should be validated prior to placing any orders to purchase vaccines as the risk of loss or wastage of vaccines is substantial.

### **3. Security**

41. There are multiple levels of security required to support the HEAL 2 project. Priority one is the physical security of the COVID-19 vaccine including processes and procedures to ensure that only authorized personnel have access to the vaccine. This would require the storage facilities where the vaccines are located to be physically secure in a guarded environment with restricted access. The facilities should be located in flood free areas. It is indicated that the Armed Forces of the Philippines and the Philippines National Police will be utilized to provide security, but it is unclear what level of physical security will be provided by those organizations. A review of the proposed security arrangements should be performed prior to placing any vaccine purchases.

42. There are significant data security issues to be considered given the large volume of personal and confidential data that will be maintained during the program implementation. The vaccine deployment plan indicates that data security measures and protocols will be followed but given the environment with multiple new systems being implemented, with possible multiple system interfaces and significant amounts of personal data being entered onto newly implemented databases, there is a major risk of data breaches, system failure/crashes resulting in data loss and or a basic inability of the new system to cope with the stress being put on to with the volume of data being entered and accessed. All new inventory management, monitoring and surveillance systems should be rigorously stress tested prior to vaccine arrival in country, with all government and third-party provider personnel fully trained on data security protocols.

### **4. Deployment**

43. The vaccine deployment plan indicates that LGUs will be responsible for some of the most important aspects of the program delivery, including preparing the master list of the vaccine recipients, mapping vaccination sites and workforce to support the administering of the vaccines and performing all microplanning activities to ensure the successful rollout of the vaccines in the community. There are detailed templates included in the national vaccination deployment plan provided to assist the LGUs with preparing for the vaccine rollout but there is a lack of clarity on how the vaccines will be requested from the LGU to the central government, how those vaccines will be allocated by the central government to LGUs, how the transportation from storage hubs to LGUs will occur including remote areas and what facilities must LGUs have in place at vaccination to support the vaccine rollout without compromising the cold chain storage requirements of vaccines.

44. It is clear from the deployment plan that considerable levels of human resources will be required at the local level to support the vaccine deployment. LGUs will be assessed in terms of capacity for administering the vaccines and if there is a shortfall in resources, what measures will be implemented from the central level to support the vaccine deployment at the local level.

### **5. Data Management**

45. It is anticipated that vaccine suppliers and the third-party providers will provide an automated system for tracking and managing vaccine usage however these systems may not be available when the first doses of the vaccines are delivered.

46. The national deployment plan indicates that two systems will be introduced at the national level: (i) the Vaccine Information Management System (VIMS); and (ii) The COVID-19 Electronic Immunization Registry (CEIR). There is not a lot of information contained in the deployment plan

on how both systems will be managed and utilized during the vaccine rollout. It is also not clear at what stage the system are currently developed or who developed them.

47. It is unclear whether the DOH IT infrastructure will be sufficient to run the proposed systems from DOH, vaccine suppliers or third-party providers or whether sufficient time will be provided for testing the new systems prior to them going live. The IT demands for the proposed project will be significant with large amounts of data being captured and a need to update on a real time basis. It is unknown if DOH has the IT capacity to support the demands of a project on such a scale within such a short period notwithstanding possible support from the Department of Information and Communication Technology and possible support for third party providers.

48. The successful rollout of the vaccine will be largely dependent on how effectively IT systems processes and procedures cope with the surge in data capture and management ensuring that all data gathered during the rollout can be adequately captured and stored to enable further monitoring of vaccine recipients into the future.

### **C. Supply Chain Human Resource Management**

49. The deployment plan does not indicate how many staff will be required to rollout the vaccine nationwide however it is clear that it will be a sizeable undertaking with personnel from multiple organizations required to participate in the program if it is to be successful. The deployment plan would benefit from a clear stakeholder analysis, indicating the primary / lead stakeholders responsible for various activities and the level of resource which that stakeholder will make available to support those allocated activities.

50. For administering the vaccine deployment at the local level, the plan would be benefitted if there was a summary of the participating LGUs, the target population for the LGU and the level of human resource required and what is available to meet any proposed deployment schedules.

51. A training program supported by the World Health Organization and UNICEF was prepared and delivered in December 2020 and January 2021 to train sufficient numbers of vaccinators to support the vaccine rollout. DOH is to provide the data on the number of trained vaccinators and determine if the number trained is sufficient to meet the demands of the COVID-19 vaccine rollout.

### **D. Accounting, Oversight and Audit**

52. The funds appropriated from the GAA for the vaccination program will flow through DOH. As such, DOH will be responsible for preparing a financial report on the use of these funds, which will be reported and audited along with the other programs of DOH. In certain cases where the funds will come from the local government units, DOH will be able to track them separately and will report the receipts and expenditures in its financial reports.

53. The Commission on Audit, which is the country's Supreme Audit Institution, will conduct both a financial and compliance audit on DOH financial statements including the national vaccination program. The auditor assigned to the Department of Health will lead the conduct of the audit.

54. COA has a Special Services Unit which is tasked to conduct a performance audit on special programs and projects and a separate unit for fraud audit. However, the performance audit unit is relatively new, having been established only in 2017, and it does not have sufficient staff to conduct audit of this scale. One option COA is looking at is partnering with citizen groups to conduct the performance audit. COA has partnered with citizen groups since 2013 in conducting performance audit of special projects. COA also plans to reach out to other SAIs in the region to share best practices.

