PFMP Philippines-Australia
Public Financial Management Program

Supporting the Philippines towards improved efficiency, accountability and transparency

Annual Action Plan 2013

January 2013

Abbreviations

AAP	Annual Action Plan	IRR	Implementing Rules and Regulations
ADB	Asian Development Bank	LGU	Local Government Unit
ANSA	Affiliated Network for Social Accountability	M&E	Monitoring and Evaluation
AusAID	Australian Agency for International Development	MFO	Major Final Output
BPA	Budget Partnership Agreement	NEDA	National Economic and Development Authority
BSP	Bangko Sentral ng Pilipinas	NG	National Government
BTr	Bureau of the Treasury	NGAS	New Government Accounting System
CCT	Conditional Cash Transfer	NGICS	National Guidelines on Internal Control Systems
COA	Commission on Audit	NPS	National Payroll System
CPBRD	Congressional Policy and Budget Research Department	OGP	Open Government Partnership
CSC	Civil Service Commission	OP	Office of the President
CSO	Civil Society Organisation	OPIF	Organizational Performance Indicators Framework
DAP	Development Academy of the Philippines	PAP	Program/Activity/Project
DBCC	Development Budget Coordination Committee	PDAF	Priority Development Assistance Fund
DBM	Department of Budget and Management	PDF	Philippines Development Forum
DepED	Department of Education	PDP	Philippine Development Plan
DMFAS	Debt Management and Financial Analysis System	PEFA	Public Expenditure and Financial Accountability
DOF	Department of Finance	PFM	Public Financial Management
DPWH	Department of Public Works and Highways	PFMP	Public Financial Management Program
DRMD	Debt and Risk Management Division	PGIAM	Philippine Government Internal Audit Manual
DSWD	Department of Social Welfare and Development	PIU	Project Implementation Unit
eBudget	Electronic Budget System	PMO	Program Management Office
eNGAS	Electronic New Government Accounting System	PPP	Public-Private Partnership
eTAILS	Electronic Transparency & Accountability Initiative for Lump Sum Funds	PPSAS	Philippine Public Sector Accounting Standards
FMIS	Financial Management Information System	PPSSA	Philippine Public Sector Standards on Auditing
FRS	Fiscal Risk Statement	PSC	Program Steering Committee
GAA	General Appropriations Act	PSG	Public Sector Governance
GAD	Gender and Development	RBPMS	Results-Based Performance Management System
GGAC	Good Governance and Anti-Corruption	TA	Technical Assistance
GHRIS	Government Human Resource Information System	TAT	Technical Advisory Team
GIFMIS	Government Integrated Financial Management Information System	TESDA	Technical Education and Skills Development Authority
GOCC	Government Owned and Controlled Corporation	TOR	Terms of Reference
IAS	Internal Audit Service	TSA	Treasury Single Account
IBP	International Budget Partnership	UACS	Unified Account Code Structure
IFRS	International Financial Reporting Standards	UNCTAD	United Nations Conference on Trade and Development
IMF	International Monetary Fund	ZBB	Zero-Based Budgeting
IPSAS	International Public Sector Accounting Standards		

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1. Introduction

1.1. Background to the PFMP

The Philippines–Australia Public Financial Management Program (PFMP) is a joint initiative of the Governments of Australia and the Philippines. The program commenced on 12 October 2011 and directly assists the National Government (NG) to implement the Philippine Public Financial Management Reform Roadmap. The overall goal of the program is improvement in the efficiency, accountability and transparency of public fund use in the Philippines to enable better service delivery.

Through the Australian Agency for International Development (AusAID), the Australian Government has committed up to A$30 million over five years, 2011–2016. Initial program financing is for three years (A$18 million). Extending the program to years 4 and 5 is subject to the outcome of an independent evaluation of the program's effectiveness in the third year. In this way both governments can evaluate the impact of the program and redirect it as needed, while providing the consistent, long-term resources required.

PFMP is designed to coordinate assistance for NG reforms across oversight agencies, targeted spending departments, the legislature and civil society groups. It aims to build long-term capability, and emphasises a whole-of-government effort to achieving lasting change. Recipients of program assistance include:
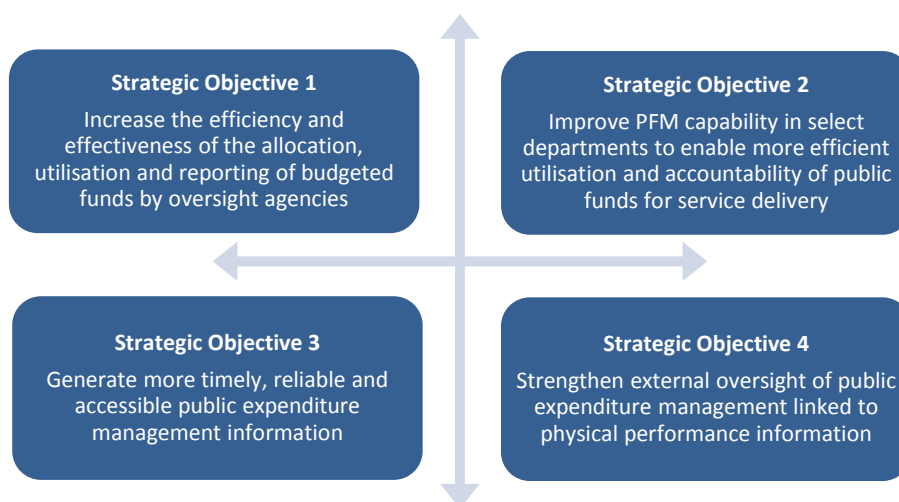
> **National oversight agencies:** the Department of Budget and Management (DBM), Department of Finance (DOF)–Bureau of Treasury (BTr) and Commission on Audit (COA), as the lead agencies implementing the PFM Reform Roadmap.

> **Spending departments:** such as the Departments of Education, Social Welfare and Development, and Public Works and Highways to improve PFM capability and performance. Other NG agencies may receive assistance as needs emerge.

> **The legislature:** the technical offices of the Congress to inform the public policy debate and improve capacity in budget oversight.

> **Civil society:** select civil society groups to build demand for change and engage constructively with the bureaucracy and legislature on budget transparency and participatory processes in expenditure monitoring.

> **Development partners:** cooperation with development partners that are supporting implementation of the PFM Reform Roadmap.

A range of activities are funded by the program. This includes technical advisory assistance, capacity building activities (e.g., training, workshops and study tours), studies on specific reform topics, research grants, external oversight and monitoring activities, and co-financed initiatives with development partners.

1.2. Purpose and Approval of Annual Action Plan

The Annual Action Plan (AAP) is the principal planning instrument for the program. Its purpose is to outline the program priorities and those activities to be funded each calendar year. At the strategy level, programming decisions are guided by the priority reforms of the PFM Reform Roadmap and related action plans. At the program level, the PFMP's four strategic objectives (shown in Diagram 1 below) prioritise activities further to practical budgeting and expenditure management reforms that improve the basic building blocks for a modern PFM system.[1]

Diagram 1: PFMP Strategic Objectives

Strategic Objective 1	**Strategic Objective 2**
Increase the efficiency and effectiveness of the allocation, utilisation and reporting of budgeted funds by oversight agencies	Improve PFM capability in select departments to enable more efficient utilisation and accountability of public funds for service delivery
Strategic Objective 3	**Strategic Objective 4**
Generate more timely, reliable and accessible public expenditure management information	Strengthen external oversight of public expenditure management linked to physical performance information

The PFMP Program Steering Committee (PSC) approves the AAP. The PSC comprises senior officials representing COA, DBM, DOF–BTr and AusAID. Excluding AusAID, this membership aligns with the NG's inter-agency PFM Committee that oversees the implementation of the Roadmap. Meanwhile, NEDA plays an advisory role to the program. Activity proposals can be approved outside of the AAP, but this is primarily reserved for urgent or emerging issues and should not exceed 10 per cent of the annual programming budget.

The PSC meets three times each year, or as necessary, in line with the program's planning and reporting cycle. Table 1 below provides indicative timings of the PSC meetings.

Table 1: PSC Indicative Timetable in 2013

Meeting	Main Purpose	Indicative Timing
PSC Meeting 1	Approval of 2011/2012 Annual Program Accomplishment Report	Feb/Mar 2013
PSC Meeting 2	Approval of 2013 Six-monthly Program Update	July/Aug 2013
PSC Meeting 3	Approval of 2014 Annual Action Plan	Nov/Dec 2013

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[1] Other major components of the PFM system such as tax and revenue, debt management and procurement are receiving significant support from other donors. PFMP support in these areas, as well as sub-national government systems, is not anticipated.

Implementation of the AAP is monitored during the year by the PFMP program office and reported to the PSC by way of the Six-Monthly Program Update and Annual Program Accomplishment Report. The major management and monitoring activities of the program office as well as program implementation risks are outlined in this AAP.

