

**PROJECT INFORMATION DOCUMENT (PID)
IDENTIFICATION/CONCEPT STAGE**

Report No.: PIDC22020

Project Name	Capacity Development Support to the Commission on Audit
Region	EAST ASIA AND PACIFIC
Country	Philippines
Sector(s)	General public administration sector (100%)
Theme(s)	Other accountability/anti-corruption (100%)
Lending Instrument	Lending Instrument
Project ID	P154844
Borrower Name	
Implementing Agency	
Environment Category	U - Not Rated (for all adjustment operations except for SECA)
Date PID Prepared	17-Mar-2015
Estimated Date of Approval	01-Apr-2015
Initiation Note Review Decision	The review did authorize the preparation to continue

I. Introduction and Context

Country Context

President Benigno S. Aquino came into power in June 2010, on a platform focusing on good governance, anti-corruption and poverty reduction. The arrival of the Aquino Administration with its commitment to good governance reforms placed the PFM reform agenda high on the government's list of priorities. As a result, the Philippines Government developed its Philippine PFM Reform Roadmap: Towards Improved Accountability and Transparency, 2011–2015 which is being implemented with the support of key development partners. This comprehensive PFM reform agenda aims to clarify, simplify, improve and harmonize the financial management processes and information systems of the civil service in the Philippines.

For the past several years the government has pursued a variety of reforms related to various aspects of public financial management outlined in the PFM Reform Roadmap focusing on budget reporting and performance standards, improvement of treasury cash management operations, development of a government integrated financial management information system, accounting and auditing reforms, liability management, and capacity building. The 2013 PFM Annual Action Plan states that the progress on implementing PFM reforms over 2011/2012 is encouraging, with very good initiatives introduced, particularly in the area of budget transparency and citizen engagement in the budget process in line with the GGAC Cluster Plan. Further efforts are needed to meet the stated objectives in the area of accounting and auditing reforms.

Aside from the ongoing efforts required to meet the stated objectives of the PFM Reform Roadmap, it is to be noted that the Philippines is considered one of the nations most “at risk” of being struck

by disasters due to its geographic location, thus vulnerable to multiple recurring hazards such as typhoons, floods, earthquakes and landslides. In the 2012 World Risk Report, the Philippines ranked third out of 173 countries in terms of disaster risk. With natural calamities expected to hit the Philippines, efficient and effective management of disaster funds are needed to ensure proper use of resources. Republic Act (RA) No. 10121 or the Philippine Disaster Risk Reduction and Management Act of 2010 was enacted to strengthen the governance framework for National Disaster Risk Reduction and Management (NDRRM), institutionalize the NDRRM Plan, and mainstream DRRM in the development process to better prepare for and lessen the impact of deadly and costly natural and man-made hazards/disasters with the goal of promoting sustainable socio-economic growth.

In 2014, COA issued a Circular on the Accounting and Reporting Guidelines which set basic regulations and rules of procedure in the receipt and utilization of disaster funds given the weaknesses in PFM and the need for eased fiduciary controls during periods of calamity. In order to effectively audit the rescue, relief, recovery and rehabilitation efforts and activities, specialized audit guidelines are necessary.

Sectoral and Institutional Context

The Supreme Audit Institution (SAI) in the Philippines is the Commission on Audit (COA) and is mandated under the Philippine Constitution to examine, audit, and settle all accounts pertaining to the revenue and receipt of, and expenditures or uses of funds and property, owned or held in trust by, or pertaining to, the Government, or any of its subdivisions, agencies, or instrumentalities, including government-owned or controlled corporations with original charters. Pursuant to this mandate, COA undertakes financial, compliance and performance audits.

In accordance with the Aquino Administration's PFM Roadmap and Action Plan, COA is continuing to enhance the government accounting system including harmonizing the Philippine Public Sector Accounting Standards (PPSAS) with international standards: the International Financial Reporting Standards (IFRS) and International Public Sector Accounting Standards (IPSAS). The New Government Accounting System (NGAS) is being enhanced so that, among other things, it is compatible with classifications in the national budget. On the auditing side, the COA is developing new Philippine Public Sector Standards on Auditing (PPSSAs) as well as an Integrated Results and Risk-Based Audit System. A revised framework for participatory audit is also being developed.