55. In determining the scope, COA will use risk-based approach in conducting the audit. This is especially useful for projects of this size. At this stage, it is foreseen that the risks and challenges will be in the actual implementation and deployment of the vaccines including the handling of the vaccines during transportation and distribution.

56. In cases of fraud, COA will issue a Notice of Disallowance and may forward the case to the Office of the Ombudsman which is the constitutional body responsible for investigating and prosecuting graft and corruption cases in government. COA and the Ombudsman have an existing Memorandum of Agreement which mandates the creation of a Joint Investigation team if the situation warrants the investigation by both agencies.

## **V. PROJECT FINANCIAL MANAGEMENT SYSTEM**

### **A. Overview**

57. As DOH is a Government Department, the PFM system weaknesses identified above apply to the financial management systems, processes, procedures, and capacity issues of DOH. The FMA was performed through desk review and requesting feedback from DOH on specific issues. The FMA prepared for HEAL 1 was updated considering project implementation progress and the change in project scope with an additional internal control questionnaire prepared and completed on ordering, transportation, storage, distribution, and disposal of COVID-19 vaccines.

### **B. Organization Structure and Staffing Capacity**

58. 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 local LGUs, people's organizations, and other members of civil society in effectively implementing related programs, projects, and services.

59. 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 as outlined in Annex 2.

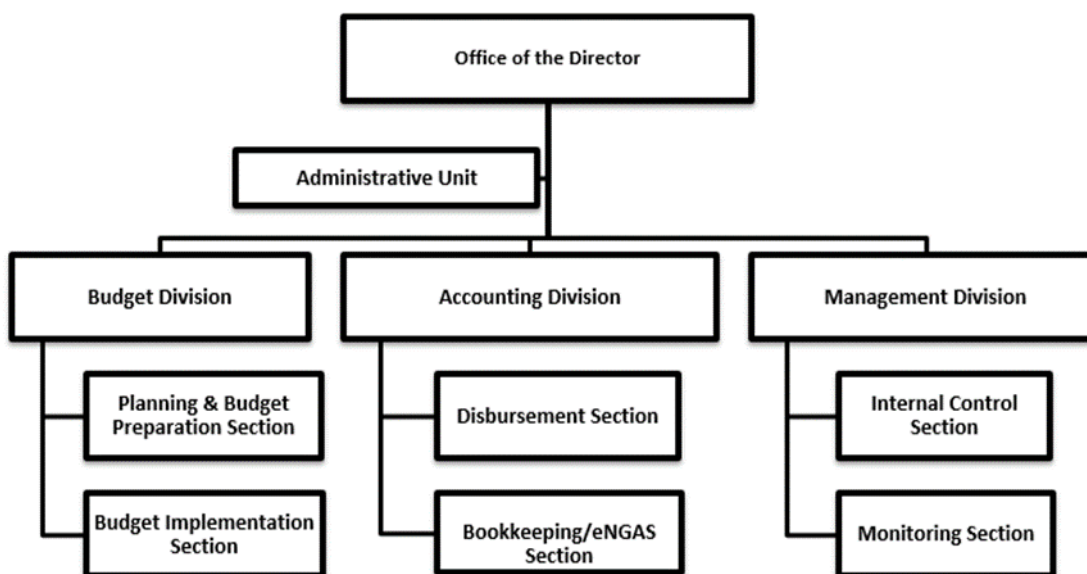
60. DOH is composed of the Central Office, 16 Regional Offices, 66 retained hospitals, 2 attached bureaus, 13 treatment and rehabilitation centers, 2 attached government corporations, and 2 attached agencies.

61. 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 other offices and agencies for health-related concerns, as well as with

LGUs and DOH partners, in the implementation of various public health programs including the COVID-19 program.

62. The Financial Management Service (FMS) under the Office for Administration, Finance, and Procurement performs the following functions: (i) prepares and consolidates the budget of DOH; (ii) maintains books of accounts; (iii) collaborates and coordinates with various fiscal and regulatory government agencies in establishing budgeting and accounting systems and policies; (iv) assists management in decision-making with regards to financial matters; (v) monitors, evaluates, and reports on fund utilization against performance of outputs; and (vi) 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 = electronic New Government Accounting System

Source: DOH Website

63. 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 rules and regulations, and is responsible for the implementation of financial management systems. The Management Division reviews policies, guidelines, methods, systems, and processes pertaining to financial matters relative to improvement of the internal control system. With limited personnel, the capacity of DOH is already stretched with the COVID-19 pandemic and it may not be able to give due attention to the project during implementation.

### C. Budget Systems

64. DOH is appropriated with ₱500,000,000 in Quick Response Fund as a standby fund for disaster response activities. The proposed agency budget under National Expenditure Plan



FY2020 is ₱101,021,018,000<sup>4</sup>. DOH-retained hospitals were provided fiscal autonomy, which allows full retention and use of hospital income to improve health facilities.

65. Some positive developments in health sector budgeting include the introduction of a medium-term expenditure plan for health. However, at the strategy level, funding issues for the sector remain. There are also system and process challenges as the UACS cannot be fully implemented without an automated environment and the BTMS has not yet been fully implemented throughout DOH.

#### **D. Accounting and Internal Control Systems**

66. The FMAQ requires an assessment of the accounting and internal control systems of the Executing Agency and Implementing Agencies. The specific areas of internal control include: (i) Are adequate accounting policies and procedures in place? (ii) Is there appropriate segregation of duties? (iii) Are payments, cash and banking processes and procedures adequate? and (iv) Is there adequate safeguarding of assets?