The 2013 AAP was prepared in consultation with program partners. The program would like to thank the government members of the PFM Committee and Project Implementation Units. Other officials in COA, DBM, DOF, BTr, DepED, DSWD, DPWH and CPBRD provided direction and contributed their valuable knowledge and advice. The views and ideas expressed by development partners and civil society organizations (CSOs) were greatly appreciated.

2. Philippines Policy and Reform Context

The Philippines' leadership continues to be supportive of advancing PFM reforms. In accordance with the Philippine Development Plan (PDP), the Aquino administration has targeted public sector governance improvements in its pursuit of inclusive growth and poverty reduction. Early in his term President Aquino elevated governance to the highest levels of the executive branch of government by establishing a Good Governance and Anti-Corruption cluster of Cabinet.[2] A **Good Governance and Anti-Corruption Cluster Plan** (GGAC) for 2012-2016 was launched in January 2012. It lays out a suite of institutional reforms seeking to promote transparency, accountability and citizen engagement, primarily through strengthening institutional policies and capabilities of the Philippines' bureaucracy.

This good governance thrust of the NG was reinforced further when the Philippines became a founding member of the international **Open Government Partnership** (OGP).[3] The partnership brings together governments, civil society, and industry to promote transparency, increase civic participation, fight corruption, and harness new technologies to strengthen governance. The OGP raises the international profile, and public expectation of the Philippines citizenry, of the NG's efforts to improve governance.

In terms of the NG's PFM reform agenda, President Aquino issued Executive Order No.55 in 2011 directing the integration and automation of government financial management systems.[4] Details of the PFM reforms are explained in the **Philippine PFM Reform Roadmap** that was launched in February 2011.[5] The NG is striving for improvements in fiscal discipline, fund allocation efficiency, and operational efficiency for the end objective of improving the performance of public service delivery. To achieve this, institutional reforms are underway to clarify, simplify, improve and harmonise the financial management processes and information systems. This includes reengineering business processes, integrating relevant systems in BTr, COA, DBM and implementing agencies, and is also expected to reassign some functions between the oversight agencies.

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[2] Executive Order No.43, "Pursuing our Social Contract with the Filipino People through the Reorganization of the Cabinet Clusters", 13 May 2011.

[3] More than 50 countries have endorsed the Open Government Declaration. More information on the OGP can be found at http://www.opengovpartnership.org.

[4] Executive Order No.55, "Directing the Integration and Automation of Government Financial Management Systems", 9 September 2011.

[5] "Philippine Public Financial Management Reform Roadmap: Towards Improved Accountability and Transparency 2011 to 2015", Philippine Government, 2011.

An overview of the NG's progress in implementing the Roadmap is summarised below. Also included are PFM reforms that are outside the scope of the six priority projects of the Roadmap but are relevant to the goal and strategic objectives of the PFMP.

2.1. Philippine PFM Reform Roadmap

Under the combined leadership of Budget Secretary Florencio Abad, Finance Secretary Cesar Purisima, and the Chairperson of COA, Ma. Gracia Pulido Tan, an inter-agency PFM Committee comprised of senior officials from COA, DBM, DOF and BTr is overseeing the implementation of the Roadmap. The committee is supported by six government Project Implementation Units (PIUs) in the following areas:

> **Budget Reporting and Performance Standards Project:** the main objective is the harmonization, simplification and consolidation of data structures, and the application of a consistent set of budgeting and accounting rules and regulations for generating financial and physical reports in monitoring the performance of government. An important aspect of the reforms is the harmonization of budgetary and accounting classifications so that expenditure reports can show the status, utilization and variances in the use of public funds, especially at the level of programs, activities, and projects (PAPs). The NG aims to implement a harmonized budget classification and Unified Account Code Structure (UACS) as early as the 2014 budget cycle. This will incorporate COA's revised chart of accounts. Progress has also been made on formulating the harmonized budget and financial accountability reports to DBM and COA.

> **Improvement of Treasury Cash Management Operations Project:** improvements are being made to cash management so that accurate data on bank account balances, revenue and cash positions and fund utilization provide fiscal managers with a reliable basis for cash flow forecasting, short-term financing, and maintaining appropriate daily cash balances. Spending agencies can then plan their operations with more predictable cash release schedules. The objective is to increase operational efficiency of implementing agencies while minimizing the cost of treasury operations. Central to this is the decision by the NG to establish a Treasury Single Account (TSA). The TSA is being designed in 2012, pilot-tested in 2013 and aims to be fully implemented from 2014. In collaboration with DBM and COA, the BTr is undertaking an inventory of existing bank accounts held by public bodies. This is a prerequisite to shifting to a TSA arrangement. Results from the 274 agencies that completed the inventory show many thousands of accounts are in operation.[6] Implementing rules and regulations (IRRs) are being prepared to enforce the closure of dormant and unauthorized accounts and the return of funds to the BTr.[7]

> **GIFMIS Development Project:** an integrated IT solution for a working government integrated financial management information system (GIFMIS) is being developed. A two-track approach to implementation is proceeding. Track I is developing a centralized

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[6] As of October 2012, 94 per cent (274 out of 292 NG agencies) had completed the inventory with total declared balances of P647 billion as at 30 June 2011 and P260 billion as at 31 December 2011.

[7] The IRRs are designed to implement Executive Order No.431 (2005) directing the reversion of all dormant and unauthorized accounts and unnecessary special and trust funds to the General Fund. A Permanent Committee comprising the Secretaries of DBM and DOF and Chairperson of COA was established to oversee implementation.

national payroll system (NPS) and government human resource information system (GHRIS) that will enable spending agencies to electronically process human resource and payroll information and direct salary payments into individual bank accounts. The NPS and GHRIS aim to be operational by the end of 2013. Track II is designing and developing a long-term integrated systems solution for budget preparation, execution and financial reporting. Implementation is slated for 2016. Under this track the pre-requisites or core elements of an integrated financial management system are to be put in place including unified chart of accounts, budget classification structures, performance standards, organizational arrangements, and reengineered business processes.

> **Accounting and Auditing Reforms Project:** the 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.

> **Liability Management Project:** the DOF is putting in place a system for managing the government's exposure to contingent and other liabilities. Through DOF's Debt and Risk Management Division (DRMD) training has commenced on identifying contingent liabilities, particularly for Public-Private Partnership (PPPs). A Government Owned and Controlled Corporations (GOCCs) monitoring system is being established and the Debt Management and Financial Analysis System (DMFAS) identified as the repository of GOCC debt data.

> **Capacity Building Project:** the NG recognizes the importance of building capability to support PFM reform implementation and change management. A whole-of-government integrated training program for PFM capacity development is being designed. The conceptual framework for this contains three phases: (i) information dissemination and awareness; (ii) functional/technical training; and (iii) change management and behavioral change. As part of the first phase, more than a thousand government officials and other stakeholders participated in formal briefing sessions on the Roadmap in 2012. A change readiness survey of 645 officials evidenced a good appreciation of the reforms and the benefits of the proposed GIFMIS in particular.

Critical systems design and development occurred on the UACS, GIFMIS, TSA and NPS during 2012. This is laying a sound, evidence-based foundation to inform the NG's long-term investment decisions. While this work continues to benefit from technical assistance provided by the PFMP, the NG's own resources for implementing the Roadmap are significant. The 2012 budget allocated P978 million to the e-Government Fund with 78 per cent earmarked for PFM reforms. President Aquino's proposed 2013 budget allocates a further P238 million for PFM reforms under the banner of "digitization of public financial management operations."

A key challenge for the NG is to source more full-time qualified personnel to better support implementation and enable the Aquino administration's own timeframes to be met. Few of

the e-Government funds were utilized as of September 2012. This is to be expected given 2012 can be best described as a preparatory phase of the systems reforms, with the more costly implementation phases still to come. The intention of the NG to establish a GIFMIS Project Management Office with up to 40-50 full-time personnel is a big step in the right direction.

2.2. Other PFM Reforms

The Aquino administration introduced a suite of reforms and initiatives during 2011/2012 that are outside the scope of the six priority projects under the PFM Reform Roadmap. Some of these can be described as 'quick wins', while others are laying a sound foundation for the more difficult enterprise of whole-of-government systems development, building capability within the bureaucracy, and delivering institutional change over the longer term.

Foremost among the 'quick wins' was the timely approval of the 2011 and 2012 national budgets that prioritise fiscal responsibility, transparency, empowering the poor, and spurring inclusive growth and employment. The 2013 proposed budget is on-track to do the same. Timely approval of the budget is a key public barometer for effective government in the Philippines, and the Aquino administration has so far passed this crucial test.