Collaboration with other Development Partners (DPs) is being made to ensure that the proposed project will complement and not overlap with other DPs' efforts. The Asian Development Bank (ADB) has been providing complimentary Technical Assistance (TA) grants to COA for developing audit capability to promote good governance. ADB is considering a regional capacity development technical assistance (R-CDTA) that aims to empower four (4) SAIs (including COA) of the Association of South East Asia Nations (ASEAN) to improve the financial audit compliance with the international standards of SAI (ISSAI). Some activities included in the ADB proposal will be jointly collaborated with development partners through parallel financing. For the Philippines, activities related to the adoption and implementation of ISSAI based Philippine Public Sector Standards of Auditing will be funded by the World Bank. ADB's support to the Philippines SAI will focus on disseminating the ISSAI-based financial audit guidelines to other ASEANSAI members.

Adoption of the Philippine Public Sector Standards on Auditing

During the Calendar Year 2012, COA conducted 19,137 financial and compliance audits and 46 government-wide and sectoral performance audits. These audits covered the different departments and bureaus, including their regional offices, operating units and attached agencies, state universities and colleges, government owned and controlled corporations and their branches and subsidiaries, and local government units consisting of provinces, cities, municipalities and barangays.

The COA Strategic Plan CYs 2012-2014 identified (1) Integrity and Independence, (2) Organizational Efficiency, (3) Professionalism and Technical Competence, and (4) Strategic Partnership/Linkages, as its strategic areas of concern. In its thrust area of Organizational Efficiency, one of the performance measures identified is the adoption and compliance with the International Standards of Supreme Audit Institutions (ISSAI) framework for Level 4, which outlines the requirements for Auditing Guidelines.

On January 29, 2013, the Commission Proper, the policy making body of SAI Philippines, issued Resolution No. 2013-007 adopting the Philippine Public Sector Standards on Auditing (PPSSAs) in order to harmonize the auditing standards promulgated under the Government Auditing Code of the Philippines and issuances of the Commission Proper, to the extent possible, with the current international standards in auditing. After a study and review of the provisions of the International Standards on Auditing (ISAs) and ISSAIs, the Public Sector Auditing Standards Board (PSSB-Auditing) of SAI Philippines recommended the adoption of the standards to be referred to as Philippine Public Sector Standards on Auditing (PPSSAs).

Audit of Disaster Funds

One of the salient features of the DRRM Act of 2010 is on the utilization of the calamity fund, now called Disaster Risk Reduction and Management Fund (DRRM Fund). The DRRM Fund appropriated under the annual General Appropriations Act shall be used for disaster prevention and preparedness activities, relief, recovery, reconstruction and other work or services in connection with natural or human-induced calamities. From 2010-2012, a total of Php 9.434 billion (DRRM Fund) was released to national agencies and local government units, excluding infusions from official development assistance. To improve the availability, reliability and quality of financial information on disaster related funds, COA issued Circular No. 2012-002 on September 12, 2012 to provide guidelines on the accounting and reporting on Local Disaster Risk Reduction and Management Funds. This was followed in 2014 by the issuance of a Circular on the Accounting and Reporting Guidelines on the receipt and utilization of National Disaster Risk Reduction and Management Funds (NDRRM Funds), disaster relief/aid donations in cash or in-kind, and funds allocated from Agencies' regular budget for the DRRM program. Like the 2012 circular, the draft circular calls for the segregated accounting of funds used for NDRRM activities.

COA has proposed a project to develop a specialized audit manual over DRRM funds receipt and utilization that will provide clear guidelines on how to audit all disaster-related funds, regardless of source. This project will build on the existing framework for disaster management and is expected to improve transparency, enhance accountability and mitigate potential risks that are inherent in disaster-related transactions, especially during emergencies. The proposed project shall also train

local government units and all the national government agencies involved in disaster related activities on these accounting and audit systems to ensure that all disaster related funds and donations are properly accounted for and that DRRM Funds are properly utilized for the purpose.