67. As noted under the country level systems, the failure to perform bank reconciliations, maintain asset registers, weak arrears management and generally the large number of audit observations raised by COA indicate that there are considerable internal control weaknesses in the financial management systems at DOH.

#### **E. Financial Reporting and Monitoring**

68. Financial reporting and monitoring processes are defined in various government documents with the main reports to be prepared including various budget reports, BFARs and the annual financial reports. The lack of a fully automated financial management system is impacting the timely preparation of reports and the weak internal controls noted above are impacting on the accuracy and completeness of reports prepared. The large number of audit observations and the qualified audit opinions indicate weak financial reporting capacity at DOH.

69. 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 GAA. DBM also issues relevant guidelines, rules, and pronouncements for compliance of DOH and all government agencies.

70. Under the proposed project, it is assumed that all project financial transactions will be captured to the eNGAS system and be classified in accordance with the Unified Account Code Structure as the Government's budget and accounting classification system. When accounting for vaccine costs, it is likely that a few large transactions will be captured in the accounting system to reflect the contractual payments made to vaccine suppliers under the terms and conditions of any contract. However, it is expected that vaccines procured should be able to be traced to the final location where the vaccines were administered to recipients and therefore vaccine costs in the financial management system should be allocated to the locations where the vaccines were administered. The inventory management and financial management systems should be updated

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<sup>4</sup> GOP. 2020. *General Appropriations Act*. Manila

and reconciled on a real time basis to provide the most update information for managers, development partners and all other stakeholders.

#### **F. Accountability measures**

71. COA is required to perform an external audit of DOH financial statements and to submit the audit report to the President and the Congress. COA have been raising multiple audit observations on the annual financial reports of DOH with many of the observations remaining unresolved.

72. COA issued a qualified audit opinion on the DOH financial statements for the year ended 31 December 2018. The audit noted that assets were misstated by ₱244,897,184 and liabilities were misstated by ₱816,654,238. Many significant outstanding audit observations dating back to CY2012 have still 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%. The failure to implement audit recommendations undermines the audit process.

#### **G. Strengths in current PFM supply chain arrangements**

73. The following strengths were identified in the FM and supply chain arrangements.

74. DOH has recently implemented a medium-term expenditure program thus planning expenditure over a multiyear period directed at policy priorities. DOH will also implement the recently introduced cash-based approach to budgeting intended to minimize the impact of prior challenges faced in the budget process which impeded expenditure.

75. DOH has financial management systems in place including an extensive classification system (UACS). It also is required to implement international accounting standards and has a functioning internal audit service. DOH has implemented several ADB projects and therefore is familiar with ADB financial management requirements.

76. DOH is due to introduce the BTMS system recently developed and deployed by DBM. Once introduced, there will be significant improvements in DOH budgeting, accounting, internal control, and financial reporting.

77. There has been a significant amount of planning undertaken for the procurement, receipt, storage, and distribution of the COVID-19 vaccine with key stakeholders engaged in the process including NGAs, security agencies, LGUs, developing partners and the private sector. A national vaccine road map and a national vaccination deployment plan have been developed to guide the rollout of vaccines at national and sub national levels.

#### **H. Weaknesses in current PFM and supply chain arrangements**

78. The following weaknesses were identified in the current PFM arrangements.

79. Unfilled staff positions and the lack of absorptive capacity at DOH needs to be addressed. There is also a need to address the large number of audit observations raised annually by COA.

80. Higher levels of automation are required to support the full implementation of the UACS along with the full rollout of the BTMS to all finance offices at DOH.

81. Additional levels of funding are required to support the sector if priority plans are to be implemented in future periods.

82. There is more detailed information required on the storage, transportation and distribution of the COVID-19 vaccine including clear protocols and procedures to be followed and the systems to be utilized during the vaccine rollout.

83. There is more information needed on the capacity of LGUs to support the vaccine deployment at the sub national level.

#### **I. Personnel**

84. Based on the DBM staffing summary report for FY2019, there are a total of 71,887 authorized permanent positions within DOH. 54,987 of the permanent positions are currently filled with leaving 16,900 position unfilled. Key permanent positions in the Financial Management Service numbered 355, which include 2 Financial and Management Officers II, 1 Chief Accountant, 2 Internal Auditors V, and 39 Chief Administrative Officers.

85. The Accounting Division is led by the Chief Accountant and assisted by Section Heads. The Disbursement and Bookkeeping/eNGAS section currently has 11 permanent staff and more than 20 contractual or job-order personnel. It is expected that this section will be required to support the project during implementing. It is proposed that DOH should augment staff under the supervision of the Bookkeeping/eNGAS Section Head to support financial management procedures for the HEAL COVID-19 loan project.

86. The organizational structure of DOH provides for adequate segregation of duties with different persons verifying, recording, authorizing, paying for, and receiving custody of assets. There is also adequate segregation of duties in the bank reconciliation process and the maintenance of subsidiary ledgers.

#### **J. Accounting Policies and Procedures**

87. DOH uses the Government Accounting Manual (GAM)<sup>5</sup> for NGAs, 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 GAM for NGAs includes the accounting policies, guidelines and procedures, and illustrative accounting entries, accounting books, registries, records, forms, and reports. The chart of accounts classification system is outlined in detail in the UACS manual.