Other PFM reforms most relevant to the objectives of the PFMP are summarised here:

> **Implementing Zero-Based Budgeting (ZBB):** as a budget planning tool for DBM, ZBB is facilitating a more systematic review of major spending programs in terms of their effectiveness and pro-poor bias. Several ZBB studies of major spending programs were completed. Though not strictly 'zero-based', the policy has proven to be an important tool in weeding out waste and redundancies in the national budget and providing fiscal savings. The intention of the NG to shift to one-year validity of all appropriations for the 2013 budget onwards is another positive development.

> **Improving public disclosure of lump-sum funds:** through DBM's electronic Transparency and Accountability Initiative for Lump Sum Funds (eTAILS), information on the allocation and use of the Priority Development Assistance Fund for legislators and other lump-sum funds is increasingly available on DBM's website. This goes hand-in-hand with the decisive move by the NG to trim down special purpose funds, especially the highly discretionary ones.

> **Formalizing civil society participation in the national budget:** under DBM's leadership, Budget Partnership Agreements (BPAs) between NG agencies/GOCCs and CSOs were established to inform preparation of the 2012 and 2013 budgets.[8] BPAs increased from just four in 2011 to more than a hundred in 2012.

> **Launching the People's Budget:** the NG launched its first ever 'People's Budget' in 2011, a simplified version of the national budget aimed at increasing public literacy in the budget

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[8] Guidelines on the participation of CSOs in budget preparation and execution are contained in DBM National Budget Memorandum No.109 (2011) and DBM National Budget Circulars Nos.536/539 (2012).

process. For 2012, DBM also created a website for the People's Budget to improve public accessibility – 'Budget NG Bayan.'

> **Introducing bottom-up budgeting at the local level:** for the 2013 budget preparation, 593 of the poorest municipalities submitted Local Poverty Reduction Action Plans developed together with local CSOs. A total P8.4 billion was allocated against these plans. The bottom-up budgeting pilot is intended to promote a greater sense of understanding and ownership of the budgeting process among CSOs and the wider public.

> **Issuing the Philippine Government Internal Audit Manual (PGIAM**): issued in 2011 by DBM, the PGIAM details the scope of internal audit and institutional arrangements for the internal audit function. It also helps operationalize the National Guidelines on Internal Control Systems (NGICS). Government-wide training to support the roll-out of the PGIAM started in 2011 and is continuing in 2012/2013 with PFMP support.

> **Publishing a Fiscal Risk Statement (FRS) for the first time:** a statement of the NG's fiscal risks was released through the Development Budget Coordination Committee (DBCC) in 2011 and 2012. This was the first time a FRS was formulated in the Philippines and is a positive step to better manage and disclose fiscal risks, which remain large and diverse in the Philippines.

The NG announced in 2011 its intention to shift to a stronger performance budgeting and performance management system.[9] An inter-agency task force was created to develop a single Results-Based Performance Management System (RBPMS) that aims to streamline and simplify monitoring and reporting requirements so there is a uniform system in place across government. A key aspect of this reform is for the NG, led by DBM, to improve the application of the Organizational Performance Indicator Framework (OPIF) and better link it to the structure of national budget and General Appropriations Act (GAA).[10] A new performance-based bonus scheme for civil servants is also being introduced, with P10 billion allocated to start implementing the scheme in 2012. Shifting to a performance budgeting framework, indeed program budgeting, is challenging. It must go hand-in-glove with wider civil service reforms that aim to generate a stronger performance culture. This requires fundamental changes in the way the Philippines' bureaucracy is currently managed and funded to perform its core functions. Program or performance budgeting also needs to be buttressed by effective management information systems. In part this hinges on the success of the GIFMIS implementation.

The progress on implementing PFM reforms over 2011/2012 is encouraging. There were 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. Together they help to improve the way government allocates, manages and accounts for public funds. Looking ahead, the NG needs to move even faster if it is to meet its own deadlines for major new systems development such as the GIFMIS and NPS.

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[9] Administrative Order No.25, "Creating an Inter-Agency Taskforce on the Harmonization of National Government Performance Monitoring, Information and Reporting Systems", 21 December 2011.

[10] DBM National Budget Circular No.532 (2011) sets out guidelines for NG agencies on reviewing Major Final Outputs (MFOs) and performance indicators and restructuring programs, activities and projects (PAPs). DBM also released an updated OPIF Reference Guide in April 2012.

3. Continuing Activities

This section of the AAP outlines the previously approved program activities that have continuing commitments in 2013. The activities cut across all four strategic objectives of the program as shown in Table 2 below.

Table 2: List of Continuing Activities in 2013

Strategic Objective	Activity	Duration
1. Oversight Agencies	Activity 1.1: Support for PFM Program Management Office (PMO)	24 months (Mar 2012 – Apr 2014)
	Activity 1.2: Design of Philippines Treasury Single Account	9 months (May 2012 – Feb 2013)
	Activity 1.3: Support for Harmonization of Government Accounts (Phase II)	12 months (Sep 2012 – Sep 2013)
	Activity 1.4: Government-Wide Capacity Building Program on Internal Control/ Internal Audit	12 months (Jul 2012 – Jun 2013)
2. Spending Agencies	Activity 2.1: Strengthening the Financial Management System in DPWH (Phase III)	24 months (Jan 2012 – Dec 2013)
	Activity 2.4: Strengthening the Internal Audit Service in DepED	12 months (Jan 2013 – Jan 2014)
	Activity 2.5: Strengthening of Internal Control/Internal Audit in DSWD (Phase II)	12 months (Aug 2012 – Aug 2013)
3. Information Systems	Activity 3.1: Conceptual Design of the Philippines GIFMIS (Track II)	7 months (Jul 2012 – Jan 2013)
4. External Oversight	Activity 4.1: Enhancing Transparency, Accountability and Citizen Participation in the Public Audit Process	24 months (Apr 2012 – Apr 2014)
	Activity 4.3: Scoping Study to Examine Options for Greater Partnership and Cooperation between the Congress and Commission on Audit	3 months (Nov 2012 – Feb 2013)
	Activity 4.4: Support for Project Management Office of the Commission on Audit	12 months (Jan 2013 – Jan 2014)
	Activity 4.5: Strengthening Civil Society Engagement in the Budget Process	18 months (Oct 2012 – Apr 2014)

3.1. Strategic Objective 1: Oversight Agencies

The program is currently supporting COA, DBM and DOF/BTr to increase the efficiency and effectiveness of the allocation, utilisation and reporting of budgeted funds by oversight agencies. Five out of the six priority government projects under the PFM Reform Roadmap are deliberately targeted: budget reporting and performance standards, cash management, GIFMIS development, accounting and auditing, and capacity building.[11]

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[11] It is not anticipated the PFMP will support the Liability Management Project. AusAID has made separate grant contributions to multilateral development agencies in support of the NG's PPP reforms and fiscal risk management, both of which consider contingent liability issues.

Activity 1.1: Support for PFM Program Management Office (PMO) – DBM, COA, DOF, BTr

Centralised management of the PFM reforms is critical for achieving early results, maintaining reform momentum, and building internal capability over the longer term. This is why a significant PFMP investment is made in supporting the NG's PFM PMO. Housed within the offices of DBM, the PMO supports the PFM Committee in its oversight of the implementation of the Roadmap and related Program Implementation Plan. The PMO has a management and coordination function but also directly assists with the reforms and the work of the various PIUs tasked with implementing reforms. The PMO is an important hub for the overall reform effort. Its effectiveness in managing change processes and project risks and identifying necessary resources is essential to the success of the reforms.

The program is contracting the core team of the PMO for the initial two years (until April 2014). This includes the PMO Director, Deputy Director, GIFMIS Adviser, Capacity Building Adviser, and three national support staff. A Senior Budget Expert is also proposed (Section 4 refers). By the PFMP contracting experts initially, expediency in establishing the PMO and in sourcing the necessary expertise was achieved. It is anticipated that organic staff of the oversight agencies will be assigned to the PMO over time. Having external experts as advisers working alongside government officials is considered a more sustainable approach to building up government capability to manage the reforms over the longer term. [12]

Activity 1.2: Design of Philippines Treasury Single Account – BTr

Central to improved cash management in the NG is the establishment of a TSA banking arrangement that is able to maintain daily cash balances of government and lower the cost of treasury operations.[13] The BTr aims to pilot-test the TSA by 2013 and to be fully implemented by 2014. Technical assistance under the PFMP is assisting the BTr to design the TSA by February 2013. This includes the appropriate institutional arrangements, ICT systems and legal framework. A business plan for the TSA implementation is also being formulated.

The TSA, as proposed, will be a significant step to (i) more effective cash management and rationalizing of agency bank accounts and conservation of cash, (ii) a more economical system for cash disbursements that will remove revenue and expenditure floats, and (iii) more efficient reconciliation of bank balances. By rationalising the thousands of government accounts in existence, the NG can expect to make significant fiscal savings from eliminating idle balances. The BTr is also considering a transaction fee-based regime to replace the existing bank revenue floats with government service banks.