Relationship to CAS/CPS/CPF

The FY15-18 Country Partnership Strategy (CPS) placed major emphasis on transparent, accountable and participatory government in line with the key areas of the Philippine Development Plan. The three strategic outcomes outlined in the results matrix of the CPS under the first engagement area of Transparent and Accountable Governance are: (i) strengthened public finances and fiscal transparency and financial accountability, (ii) strengthened public sector institutions, and (iii) strengthened pressure for Government accountability.

One of the key milestones under the outcome area of strengthened public sector institution is the effective implementation of PFM reforms and public expenditure management. Accordingly, the proposed project will support the government's reform objective through focus on improving the availability, reliability and quality of financial information on disaster related transactions, with a view of improving transparency, enhancing accountability and mitigating potential risks that are inherent in disaster-related transactions during emergencies. This can be achieved through increased uniformity of practice of audit and assurance services provided by the Commission on Audit (COA) and improved compliance with international audit guidelines and best practices in the specialized area of disaster management.

II. Project Development Objective(s)

Proposed Development Objective(s)

Project Development Objective: To increase uniformity of practice of audit and assurance services provided by the Supreme Audit Institution of the Philippines (Commission on Audit) and promote its compliance with international audit guidelines and best practices in the specialized area of disaster related activities

Key Results

B. Key Results (Outcomes)

- Increased number of audits complying with the ISSAI audit guidelines for financial, compliance and performance audits;
- Increased number of audits utilizing specialized procedures in the audit of disaster related transactions.

III. Preliminary Description

Concept Description

A. Project Components

- (1) Adoption and implementation of ISSAI based Philippine Public Sector Standards of Auditing;
- (2) Development and adoption of a specialized audit manual for disaster related funds and activities.

B. Project Description

The project will (1) develop and promote adoption of ISSAI Compliance Assessment Tools (iCATs) for all audit streams, and (2) develop a specialized audit manual which presents audit procedures designed to mitigate potential risks that are inherent in disaster-related transactions.

Component (1) comprises two subcomponents, covering (a) professional staff capacity development (training on level 4 ISSAIs and the iCATs) and (b) organizational systems capacity development (adoption and dissemination of Philippine Public Sector Standards of Auditing (PPSSAs), along with guidance and practice notes, audit manuals etc.).

Component (2) includes (a) the development of a specialized audit manual as a guide for the audit of disaster related funds and (b) professional staff capacity development (training on accounting and auditing guidelines related to Disaster Risk Reduction Management Funds.)

The project will not be funding any civil works.

IV. Safeguard Policies that Might Apply

Safeguard Policies Triggered by the Project	Yes	No	TBD
Environmental Assessment OP/BP 4.01		x	
Natural Habitats OP/BP 4.04		x	
Forests OP/BP 4.36		x	
Pest Management OP 4.09		x	
Physical Cultural Resources OP/BP 4.11		x	
Indigenous Peoples OP/BP 4.10		x	
Involuntary Resettlement OP/BP 4.12		x	
Safety of Dams OP/BP 4.37		x	
Projects on International Waterways OP/BP 7.50		x	
Projects in Disputed Areas OP/BP 7.60		x	

V. Financing (in USD Million)

Total Project Cost:	0.278	Total Bank Financing:	0
Financing Gap:	0		
Financing Source			Amount
Supreme Audit Institutions Capacity Development Fund			0.278

VI. Contact point

World Bank

Contact: Bonnie Ann Sirois
 Title: Sr Financial Management Special
 Tel: 5776+2542
 Email: bsirois1@worldbank.org

Borrower/Client/Recipient

Name:
 Contact:
 Title:

Tel:
Email:

Implementing Agencies

Name:
Contact:
Title:
Tel:
Email:

VII. For more information contact:

The InfoShop
The World Bank
1818 H Street, NW
Washington, D.C. 20433
Telephone: (202) 458-4500
Fax: (202) 522-1500
Web: <http://www.worldbank.org/infoshop>