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

89. DOH will maintain, or cause to be maintained, separate books and records by funding source for all expenditures incurred on the project following accrual-based principles of

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<sup>5</sup> COA Circular No. 2015-007 dated 22 October 2015—Prescribing the Government Accounting Manual for Use of All National Government Agencies.

accounting in accordance with the Philippine Public Sector Accounting Standards. DOH will prepare project financial statements in accordance with the government's accounting laws and regulations as prescribed by the Commission on Audit, which may issue updates and guidelines from time to time.

90. DOH shall prepare the following financial statements: (i) Statement of Financial Position; (ii) Statement of Financial Performance; (iii) Statement of Cashflows; (iv) Notes to Financial Statements; (v) Statement of Budget vs. Actual; (vi) Statement of Withdrawals; and (vii) Advance Account Reconciliation Statement. A report of the government's in-kind contribution should be included in the financial statements.

#### **K. Internal controls, and internal audit**

91. DBM issued the Philippine Government Internal Audit Manual (PGIAM) 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 PGIAM 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 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.

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

93. The DBM Circular Letter No. 2008-05 dated 14 April 2008 provided the guidelines in the organization and staffing of an Internal Audit Service 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.

94. The Internal Audit Service (IAS) of the DOH reports to the Office of the Secretary and is composed of two divisions: (i) Management Audit Division; and (ii) Operations Audit Division. The IAS functions include conducting management audits, operations audits, and performance audits. It also conducts regular reviews and evaluations of the adequacy, effectiveness, and efficiency of internal control systems. The IAS mandate allows for performing special and investigative audits 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 the DOH.

95. The IAS, with specific instructions from the DOH Secretary should prioritize the loan activities in its 2021–2024 audit plan. IAS should complete audit assignments on project activities and prepare internal audit reports and make them available to ADB.

#### **L. External audit**

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

97. Consolidation of accounts are done every year-end at DOH-Central Office and submitted to 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.

98. 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 recommendations made by COA on a timely basis. A summary of prior year audit recommendation is shown below:

**Table 4: Summary of Prior Years' Audit Recommendation**

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

CY = calendar year.

Source: HEAL 1 Financial Management Assessment

99. DOH will cause the detailed project financial statements to be audited in accordance with International Standards for Supreme Audit Institutions, by an independent auditor acceptable to ADB. The audited project financial statements together with the auditor's opinion will be presented in the English language to ADB within 6 months from the end of the fiscal year by the DOH.

100. 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; (ii) whether the proceeds of the loan were used only for the purpose(s) of the project; and (iii) whether the borrower or executing agency was in compliance with the financial covenants contained in the legal agreements (where applicable).

101. Compliance with financial reporting and auditing requirements will be monitored by review missions and during normal program supervision, and followed up regularly with all concerned, including the external auditor.

102. DOH has been made aware of ADB's approach to delayed submission, and the requirements for satisfactory and acceptable quality of the audited project financial statements. ADB reserves the right to require a change in the auditor (in a manner consistent with the constitution of the borrower), or for additional support to be provided to the auditor, if the audits required are not conducted in a manner satisfactory to ADB, or if the audits are substantially delayed. 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.

103. Public disclosure of the audited project financial statements, including the auditor's opinion on the project financial statements, will be guided by ADB's Public Communications Policy 2011. 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.

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

104. DOH operates the eNGAS, the government's automated accounting system. Consolidation of project accounts is being done at the Central Office every year-end. The DOH will record and report project transactions separately using automated financial software and preferably through the eNGAS or BTMS software capable of accommodating the UACS classification structure.

105. The 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 for reports not covered by the URS.

#### **N. Disbursement arrangements, funds flow mechanism**

##### **1. Disbursement Arrangements for ADB and AIIB Funds**

106. The loan proceeds of ADB and AIIB loans will be disbursed in accordance with ADB's Loan Disbursement Handbook (2017, as amended from time to time), and detailed arrangements agreed upon between the Borrower, ADB and AIIB. The Borrower shall submit to ADB the original withdrawal applications covering the finances of ADB. ADB will review submitted withdrawal applications and pay its share of financing.

107. Online training for project staff on disbursement policies and procedures is available. Project staff are encouraged to avail of this training to help ensure efficient disbursement and fiduciary control.

108. **Advance fund and Statement of Expenditure (SOE) Procedures** will not be used for this project.

109. Before the submission of the first withdrawal application, the Borrower should submit to ADB sufficient evidence of the authority of the person(s) in DOH who will sign the withdrawal application on behalf of the government, together with the authenticated specimen signatures of each authorized person. The minimum value per withdrawal application is stipulated in the Loan

Disbursement Handbook (2017, as amended from time to time). The Borrower should ensure sufficient category and contract balances before requesting disbursements. The use of ADB's Client Portal for Disbursements system is encouraged for submission of withdrawal applications to ADB.

110. **Disbursement of AIIB Financing.** The Borrower shall submit the original withdrawal application and copies of supporting documents to ADB, and one identical copy of such withdrawal applications and copies of supporting documents to AIIB. AIIB will promptly inform ADB once payment has been made. In case AIIB rejects the payment requested in the withdrawal, it shall promptly inform ADB and the Borrower in writing of its decision and the basis of for such decision. ADB shall not be held liable for any decision made by AIIB with respect to payments requested in withdrawal applications or any delay in disbursement outside of ADB's control.