Activity 1.3: Support for Harmonization of Government Accounts (Phase II) – DBM, COA

The Budget Reporting and Performance Standards PIU is being supported to formulate a harmonized budget classification and UACS. The draft UACS manual is expected to be finalised by November 2012. Agreement on the UACS is essential for accurate and timely reporting on

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[12] The importance of building internal government capacity early in integrated financial management information system (FMIS) projects was a main finding of the 2011 World Bank study, "Financial Management Information Systems: 25 Years of World Bank Experience on What Works and What Doesn't."

[13] Refer to "Treasury Single Account: Concept, Design, and Implementation Issues", Pattanayak & Fainboim, Fiscal Affairs Department, IMF, 2010; and "The Philippines: Improving Budget Execution and Cash Management", Lienert et al, Fiscal Affairs Department, IMF, 2008.

appropriations vs. allotments vs. obligations vs. disbursements. This will serve to streamline and simplify financial reporting, remove excessive duplication between DBM and COA reporting requirements, and strengthen overall government accountability. The UACS is also a prerequisite for developing the GIFMIS.

The activity currently funds a single adviser housed at DBM. Following an initial six-month phase the adviser was extended until September 2013. Once the UACS is approved by the NG, further work will be undertaken to fully implement it across NG agencies. This includes alignment with ongoing efforts to restructure PAPs to comply with NBC 532, and ultimately to link to the proposed RBPMS. It is hoped the harmonized budget classification and UACS can be implemented for the 2014 national budget preparation, with further refinement to be carried out in 2013 in readiness for 2014 budget execution and the 2015 budget cycle.

Activity 1.4: Government-Wide Capacity Building Program on Internal Control/ Internal Audit – DBM, OP, COA, DAP

The NG is rolling-out a coordinated training program on the PGIAM following its official launch in October 2011. Under the supervision of DBM and the Office of the President (OP) Internal Audit Office, the training is managed by COA's Professional Development Centre and targets managers and internal auditors in NG agencies, GOCCs and other public bodies. The PFMP is co-financing the delivery of the first round of training during 2012/2013. The program also funds the Development Academy of the Philippines (DAP) to develop the tailored training manuals and conduct pilot training. It is anticipated the program will fund a second round of training subject to the successful outcomes of the first round. The training complements the technical assistance on strengthening internal control systems and internal audit in large spending departments such as DepED and DSWD.

3.2. Strategic Objective 2: Spending Departments

The program assists select spending departments to improve PFM capability to enable more efficient utilisation and accountability of public funds for service delivery. By building institutional capabilities and accountabilities in budget execution and reporting, the aim is to improve public service delivery outcomes over the long term. Departments implementing major government spending programs and where AusAID has an existing sector engagement are targeted.

Assistance is focused in two areas: financial management information system (FMIS) development and implementation; and internal control systems and internal audit. Both areas are identified in the PFM Reform Roadmap as requiring significant strengthening. This viewpoint is also supported by past studies.[14] With COA's decision to lift its requirement for pre-audit of selected government transactions, the urgency for departmental heads to strengthen internal controls and internal audit is heightened.

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[14] Refer to "Financial Control and Accountability in the Philippines: Final Draft Report", World Bank, June 2011; and "Philippines Public Expenditure and Financial Accountability", World Bank, May 2010.

Activity 2.1: Strengthening the Financial Management System in DPWH (Phase III) – DPWH

AusAID has assisted DPWH to strengthen its financial management systems since late 2007 in conjunction with the World Bank's National Roads Improvement and Management Program. This has contributed to incremental improvements in the accuracy, reliability and timeliness of financial information and reporting in the department. The assistance is primarily focused on the roll-out of COA's Electronic New Government Accounting System (eNGAS) and Electronic Budget System (eBudget). The PFMP funds a Project Implementation Team of four experts (one international and three local) working alongside a large in-house team from the accounting and budget divisions.

Full implementation of both systems to all 206 central, regional and district offices of the department is projected by the end of 2013. Upgrading both systems in accordance with COA's release of its enhanced e-NGAS (version 1.2.2) is also occurring. Another component of the activity is linking financial information to infrastructure projects by interfacing e-NGAS with the department's Project Monitoring System. During the final year of this long-term engagement, a sustainability plan will be prepared, and a case study undertaken so that implementation lessons can inform similar FMIS reforms.

Activity 2.4: Strengthening the Internal Audit Service – DepED

AusAID assisted DepED in 2009/2010 to strengthen its internal control system and internal audit, focusing on building the capability of the Management Division and helping to set up the basic systems for a functioning Internal Audit Service (IAS). DepED requested the PFMP help it build on this foundation and further improve internal audit capability, practices and general awareness of the function across the department. Terms of Reference were prepared by the PFMP that proposes a team of two experts (one international and one local) to assist the IAS for 12 months – recruitment is ongoing and the experts are expected to start in January/February 2013.

Assistance is proposed in the following areas: review and update existing manuals and tools for consistency with the PGIAM; strengthen auditing techniques including data gathering and report writing in the conduct of the three types of audits – compliance audits, management audits and operations audits; support further skills development in audits of IT systems as well as professional training and certification where appropriate; and assist with the preparation of a limited number of audits.

Activity 2.5: Strengthening of Internal Control/Internal Audit in DSWD (Phase II) – DSWD

The PFMP is supporting DSWD to implement improvements to its internal control system including the internal audit function. This is in an environment where DSWD is rapidly scaling up resources for its social welfare and development programs, especially the Conditional Cash Transfer (CCT) program.[15] A solid foundation was laid in the first phase of assistance from September 2011 to June 2012. A department-wide baseline assessment was prepared and key departmental plans and manuals put in place for internal controls and internal audit.

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[15] The budget for CCTs (Pantawid Pamilyang Pilipino Program or 4Ps) increased from P23 billion in 2011 to P39 billion in 2012. This is expected to rise to P44 billion in 2013, comprising almost 80 per cent of DSWD's budget.

This second phase is funding a team of three experts (one international and two local) to assist DSWD implement a risk management strategy and help embed the risk management function across the department. As the CCT program rapidly expands, the department's ability to manage related risks is even more critical. The DSWD IAS also continues to be assisted in undertaking compliance audits (and is some instances performance audits) of DSWD's major programs and projects.

3.3. Strategic Objective 3: Information Systems

A major objective of the PFMP is for the NG to generate timelier and more reliable and accessible public expenditure management information. For 2012/2013 the focus is firmly on the GIFMIS Development Project (Track II).

Activity 3.1: Conceptual Design of Philippines GIFMIS (Track II) – DBM, COA, DOF, BTr

The GIFMIS is a major step towards modernising PFM and follows peer countries in the region - Indonesia, Vietnam, Cambodia and Laos. Developing a long-term integrated systems solution for budget preparation, execution and financial reporting is at the core of the PFM reforms and is the most complex of the systems reforms to implement. A clear vision is required for the best solution for the Philippines. More than the technology, it is government commitment, good planning and project design, and change management that are critical. If managed well, the GIFMIS project will yield tangible and long term fiscal benefits and allocative and operational efficiencies. The conceptual design of the GIFMIS is a critical early step.[16]

A consultant is currently working with the PFM PMO and GIFMIS Development PIU to formulate the conceptual design for completion by January 2013. The output is a "concept document" that includes a functional review of organizational frameworks and processes, including recommendations for improving institutional capability and capacity in financial management alongside the necessary procedural and organizational changes for the GIFMIS implementation. The conceptual design will help the NG to clarify and reach agreement on overall GIFMIS design objectives, supported business processes, organisational units to be covered by the GIFMIS, and the nature and extent of GIFMIS functionality and support. Put another way, it will clarify what the GIFMIS will entail, what it will achieve, and how the system will contribute to achieving the NG's wider institutional reforms.

The conceptual design will also be used to develop the technical systems design for the GIFMIS Track II: the application software functional requirements, technological architecture and ICT system plan, as well as the detailed technical specifications.

3.4. Strategic Objective 4: External Oversight

The space for constructive engagement between the NG and CSOs has opened up under the Aquino administration. The PFMP-funded activities are designed to maximise this opportunity so that external oversight of public expenditure management is strengthened and is

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[16] Refer to "Conceptual Design: A Critical Element of a Government Financial Management Information System Project", Khan & Pessoa, Fiscal Affairs Department, IMF, April 2010; and "Financial Management Information Systems: 25 Years of World Bank Experience on What Works and What Doesn't", Dener et al, World Bank, 2011.

increasingly linked to physical performance information. The program's Civil Society Engagement Strategy that was prepared in 2012 acts as a framework for assistance in this area. Underlining the strategy is the need to institutionalize and sustain processes and mechanisms for civil society engagement beyond the distinctive commitments of the Aquino administration.