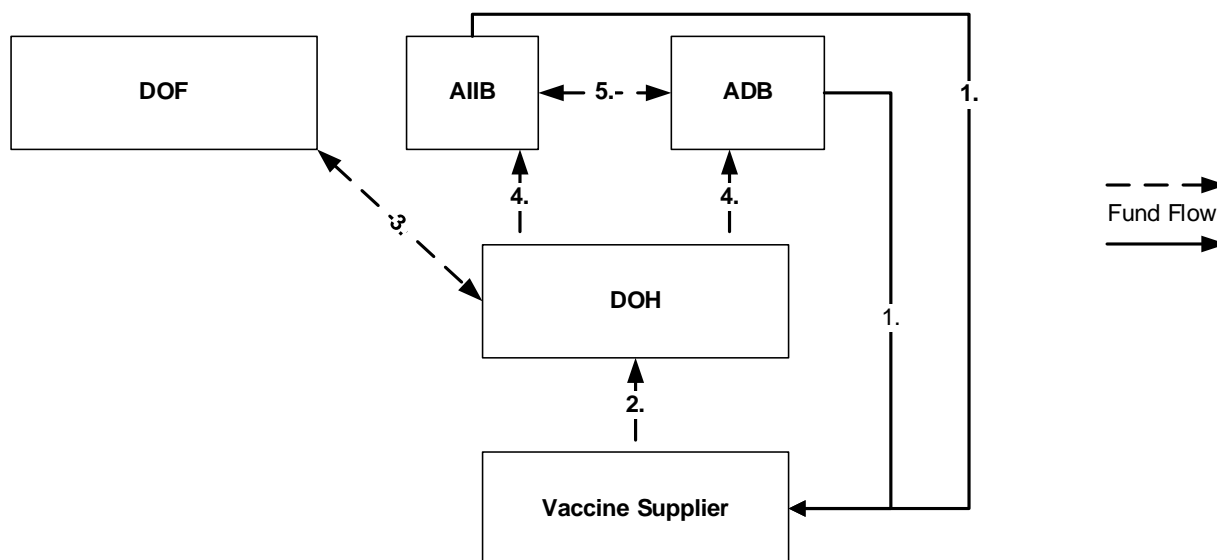
111. **Disbursement conditions.** No withdrawals shall be made from the Loan Account for financing Eligible Vaccines until ADB has received a letter from the Borrower confirming (i) which COVID-19 vaccine(s) have been selected to be procured using the proceeds of the Loan; (ii) which of the eligibility criteria in the definition of Eligible Vaccine has been satisfied in respect of the COVID-19 vaccines to be procured; and (iii) that the Eligible vaccines have received all necessary authorizations of the Borrower, and have been authorized by FDA and any other relevant regulatory authorities for distribution and administration within the territory of the Borrower, and based on the information provided in the aforementioned letter, ADB has notified the Borrower that the COVID-19 vaccines to be procured are designated as Eligible Vaccines.

## 2. Disbursement Arrangements for Counterpart Fund

112. The Department of Finance (DOF) and DOH will be responsible for the relevant disbursement and liquidation procedures for government funds and will be responsible for (i) preparing disbursement projections, and (ii) requesting budgetary allocations for counterpart funds. The government will finance all taxes and duties under the project through tax exemption.

113. Overall project funds flow is illustrated in the Figure below.

**Figure 3: Funds Flow Arrangements**



ADB = Asian Development Bank, AIIB = Asian Infrastructure Investment Bank, DOF = Department of Finance, DOH = Department of Health

1. Direct payments to suppliers for vaccines from ADB and AIIB funds.
2. Documents from vaccine suppliers requesting contractual payments.
3. Withdrawal application endorsed by DOF and submitted by DOH.
4. Withdrawal application submitted to ADB and AIIB.
5. ADB notify AIIB that withdrawal application is in order. AIIB notify ADB when payment is released.

Source: Asian Development Bank

## VI. RISK DESCRIPTION AND RATING

114. A detailed Risk Assessment and Risk Management Plan is included in the table below. Risk without mitigating measures is assessed as High due to the scale and complexity of the project. Further work and clarifications are required in the deployment plan in the areas of: (i) transportation and the use of third-party providers; (ii) inventory management and the transfer of vaccines to and from various levels/vaccination hubs; and (iii) the IT systems and data management to be utilized for managing inventories and monitoring vaccine deployment. The Government of the Philippines and the DOH have agreed to address deficiencies in the deployment plan to mitigate the risks.

**Table 5: Detailed Risk Assessment and Risk Management Plan**

<b>Risk Description</b>	<b>Risk Assessment</b>	<b>Mitigation Measures</b>
<b>Country specific</b>		
Weak PFM pillars of budget reliability, accounting and reporting, and external scrutiny. Inconsistent compliance, and unfavorable corruption perception.	Substantial	Continued implementation of PFM reforms and related initiatives, such as the PFM Reform Roadmap, and the Good Governance and Anticorruption Cluster Plan.
<b>Project Risks</b>		
<b>Stretched capacity</b> at DOH due to resources deployed to tackle current COVID-19 infections as well as deploying resources to prevent future infections during the vaccine rollout.	High	Prior to project implementation, DOH to identify and assign the appropriate offices including external stakeholders and personnel to the Project activities, and clearly set management and coordination functions.
<b>Project complexity.</b> The procurement and distribution of the COVID-19 vaccines is a complex project requiring the interaction of multiple stakeholders and engagement of multiple areas of expertise including procurement, specialized supply chain management, clinical, clerical, and extensive IT expertise. DOH may not have the project management or technical skills to implement such a complex project.	High	Detailed stakeholder engagement plans with delegated responsibilities clearly outlined.  Updated inventory management procedures with cold storage handling protocols along with training for key stakeholders.  Engage external experts to support project delivery where necessary and appropriate.