Activity 4.1: Enhancing Transparency, Accountability and Citizen Participation in the Public Audit Process – COA, ANSA

The PFMP through the Affiliated Network for Social Accountability in East Asia and the Pacific (ANSA-EAP) is supporting COA to enhance transparency, accountability and citizen participation in the public audit process. This innovative initiative of the COA Chairperson, Ma. Gracia Pulido-Tan has the potential to make the Philippines a global leader in participatory audit practices. Taken together with COA's regular audit program, participatory audits can be an effective and powerful means to exact greater accountability among government agencies.

Over a 24-month period, COA is being assisted to develop and implement a framework for participatory audit in the Philippines. This will provide a venue for the Commission and civil society to collaborate more effectively in the public audit process. It also aims to further strengthen the Commission's oversight role, as supreme audit institution, in enhancing external scrutiny, improving efficiency and effectiveness of the use of public resources, as well as reducing the potential for misuse of funds.

Activity 4.3: Scoping Study to Examine Options for Greater Partnership and Cooperation between the Congress and Commission on Audit – CPBRD, COA

The Congressional Policy and Budget Research Department (CPBRD) of the House of Representatives is being assisted to undertake a study for discussion between the Philippines Congress and COA on the possibilities for strengthening budget oversight and promoting accountability and transparency in the use of public resources. Though Congress currently has a comprehensive system for examining budget revenue and expenditure plans (ex ante oversight), there is currently a limited systematic review mechanism in Congress that examines the implementation and budget out-turns of those plans (ex post oversight). Generally, the only opportunity for House members to look into agency accomplishments is during the annual budget hearings. However, this is unsatisfactory as insufficient results data is available at these fora and they are geared towards the examination of future budget proposals rather than an accounting for past decisions of the agencies. [17] The study is due to be finalised by February 2013.

Activity 4.4: Support for Project Management Office of the Commission on Audit – COA

In order to effectively coordinate and monitor the participatory audit program as well as other major projects, COA plans to establish a Project Management Office (PMO). The PFMP agreed

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[17] The International Budget Partnership (IBP) reports that the Philippines legislature is inadequate because it does not have full power to approve any changes made to the budget in mid-year, and it does not fully scrutinise audit reports. The IBP is a consortium of 94 research institutions and civil society organisations around the world and reports every two years on the performances of its member countries in budget preparation, execution and reporting.

to assist with the establishment of the office by drawing on its experiences in other government agencies. A full-time consultant was agreed for 12 months. Taking on the role of interim Director of the PMO, he/she will formulate and recommend relevant policies, procedures, and implementation arrangements to support the sustainable operations of the PMO as well as help improve the internal project management capacity of the COA to implement its reforms. Recruitment of the consultant is currently pending reconsideration of the Terms of Reference by COA.

Activity 4.5: Strengthening Civil Society Engagement in the Budget Process – DBM

The DBM "Budget ng Bayan" initiative is opening up opportunities for civil society engagement in the budget cycle. The PFMP is working with DBM's Committee on CSO Engagement and its CSO Desk to enhance the strategic policy and implementation framework for civil society engagement as well as build capacity within DBM to implement the framework. Support includes the provision of a full-time local consultant to the CSO Desk to act as coordinator of the technical assistance activities, studies and reviews proposed during the program's 18-month engagement.

4. New/Extended Activities and Emerging Areas of Support

This section of the AAP outlines the proposed new or extended program activities in 2013 as well as emerging areas of support. The new/extended activities are listed in Table 3 below. Further information is contained in the separate Terms of Reference or Concept Notes to each activity. A complete list of activities funded by the program in 2013 is provided in Annex 1.

Activity proposals are informed by the NG's reform priorities including the outcomes of the "Gearing Up: PFM Program Implementation Workshop (Tagaytay 5)" held on 12-14 September 2012.[18] This is the fifth in a series of Tagaytay workshops that have become a distinctive feature of the NG's annual planning for PFM reforms.

Table 3: List of New/Extended Activities in 2013

Strategic Objective	Activity	Duration
1. Oversight Agencies	Activity 1.1: Support for PFM Program Management Office (PMO) – Expansion	24 months (Mar 2012 – Apr 2014)
	Activity 1.5: Professionalising the PFM Workforce - Phase I: Development of a PFM Competency Framework	6 months (Apr 2013 – Sep 2013)
2. Spending Agencies	Activity 2.6: Transitional Support for Strengthening the Financial Management System in DepED (Phase II)	12 months (Apr 2013 – Apr 2014)
3. Information Systems	Activity 3.1: Design of the Philippines GIFMIS (Track II) – Extension	6 months (Feb 2013 – Jul 2013)

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[18] The "Tagaytay 5" workshop brought together more than 60 government officials from COA, DBM, DOF, DPWH, DSWD, DOH and DepED to discuss progress on implementing the PFM Reform Roadmap.

Activity 1.1: Expansion of Support for PFM Program Management Office (PMO) – DBM, COA, DOF, BTr

The PFMP currently contracts the core team of the PFM PMO (see section 3.1, p.12). The PFM Committee originally endorsed up to ten positions at the PMO's inception, with three spots remaining unfilled to date. The Budget Reporting and Performance Standards PIU now wishes to engage a Senior Budgeting Expert for 15 months as part of the PMO. This is in response to the NG's policy of a stronger performance budgeting and performance management system for the Philippines' bureaucracy, as set out in Administrative Order No.25. The Terms of Reference for the consultant were approved by the Budget Reporting and Performance Standards PIU.

The consultant will provide advice on budget planning, preparation, monitoring and reporting, especially in areas related to results-based budgeting. This includes on the integration of MFOs, performance indicators and PAPs as they relate to the formulation and implementation of the OPIF and national budget/GAA, as well as links to the GIFMIS development and overall RBPMS. The consultant may be asked to formulate practical options for restructuring the national budget/GAA for a greater program or performance orientation and presentation, and provide advice on medium-term budget and expenditure frameworks.

Activity 1.5: Professionalising the PFM Workforce – Phase I: Development of a PFM Competency Framework – DBM, COA, CSC, TESDA

The NG envisions a corps of professional government financial executives, managers and technical staff in oversight and line agencies. These financial management professionals are expected to demonstrate management and analytical capability to support a greater results focus and build a culture of accountability and transparency in their agencies that will sustain PFM reforms. Under the direction of the Capacity Building PIU, this activity seeks to professionalize the PFM workforce by providing access to relevant, up-to-date, systematic and competency-based learning or training covering PFM areas such as budgeting, accounting, auditing, cash management, public debt management, revenue generation and financial management reporting. Training packages will specify the skills and knowledge a competent public servant needs to perform effectively in the workplace.

It is proposed the first phase involve a six-month consultancy to develop a PFM Competency Framework, which will define a package of qualifications or specified skills, knowledge and attitudes necessary for efficient and effective government financial operations. The framework is intended to provide a full range of qualifications from entry level to middle management to executive level to guide training and career development, with formal recognition of skills and knowledge against qualification standards as a strategy to retain competent employees. The activity will also involve a government-wide assessment of PFM training and capacity building needs that will recommend training priorities, target learners, delivery methods, and a description of non-training requirements (i.e., HR policies and systems) needed to support workplace performance, as well as the risks, resource requirements, and structure for managing the program like this in the Philippine setting. This first phase should enable the NG to make informed decisions about what it would take to manage and sustain a competency-based learning program for the entire PFM workforce.

A second phase of assistance could then be considered for developing and designing the learning curriculum, determination of training providers, and pilot testing of the training packages before they are fully implemented.

Activity 2.6: Transitional Support for Strengthening the Financial Management System in DepED (Phase II) – DepED

Under phase I of this activity the PFMP funded a consultant from February to July 2012 to formulate a FMIS strategic design to serve as a tool to clarify and allow DepED senior management to reach agreement on options for developing an FMIS. A functional review of DepED's financial management structures and systems was also conducted. It identified areas for improving institutional capability and the necessary procedural and organizational changes for the FMIS implementation. The PFM Committee at its meeting on 25 October 2012 agreed that DepED should proceed with interim solutions that address urgent financial management issues, and at the same time prepare for the GIFMIS implementation and play a greater role in the system's development.[19]

DepED now seeks under phase II to engage a Project Management Team to assist with a suite of agency-wide reforms that help to address these urgent issues as well as ready the department for the GIFMIS development from 2014. The proposed reforms are: (i) implementation of the new UACS for the 2014 budget cycle in the department's central, regional and divisional offices; (ii) review and possible consolidation of departmental bank accounts in preparation for the introduction of the TSA; and (iii) improvement of the asset management system including establishing an inventory of existing IT assets.