Risk Description	Risk Assessment	Mitigation Measures
<b>Private sector role</b> - Reliance on the private sector to deliver critical elements of the vaccine storage, transportation distribution and tracking with minimal information available on the capacity of the private sector to perform this critical role.	High	Enhanced due diligence performed on private sector capacity prior to engaging for project critical roles in transportation, storage deployment and providing IT support.
<b>Funding</b> - GOP inability to provide the funding from its own sources to cover logistics and other vaccine costs if such costs were to rise during implementation.	Substantial	Contingency plans developed if GOP funding is not available when needed to support logistics and other vaccine deployment costs.
<b>Accounting policies and procedures</b> —prior year qualifications on DOH audited consolidated financial statements raises FM capacity concerns	Substantial	FM arrangements for the project will be established including project accounting and financial reporting.
<b>Vaccine inventory management</b> - Weaknesses in the inventory management system may result in vaccines being lost, damaged, misplaced and stolen.	High	Existing inventory management systems, processes, procedures, and protocols including transportation requirements to be updated and training provided to all inventory personnel prior to arrival of first order of vaccines.
<b>Vaccine storage</b> - No asset register of all cold storage facilities provided to validate DOH capacity to support vaccine procurement volumes.	High	Asset registers to be provided listing all cold storage facilities.
<b>Vaccine deployment</b> – lack of detail provided on LGUs capacity to oversee the vaccine rollout as the subnational level.	High	More in-depth analysis on LGUs capacity to oversee vaccine deployment at sub national level prior to vaccine procurement. This should include a review of facilities, management, technical and administrative skills available at the LGU.
<b>Vaccine security</b> – The physical facilities for storing and administering vaccines could not be visited to inspect security arrangements. It is indicated that the Armed Forces of the Philippines (AFP) and the Philippines National Police (PNP) will be utilized to provide physical security, but it is unclear what level of security will be provided by those organizations.	High	All vaccine storage and distribution facilities should be located in flood free areas.  A review of the proposed security arrangements including the involvement of the AFP and the PNP should be performed prior to placing any vaccine purchases.
<b>External audit</b> —COA conducts annual financial audits of DOH consolidated accounts. Due to the complexity, significance, and the high-profile nature of this project, it is envisaged that additional scrutiny and audits will be required for this Project.	Substantial	During project implementation, DOH to closely coordinate with COA regarding annual audit arrangements to ensure timely submission of acceptable audit reports in accordance with ADB standards.  COA to undertake performance audits

<b>Risk Description</b>	<b>Risk Assessment</b>	<b>Mitigation Measures</b>
		on project activities.  COA and DOH Internal Audit Service to perform routine inventory management audits of vaccine storage facilities and vaccine distribution sites.
<b>Reporting and monitoring</b> —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 HEAL 2 COVID-19.	Substantial	Provide DOH finance personnel with training on preparation of Project compliant financial reports.
<b>9. Information systems</b> —DOH has an operational eNGAS.	Moderate	DOH to ensure that project funds will be incorporated into the existing information system.
<b>Overall Project Risk</b>	<b>High</b>	

ADB = Asian Development Bank, COA = Commission on Audit, COVID-19 = Coronavirus Disease, DBM = Department of Budget and Management, DOF = Department of Finance, DOH = Department of Health, DICT = Department of Information and Communication Technology, eNGAS = electronic New Government Accounting System, IAS= Internal Audit Service, LGU = Local Government Unit, PFM = Public Financial Management  
Source: Asian Development Bank.

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

115. The financial management action plan is provided in the Table below. A time bound FM Action Plan will be discussed between ADB and DOH as the EA prior to completion of the project scope change. The agreed FM Action Plan should thereafter be considered a rolling plan to be regularly reviewed for progress and updated on this basis as well as if new FM elements are identified to require improvements.

**Table 6: Financial Management Action Plan**

<b>Mitigating Action</b>	<b>Responsible Party</b>	<b>Timeframe</b>
1. Identification of DOH focal persons to be assigned to the project. Detailed stakeholder engagement plans with delegated responsibilities clearly outlined.	DOH	Q1 2021
2. Establishment of financial management arrangements and rolling it out by conducting orientation, trainings, or workshops.	DOH, ADB	Within 6 months from effectiveness
3. Quarterly monitoring of project including physical and financial progress.	DOH	Q2-Q4 2021 Q1-Q4 2022 Q1-Q4 2023
4. Updated inventory management procedures with cold storage handling protocols along with training for key stakeholders.	DOH	Q2 2021

<b>Mitigating Action</b>	<b>Responsible Party</b>	<b>Timeframe</b>
5. Engage external experts to support project delivery where necessary and appropriate.	DOH/ADB	Q2 2021
6. Enhanced due diligence performed on private sector capacity prior to engaging for project critical roles in transportation, storage deployment and providing IT support.	DOH	Q2 2021
7. Contingency plans developed if GOP funding is not available when needed to support logistics and other vaccine deployment costs.	DOH/DBM/DOF/ADB	Q1 2021
8. Vaccine deployment plans to be updated to clearly identify responsibility and accountability for vaccines between regional warehouses and local government facilities/sites for administering vaccines.	DOH/LGUs	Q1-Q2 2021
9. Establishment of asset registers for all cold storage facilities.	DOH/ADB	Q1-Q2 2021
10. Completion of the assessment of LGUs capacity to oversee vaccine deployment at sub national level prior to vaccine distribution. This should include a review of facilities, management, technical and administrative skills available at the LGUs.	DOH	Q2 2021
11. During project implementation, DOH to closely coordinate with COA regarding annual audit arrangements to ensure timely submission of acceptable audit reports in accordance with ADB standards.	DOH/COA	Q1 2021
12. COA to undertake performance audits on project activities.	DOH/COA	Annual
13. COA and DOH Internal Audit Service (IAS) to perform routine inventory management audits of vaccine storage facilities and vaccine distribution sites.	COA/IAS	Annual

ADB = Asian Development Bank, COA = Commission on Audit, DBM = Department of Budget and Management, DOF = Department of Finance, DOH = Department of Health, DICT = Department of Information and Communication Technology, eNGAS = electronic New Government Accounting System, IAS= Internal Audit Service, LGU = Local Government Unit,

Source: Asian Development Bank.

### **VIII. SUGGESTED FINANCIAL MANAGEMENT COVENANTS**

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

- (i) maintain separate accounts and records for the Project;
- (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 the project.

## **IX. CONCLUSION**

117. 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 the DOH using the procedures for Direct Payment.

## ANNEX 1: INTERNAL CONTROL QUESTIONNAIRE

### Internal Control Questionnaire – COVID-19 Vaccines

Project: Second HEAL COVID-19 Project

Assessment completed by: Consultant.

Topic	Response
<b>9.0 Ordering, transportation, storage, distribution, and disposal of Covid-19 vaccines</b>	
<b>9.1 Ordering vaccines</b>	
<ul style="list-style-type: none"> <li>How does the country plan to procure the vaccine, centrally or on a regional basis?</li> </ul>	It is expected that the vaccine will be procured centrally by the Department of Finance (DOF) and not the Department of Health (DOH). It appears as though DOF will pursue advance purchase contracts with the four main vaccine providers (Pfizer, Moderna, AstraZeneca and Novavax) as well as pursuing the option to procure some vaccines through the global COVAX facility managed by the WHO.
<ul style="list-style-type: none"> <li>If procurement is central, how will regions place its order or get its allocation of the vaccines?</li> </ul>	Details not available.
<ul style="list-style-type: none"> <li>Have authorized personnel been identified from each region for placing orders?</li> </ul>	Details not available.
<ul style="list-style-type: none"> <li>What details/information must be provided from the region when placing an order?</li> </ul>	Details not available.
<ul style="list-style-type: none"> <li>Is there a clear demarcation of responsibility on when the central level hands the process over to the region?</li> </ul>	Details not available.
<b>9.2 Vaccine transportation</b>	
<ul style="list-style-type: none"> <li>Does DOH have a plan for transporting the vaccine to the region and division level?</li> </ul>	It is being proposed that a Third Party Provider will be engaged to take charge of the receipt, storage and distribution of vaccines. Storage will depend on the temperature requirement for different vaccines. Further the third party provider will also cover reversed logistics and management of health waste.  No assessment has been performed on third party provider capacity as details on volume, type, and locations where vaccines will be distributed has not been completed.
<ul style="list-style-type: none"> <li>What means of transportation will be used and is there appropriate refrigeration capacity on planes, ships and road transport if used?</li> </ul>	No analysis completed.
<ul style="list-style-type: none"> <li>How will the vaccines be transported locally?</li> </ul>	It is assumed that third party providers will have capacity although it is unknown until more details on type, volume and location of vaccine distribution is known.

Topic	Response
<ul style="list-style-type: none"> <li>• Are there any divisions / locations where refrigerated transportation will not be possible – if yes, what measures will be taken for those areas?</li> </ul>	Detailed planning not yet performed.
<ul style="list-style-type: none"> <li>• What are the security measures in place to ensure that the vaccines are properly transported from the port of entry, to the storage locations, to the local government units?</li> </ul>	The Philippines National Police and the Armed Forces of the Philippines will form part of the logistics team that will take charge of the security of the vaccines.
<b>9.3 Receipt of vaccines</b>	
<ul style="list-style-type: none"> <li>• Do regions and divisions have a clear process/procedure for checking vaccines prior to approving receipt?</li> </ul>	No clear response provided. It is assumed that the private sector provider will take responsibility receipt.
<ul style="list-style-type: none"> <li>• Do staff check vaccines against the order for discrepancies and leakage or damage before accepting them?</li> </ul>	No clear response provided.
<ul style="list-style-type: none"> <li>• Are vaccines recorded on an inventory sheet / stock management sheet upon receipt?</li> </ul>	It is assumed that vaccine suppliers and the third party providers will provide a system for tracking vaccine usage.
<ul style="list-style-type: none"> <li>• Is the inventory management system manual or electronic?</li> </ul>	It is assumed that the vaccine tracking system provided by vaccine suppliers and third party providers will be electronic.
<ul style="list-style-type: none"> <li>• How often is the inventory management system updated?</li> </ul>	Information not provided.
<ul style="list-style-type: none"> <li>• Does the inventory management system keep track of orders, running totals, expiry dates and wastage?</li> </ul>	It is assumed that vaccine suppliers and the third party providers will provide a system for tracking vaccine usage. It is unknown if the tracking system can be used to manage vaccine inventory.
<b>9.4 Storage of Vaccines</b>	
<ul style="list-style-type: none"> <li>• Do written vaccine storage procedures exist for refrigerated vaccines?</li> </ul>	No information provided.
<ul style="list-style-type: none"> <li>• What is vaccine refrigerated storage capacity at DOH?</li> </ul>	No information provided. It is being proposed that the third party provider will be responsible for vaccine storage. No capacity assessment has been made of third party storage facilities as the volume and type of vaccine to be procured is still unknown. Each vaccine will have specific storage requirements.
<ul style="list-style-type: none"> <li>• What is the number, type, and capacity of vaccine refrigerators?</li> </ul>	Information not provided or is unknown at this time.
<ul style="list-style-type: none"> <li>• Are vaccine refrigerators identified with unique identifying numbers and located in secure locked buildings?</li> </ul>	Information not provided or is unknown at this time.
<ul style="list-style-type: none"> <li>• Are vaccine refrigerators stored in a suitable location away from direct sunlight?</li> </ul>	Information not provided or is unknown at this time.