It is proposed that a company or firm be contracted to provide the following experts: Senior PFM Adviser/Team Leader (international), PFM Adviser/Public Sector Accountant (international), and three local accountants. Other experts may be hired as needs emerge. The consultant is expected to commence by April 2013 and this phase completed in 12 months. A third phase is anticipated that would support the department's engagement in the development and rollout of the GIFMIS during the ensuing 24 months. The choice of the proposed step-by-step phased approach offers DepED a good chance for successful GIFMIS implementation. The lessons learned from a successful implementation in DepED should also assist system implementation in other spending departments. The activity will be implemented in collaboration with the PFM PMO and GIFMIS Development PIU.

Activity 3.1: Extension of Support for the Philippines GIFMIS (Track II) – DBM, COA, DOF, BTr

The current consultancy is due to conclude in January 2013 (see section 3.3, p.15). It is anticipated the NG will reach agreement on the conceptual design of the GIFMIS in the first quarter of 2013 and then move ahead quickly with the GIFMIS development in order to achieve its own tight timeframes for system implementation. It is proposed the consultancy be extended for six months to assist the NG in the next phase of the GIFMIS development, up to the procurement of the system.

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[19] The Phase I final report was presented to the PFM Committee at its meeting on 26 July 2012. It was subsequently assessed by the GIFMIS Development PIU, which recommended that DepED proceed with interim solutions for current financial management issues while at the same time playing a greater role in the overall GIFMIS development, and that DepED should be in the first batch of pilot agencies for the GIFMIS rollout.

Working closely with the PFM PMO and GIFMIS Development PIU, the proposed outputs during this extension phase are:

> Information System Design Documents, based on the NG-approved conceptual design, which include the detailed user functional and non-functional requirements and the technical systems design for the GIFMIS. The application software functional requirements, technological architecture and ICT system plan, as well as the detailed technical specifications will form part of the system design documents.

> Bidding Documents suitable for going to the market to procure the agreed GIFMIS solution. The documents will include those services to be provided by the vendor, including training, configuration, parameterization, customization, change management, data migration, testing and troubleshooting, tuning, technical support and maintenance. They will also include a development plan which will address piloting and rollout timelines, rollout strategy and approach.

Emerging Areas of Support

Discussions with program partners are ongoing in some emerging areas. These are listed below where it is anticipated the PFMP will be requested to provide assistance in 2013.

> **Implementation of the TSA:** it is anticipated that BTr will seek program support for a second phase of assistance in 2013 once the TSA design and implementation plan is approved by the NG (see section 3.1, p.12). A second phase would assist with the proposed pilot of BTr accounts in 2013, which is to be followed by a phased implementation of other NG agencies from 2014.

> **Delivery of PGIAM training**: the program may fund a second round of the government-wide capacity building program on internal control/internal audit (see section 3.1, p.13). Any additional support is subject to the outcomes of a performance review of the first round of the training.

> **Automating external audit practices:** the COA is developing a web-based Integrated Results and Risk-Based Audit System to aid government auditors in the conduct of external audits. System implementation is expected to start in 2013. The program may be asked to assist with the system's roll-out.

> **Targeted assistance to CSOs:** in line with the program's Civil Society Engagement Strategy, technical assistance may be provided to select CSOs involved in the NG's BPA initiative or other forms of engagement with counterpart spending agencies. Selected BPAs may also be supported to systematically draw lessons to inform policy makers.

5. Program Management and Monitoring Plan

This section of the AAP outlines the major program management and monitoring activities of the program office as well as program implementation risks.

5.1. Management Guiding Principles

The following guiding principles were considered in formulating the 2013 AAP and are also used to guide program management decisions during program implementation:

> Government being at the helm of designing and implementing the PFMP's technical assistance activities, especially via the PFMP PSC, inter-agency PFM Committee and relevant government PIUs.

> Aligning the PFMP with the NG's own substantial financing of the PFM Reform Roadmap through well-informed and targeted technical assistance.

> Continuing to build momentum within the NG for the integrated systems reforms through good planning and design and a sound evidence-base.

> Facilitating a whole-of-government reform effort by helping to remove inter-agency silos and building institutional capability in both oversight agencies and spending departments.

> Demonstrating the mutual benefits to the NG and CSOs engaging constructively on PFM issues including in the reform process.

5.2. Management Priorities and Activities

An intense effort was required in 2011/2012 to mobilise the program office, establish operational systems and processes, as well as rapidly scope, source and deliver targeted technical assistance. In 2013, the program's second year, program management activities are designed to bed down operations and further improve the efficient and effective management and implementation of the program:

> **Delivery of targeted and strategic support:** one of the strengths of the PFMP is sourcing and providing partners with timely and value-for-money access to high quality technical advice and expertise from within the Philippines and abroad, across a range of PFM areas. In order to mobilise technical assistance quickly, the program's pre-qualified consultant pool will be refreshed in 2013 for potential engagement by the program.

> **Information and communication plan:** effective communication is at the heart of a successful change process. Recognizing this, the program will leverage communications as a primary tool to boost awareness and commitment to the PFM reforms. This requires timely and effective communication so the right information is available to stakeholders in a timely manner. A draft information and communication plan for the program was prepared in 2012. It outlines how information is communicated to partners and supports

the delivery, advocacy and promotion of the program and its activities. The plan will be revised in 2013 to align it with AusAID's Transparency Charter, and the NG's own communications plan that is being prepared by the PFM PMO.

> **Capacity development strategy:** the PFMP program design proposes a capacity development strategy to document the capacity diagnostic methodology and specific approaches to capacity development supported by the program. The purpose of capacity development by the PFMP is to improve government performance through sustainable systemic change towards the policies and objectives the NG sets for itself. Thus 'capacity' is defined in terms of 'performance'. In 2013, the need for a program-specific capacity development strategy will be considered in light of the NG's own capacity building and change management strategies that are currently being prepared by the PFM PMO and Capacity Building PIU.

> **Monitoring and evaluation (M&E):** the approach to M&E for the PFMP recognises that PFM reform is a complex process. It is therefore important that M&E provides a strong basis for learning and improvement. The approach is not simply about collecting data for performance indicators. It is about using a range of tools to provide robust analysis that not only describes progress, but explains the reasons for progress (or lack of). Following endorsement of the conceptual framework for the program's M&E in 2012, a full M&E system will be finalised. The intention is to align the PFMP system with the M&E requirements of the NG as it implements the PFM Reform Roadmap. The two major monitoring reports are the Six-monthly Program Update and Annual Program Accomplishment Report. A case study of the financial management system strengthening activity in DPWH will also be prepared in 2013 so that useful lessons can inform other planned FMIS reforms.

5.3. Program Office Staffing

Through the PFMP Team Leader, AusAID maintains direct leadership and management responsibility for program planning and implementation. The Team Leader is a designated AusAID position and directly accountable to the PSC. During 2012 AusAID temporarily ceased staffing the Program Coordinator, the second designated AusAID position. It is anticipated that AusAID will recommence staffing this position in the second semester of 2013. The position is resourced with a contracted staff in the interim.

A Technical Advisory Team (TAT) assists the Team Leader and Program Coordinator to backstop the program in specialist areas. The TAT comprises experts who provide technical advice and inputs to the program and work closely with program partners. The existing three TAT positions are the Senior PFM Adviser, Governance Adviser, and M&E Specialist. An expansion of the TAT is not anticipated in 2013.

Supporting AusAID is a contracted Service Provider, Coffey International Development, which provides project management and administrative personnel and services, and is responsible for the procurement and day-to-day administration of the program. The program office currently has eight full-time project management and administrative support staff. Additional staff are not anticipated in 2013.

5.4. Implementation Risks

The potential significant benefits of investing in PFM reforms are balanced by substantial risks. PFM systems go to the core of government decision making and operations, and opportunities for corruption. International experience shows that systems change is difficult to achieve and there will be frequent setbacks along the road to reforms. The highest rated risks to the program in 2013, and their proposed treatments, are outlined in Annex 2.

Management of risks under the program is the responsibly of the PSC, the program office, and technical assistance teams and advisers operating in government agencies. Strategies to identify, assess and manage risks include:

> Engaging closely with the NG through the PSC, the program's observer status to the PFM Committee, and direct support for the PFM PMO so the program maintains its central involvement in the planning and implementation of the PFM reforms.

> Supporting the NG to deliver an effective communication and information strategy in order to boost awareness and commitment to the PFM reforms, to promote the benefits of reform and thereby encourage participation and support.

> Thoroughly assessing the feasibility of program activities during design, and conducting sound institutional analysis that considers development risks and mitigation strategies.

> Supporting coalitions for change between the NG, development partners and CSOs via the Philippines Development Forum (PDF) and other fora to encourage the NG, if and when required, to continue to commit to and adequately resource reforms.

> Implementing effective internal program coordination that facilitates cross-activity communication and exchange.

> Monitoring performance issues and development risks through regular activity implementation reporting.

6. Cross-Cutting Issues

The PFM Reform Roadmap includes a commitment by DBM to clarify its guidelines on **gender and development (GAD) budgeting**. Since 1992, all NG agencies and local government units (LGUs) are required to allocate a minimum of five per cent of their budgets to GAD responsive programs and projects. This policy is integrated in the national budget process but challenges remain in terms of compliance and the effectiveness of planning, implementation and monitoring across government. One of the constraints to GAD budgeting is the underdevelopment of the NG's financial and performance management information systems. In this respect, GAD budgeting faces the same systems constraints to the performance budgeting agenda, including the utility of the OPIF framework.

Although GAD budgeting is not a major driver of the NG's PFM reform agenda, implementation of the GAD budgeting policy is expected to be strengthened as a result of the proposed reforms to enabling systems over the medium to long term. For example, consideration of

GAD budgeting should feature under the NG's GIFMIS Development Project and Budget Reporting and Performance Standards Project. Likewise, the PFMP will mainstream GAD budgeting considerations in the program activities that are best placed to have an impact in this area.

7. Donor Coordination

The formal mechanism for donor coordination occurs through the Philippines Development Forum (PDF) and its Working Group on Governance and Anti-corruption. A dedicated Sub-working Group on PFM carries forward, at the working level, the policy dialogue and necessary coordinated actions relevant to the implementation of the PFM Reform Roadmap. The DBM is the lead convener of the Sub-working Group, supported by AusAID as co-convener.

Other development partners are supporting aspects of the NG's PFM reform agenda. Most relevant to the objectives of the PFMP are:

> Asian Development Bank (ADB) – policy and advisory technical assistance with DBM on budgeting reforms.

> European Commission – support to LGUs for more effective and accountable PFM project with DBM.

> International Monetary Fund (IMF) – technical assistance to BTr on cash management. The IMF's support to tax policy and administration is outside the scope of the PFMP.

> United Nations Conference on Trade and Development (UNCTAD) – capacity building with BTr on DMFAS and corporate reforms.

> World Bank – development policy loans, public sector governance (PSG) programmatic support to oversight agencies (risk and debt management, revenue mobilisation, fiscal frameworks, budget execution, oversight and transparency, civil service reform).[20]

The Roadmap is informed by the 2010 Public Expenditure and Financial Accountability (PEFA) assessment of the Philippines. The PEFA serves as a useful baseline of performance information from which to gauge the impact of the PFM reforms over the medium to long term. Formally adopting the PEFA as a regular performance monitoring tool for the NG's PFM reforms might be considered by the PFM Committee. Undertaking an update of the Philippines PEFA in the second semester of 2013 is proposed.
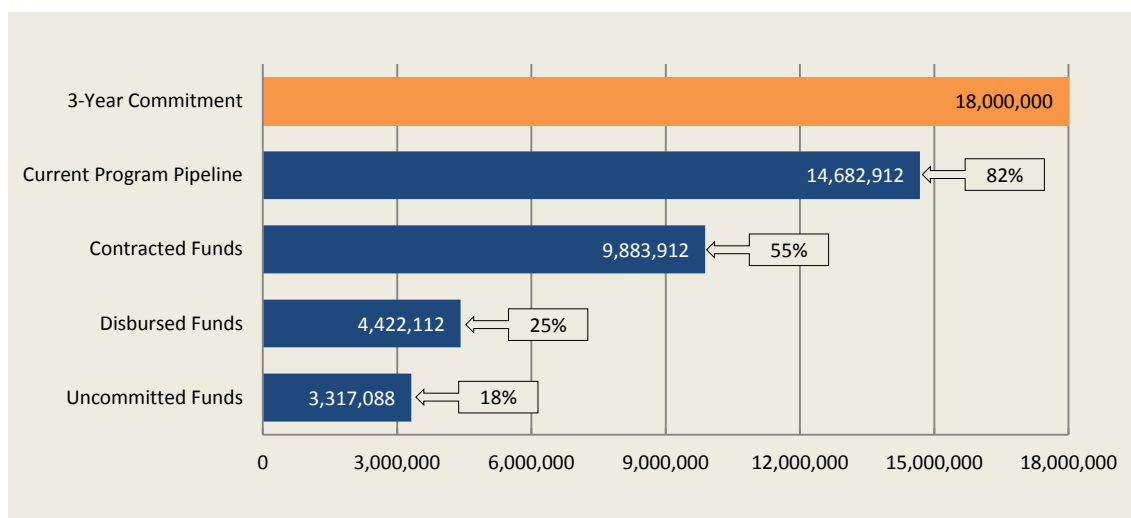
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[20] AusAID co-finances the World Bank's PSG programmatic support via an umbrella trust fund between the two organisations.
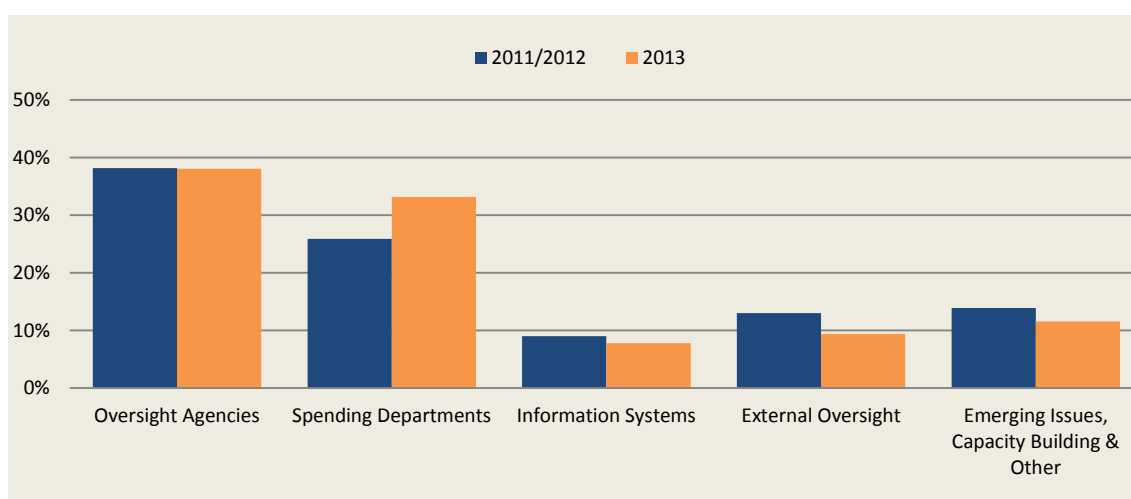
8. Program Budget 2013

Table 4: Estimated Program Budget in 2013 (A$)

Chart 1: Program Budget Performance, 2011–2014 (A$)
(As at 31 December 2012)

Category	Amount	Percentage
3-Year Commitment	18,000,000	
Current Program Pipeline	14,682,912	82%
Contracted Funds	9,883,912	55%
Disbursed Funds	4,422,112	25%
Uncommitted Funds	3,317,088	18%

Chart 2: Programming Funds by Strategic Objective in 2013 (%)

Legend: ■ 2011/2012 ■ 2013

Objective	2011/2012	2013
Oversight Agencies	38%	38%
Spending Departments	26%	33%
Information Systems	9%	8%
External Oversight	13%	9%
Emerging Issues, Capacity Building & Other	14%	11%

Chart 3: Programming Funds by PFM Function in 2013 (%)

Legend: ■ 2011/2012 ■ 2013

Function	2011/2012	2013
Reform Management	20%	16%
Budgeting	6%	8%
Cash Management	9%	10%
GFMIS	31%	27%
Internal Controls/Audit	8%	16%
External Scrutiny & Audit	13%	4%
Emerging Issues, CB & Other	14%	19%
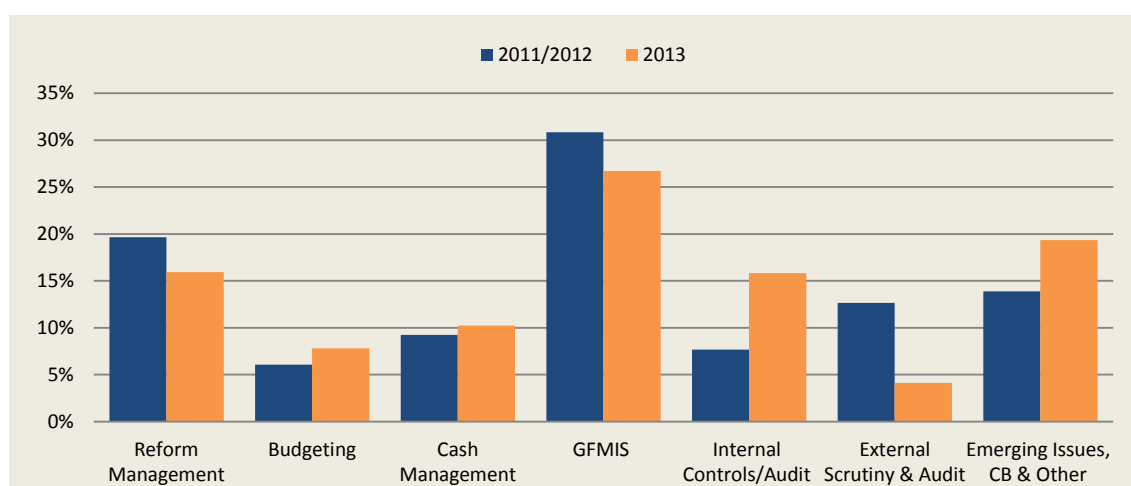
Annex 1: Summary of Activities in 2013