Topic	Response
<ul style="list-style-type: none"> <li>• Are vaccine refrigerators wired with switchless sockets to avoid them being switched off accidentally?</li> </ul>	Information not provided or is unknown at this time.
<ul style="list-style-type: none"> <li>• What steps have been taken to reduce the probability of accidental interruption of electricity supply?</li> </ul>	Information not provided or is unknown at this time.
<ul style="list-style-type: none"> <li>• Are vaccine refrigerators fitted with digital thermometers?</li> </ul>	Information not provided or is unknown at this time.
<ul style="list-style-type: none"> <li>• Are refrigerator thermometers regularly checked?</li> </ul>	Information not provided or is unknown at this time.
<ul style="list-style-type: none"> <li>• How are vaccines transported when taken out of the vaccine refrigerator?</li> </ul>	Information not provided or is unknown at this time.
<ul style="list-style-type: none"> <li>• How often are refrigerators maintained?</li> </ul>	Information not provided or is unknown at this time.
<ul style="list-style-type: none"> <li>• Are records kept of regular servicing, defrosting, and cleaning, calibration, and electrical testing?</li> </ul>	Information not provided or is unknown at this time.
<ul style="list-style-type: none"> <li>• Are all maintenance actions recorded on a log sheet, kept with the vaccine refrigerator?</li> </ul>	Information not provided or is unknown at this time.
<ul style="list-style-type: none"> <li>• Are other substances stored in the refrigerator along with vaccines?</li> </ul>	Information not provided or is unknown at this time.
<ul style="list-style-type: none"> <li>• Are vaccines stored in the original packaging, retaining batch numbers and expiry dates?</li> </ul>	Information not provided or is unknown at this time.
<b>9.5 Vaccine distribution and administration</b>	
<ul style="list-style-type: none"> <li>• What plans, processes and procedures are in place for administering the vaccine at regional and divisional level including numbers of clinical and clerical staff required as well as security personnel if needed.</li> </ul>	The specific details on how the vaccine will be administered at various sites is yet to be developed, however there are high level plans
<ul style="list-style-type: none"> <li>• Does DOH have a communication strategy / plan in place to keep the public well informed on how the vaccine distribution will occur and what self-monitoring is required from the public?</li> </ul>	No details provided.
<ul style="list-style-type: none"> <li>• What is the process for verifying patient identification prior to administering the vaccine?</li> </ul>	DOH indicate that this is the responsibility of Local Government Units.
<ul style="list-style-type: none"> <li>• How will priority groups identified for vaccination register for receiving the vaccination?</li> </ul>	No details provided.
<ul style="list-style-type: none"> <li>• What information will be collected for those being vaccinated? How will the security of the data be maintained?</li> </ul>	No details provided.
<ul style="list-style-type: none"> <li>• How will records of those vaccinated be maintained e.g., manually, or electronically?</li> </ul>	No details provided.
<ul style="list-style-type: none"> <li>• How will DOH ensure that those being vaccinated receive the appropriate dosage of the same vaccine if the recommended dosage is two or more vaccines for that supplier.</li> </ul>	No details provided.

Topic	Response
<ul style="list-style-type: none"> <li>• What IT systems will be used to track/monitor vaccine usage, distribution as well as track the number of patients vaccinated.</li> </ul>	Third party provider will provide this initially. As now DOH is in the process of procuring its own system but it will not be available.
<ul style="list-style-type: none"> <li>• Is this a new system or an existing DOH system?</li> </ul>	DOH is in the process of procuring a new system, therefore the system used by the third party provider will be used and is therefore new to DOH.
<ul style="list-style-type: none"> <li>• Has the system been thoroughly tested to ensure security of data and appropriate functioning of system?</li> </ul>	No details provided.
<ul style="list-style-type: none"> <li>• Have system users been trained on software?</li> <li>• How many system users are required for inputting data?</li> </ul>	No details provided. No details provided.
<ul style="list-style-type: none"> <li>• What reports does the IT system produce? How often are reports monitored?</li> </ul>	No details provided.
<ul style="list-style-type: none"> <li>• What security arrangements are being proposed at regional and divisional distribution sites to protect vaccines from theft, to protect health officials from abuse and also to ensure large crowds are effectively managed?</li> </ul>	Security being arranged in conjunction with the Philippines National Police and the Armed Forces of the Philippines.
<ul style="list-style-type: none"> <li>• What arrangements are in place to ensure appropriate protocol on use and disposal of needles and syringes to prevent cross contamination?</li> </ul>	No details provided.
<b>9.6 Spoiled Vaccines</b>	
<ul style="list-style-type: none"> <li>• Do written procedures exist for dealing with vaccine spillage?</li> </ul>	No details provided.
<ul style="list-style-type: none"> <li>• Do written procedures exist for the disposal of vaccines and the equipment used for vaccination exist?</li> </ul>	No details provided.



### Annex 2: Department of Health Organization Structure