Program Goal	Improvement in the efficiency, accountability and transparency of public fund use in the Philippines to enable better service delivery			
Strategic Objectives	1. Oversight Agencies	2. Spending Departments	3. Information Systems	4. External Oversight
Program Activities	1.1: Support for PFM Program Management Office (PMO) Duration: 24 months	2.1: Strengthening the Financial Management System in DPWH (Phase III) Duration: 24 months	3.1. Design of Philippines GIFMIS (Track II) Duration: 13 months	4.1: Enhancing Transparency, Accountability and Citizen Participation in Public Audit Duration: 24 months
	1.2: Design of Philippines Treasury Single Account Duration: 9 months	2.4: Strengthening of Internal Audit Service in DepED Duration: 12 months		4.3: Scoping Study to Examine Options for Greater Partnership between Congress and COA Duration: 3 months
	1.3: Support for Harmonization of Government Accounts (Phase II) Duration: 12 months	2.5: Strengthening of Internal Control/Internal Audit in DSWD (Phase II) Duration: 12 months		Activity 4.4: Support for Project Management Office of the Commission on Audit Duration: 12 months
	1.4: Government-Wide Capacity Building Program on Internal Control/Internal Audit Duration: 12 months	2.6: Transitional Support for Strengthening the Financial Management System in DepED (Phase II) Duration: 12 months		4.5: Strengthening Civil Society Engagement in the Budget Process Duration: 18 months
	1.5: Professionalising the PFM Workforce - Phase I: Developing a PFM Competency Framework Duration: 6 months			

Annex 2: Risk Management Matrix

Risk No.	Risk Event	Existing Controls	Risk Rating with Existing Controls[21]			Is Rating Acceptable?	Proposed Additional Treatments	Responsibility
			Consequence	Likelihood	Rating			
1	**Resistance to reforms:** as reforms are developed and rolled-out across the NG, resistance from politicians, senior and middle level officials and/or other stakeholders results in implementation delays and slow progress on reforms.	Close engagement with the NG via the PSC, PFM Committee and support for the PFM PMO allows the program to monitor resistance centrally. A change management strategy developed by the PFM PMO addresses reform resistance issues. Resistance at the agency level is monitored through regular activity implementation reports. The program can respond accordingly by adjusting or ceasing existing activities and/or commencing others.	Major	Likely	High	Yes	None	PSC; Program Office; Activity Implementation Teams
2	**Changes in leadership:** changes in senior leadership championing the PFM reform agenda (Secretaries/senior officials) and/or key personnel affect the familiarity with and/or commitment to reforms, and to the activities supported by the program.	The PSC monitors leadership changes closely. Internal program coordination facilitates communication of personnel changes and its likely impact. Through its support for the PMO, the program aims to maintain the continuity of external expertise and help compensate for any changes in key NG leadership. The program also ensures that incoming counterparts are fully briefed about program activities and understand the consequences of indifferent or lack of commitment.	Major	Possible	High	Yes	None	PSC; Program Office; Activity Implementation Teams

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[21] AusAID's four-level risk rating system is applied. Risk ratings of low, moderate, high, very high are formulated on a combination of consequence (negligible, minor, moderate, major, severe) and likelihood (rare, unlikely, possible, likely, almost certain) characteristics.

Risk No.	Risk Event	Existing Controls	Risk Rating with Existing Controls[21]			Is Rating Acceptable?	Proposed Additional Treatments	Responsibility
			Consequence	Likelihood	Rating			
3	**Changes in policy and practice:** frequent policy and operational changes in the PFM reform agenda and in the way the NG manages reforms leads to uncertainly in the objectives and approaches of program activities and inhibits the effectiveness of technical assistance.	Close engagement with the NG via the PSC, observer status to the PFM Committee, and support for the PFM PMO situates the program centrally to stay abreast of significant policy shifts. Likewise, internal program coordination structures facilitate cross-activity communication and exchange, complementing regular activity implementation reports. The program can respond accordingly by adjusting or ceasing existing activities and/or commencing others.	Major	Possible	High	Yes	None	PSC; Program Office; Activity Implementation Teams
4	**Financing of reforms:** unexpected changes in national budget allocations and/or operational constraints to efficient and effective spending of budgets inhibits the capability of oversight and line agencies to fully implement PFM reforms in agreed timeframes, in particular the FMIS reforms.	The national budgets for PFM reforms in 2012/2013 are sufficient. The program considers the budgetary constraints of the NG in implementing reforms and provides complementary assistance where appropriate. The program's support to the PFM PMO to boost operational capability in project management forms part of this approach. Co-financing arrangement with the international financial institutions could also be explored.	Major	Possible	High	Yes	None	PSC; Program Office
5	**Sustainably of reforms:** an over-reliance on donor-funded technical assistance undermines the sustainability of reforms and fails to build capacity within the NG to effectively manage and implement the reforms over the	Through the PFM Committee and PIUs, the NG has allocated many personnel to support the PFM reform agenda. However, most are in a part-time capacity. The program advocates for a greater number of full-time NG personnel	Major	Possible	High	Yes	None	PSC; Program Office; Activity Implementation Teams

Risk No.	Risk Event	Existing Controls	Risk Rating with Existing Controls[21]			Is Rating Acceptable?	Proposed Additional Treatments	Responsibility
			Consequence	Likelihood	Rating			
	medium to long term.	to drive the reforms, in particular assigning organic staff to the PMO and proposed GIFMIS Project Management Team. All program activities have designated government counterpart staff and have capacity building as an expected outcome. Capacity building is monitored under the program's M&E arrangements.						
6	**Coordination with development partners:** lack of coordination between development partners leads to duplication of effort and overburdening of NG partners, which could undermine the program's effectiveness. Furthermore, poor donor communication can risk driving policy dialogue towards a rushed or inappropriate agenda that suits the needs of individual donors more than government.	Ongoing collaboration and coordination is sought through the PDF Sub-working Group on PFM, which AusAID co-chairs with DBM. Co-financing or collaborative analytical work is being actively pursued between development partners to support the NG reform agenda, particularly with the World Bank and ADB.	Moderate	Possible	High	Yes	None	Program Office
7	**Quality of technical assistance:** the performance and effectiveness of technical assistance personnel deployed by the PFMP is central to the overall effectiveness of the program. Technical inputs that are unsatisfactory or not suited to the Philippines context may put in jeopardy the good standing of the program and the overall reform effort.	Recruitment of technical assistance personnel/ advisers is implemented in partnership with NG counterpart agencies and other program partners. Ongoing performance management of advisers is a core element of the program and is monitored as part of the ongoing assessment of aid effectiveness through the M&E framework and contractor performance.	Moderate	Unlikely	Moderate	Yes	None	Program Office; Activity Implementation Teams

Risk No.	Risk Event	Existing Controls	Risk Rating with Existing Controls[21]			Is Rating Acceptable?	Proposed Additional Treatments	Responsibility
			Consequence	Likelihood	Rating			
8	**Corruption:** perceived high corruption in the country de-motivates civil servants and reform advocates, and impacts negatively on efforts to implement PFM reforms and improve governance.	The program's direct support for implementing the Roadmap should help to build momentum and widen commitment around the reforms by achieving early wins and facilitating effective communication of these. The program advocates for improved governance by building the demand side for change via its engagement with CSOs. Supporting coalitions for change between the NG, donors and CSOs via the PDF and other fora can exert pressure on the pace of reforms.	Moderate	Unlikely	Moderate	Yes	None	PSC; Program Office; Activity Implementation Teams
9	**AusAID leadership:** AusAID's inability to replace the Team Leader and Program Coordinator positions with appropriately skilled and experienced agency staff undermines its ability to directly lead and manage the program.	AusAID has formulated a transition plan that includes several options for resourcing the Team Leader and Program Coordinator positions to enable a smooth transition between personnel. The Program Office team will ensure that sufficient management support and information is available to AusAID during phases of transition.	Moderate	Unlikely	Moderate	Yes	None	AusAID; Program Office