

PFMP Philippines – Australia Public Financial Management Program

Supporting the Philippines towards improved efficiency, accountability and transparency

PFMP

Annual Action Plan 2011–2012

November 2011

ACRONYMS

AAP	Annual Action Plan	ICTO	Information and Communications Technology Office
ADB	Asian Development Bank	IFRS	International Financial Reporting Standards
ANSA	Affiliated Network for Social Accountability	IMF	International Monetary Fund
AusAID	Australian Agency for International Development	IPSAS	International Public Sector Accounting Standards
BESRA	Basic Education Sector Reform Agenda	M&E	Monitoring and Evaluation
BPA	Budget Partnership Agreement	MDS	Modified Disbursement Scheme
BSP	Bangko Sentral ng Pilipinas	NEDA	National Economic and Development Authority
BTr	Bureau of the Treasury	NG	National Government
CCAGG	Concerned Citizens of ABRA for Good Governance	NGICS	National Guidelines on Internal Control Systems
COA	Commission on Audit	NPS	National Payroll System
CPBRD	Congressional Policy and Budget Research Department	OBP	Open Budget Partnership
CSO	Civil Society Organisation	OP	Office of the President
DBM	Department of Budget and Management	OPIF	Organizational Performance Indicators Framework
DepED	Department of Education	PC	Program Coordinator (AusAID)
DMFAS	Debt Management and Financial Analysis System	PDAF	Priority Development Assistance Fund
DOF	Department of Finance	PDD	Program Design Document
DPWH	Department of Public Works and Highways	PDF	Philippines Development Forum
DSWD	Department of Social Welfare and Development	PDP	Philippine Development Plan
eBudget	Electronic Budget System	PEFA	Public Expenditure and Financial Accountability
eNGAS	Electronic New Government Accounting System	PFM	Public Financial Management
ePayroll	Electronic Payroll System	PFMP	Public Financial Management Program
eTAILS	Electronic Transparency/Accountability Initiative for Lump Sum Funds	PGIAM	Philippine Government Internal Audit Manual
FMIS	Financial Management Information System	PIU	Project Implementation Unit
GAD	Gender and Development	PMO	Program Management Office
GHRIS	Government Human Resource Information System	PPP	Public-Private Partnership
GIFMIS	Government Integrated Financial Management Information System	PSC	Program Steering Committee
GMIS	Government Manpower Information System	SP	Service Provider (Contractor)
GOA	Government of Australia	TA	Technical Assistance
GOCC	Government Owned and Controlled Corporation	TAT	Technical Advisory Team
GOP	Government of the Philippines	TL	Team Leader (AusAID)
IA	Internal Audit	TOR	Terms of Reference
IAS	Internal Audit Service	TSA	Treasury Single Account
ICC	Investment Coordination Committee	UNCTAD	United Nations Conference on Trade and Development
ICS	Internal Control System	ZBB	Zero-Based Budgeting

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INTRODUCTION

BACKGROUND TO THE PFMP

The Philippines–Australia Public Financial Management Program (PFMP) is a joint initiative of the Government of Australia (GOA) and the Government of the Philippines (GOP). The program was approved by the NEDA Board in June 2011. Following the signing of the Subsidiary Arrangement between the two governments in September, the program commenced officially on 12 October 2011.

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. The program will directly assist the National Government (NG) to implement its *Philippine Public Financial Management Reform Roadmap: Towards Improved Accountability and Transparency*.

Through the Australian Agency for International Development (AusAID), the GOA 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.

AusAID directly manages the PFMP and is supported by a contracted Service Provider, Coffey International Development, which is responsible for procurement and day-to-day administration of the program.

PURPOSE AND APPROVAL OF THE AAP

The purpose of this Annual Action Plan (AAP) is to outline the program priorities and activities to be funded in 2011 and 2012.¹ The AAP is the principal planning instrument for the program. At the strategy level, programming decisions are guided by the priority reform areas of the PFM Reform Roadmap and related action plans.

At the program level, the PFMP's four strategic objectives prioritise activities further, to practical budgeting and expenditure management reforms that improve the basic building blocks for a modern PFM system.² These strategic objectives are:

- > Strategic Objective 1: increase the efficiency and effectiveness of the allocation, utilisation and reporting of budgeted funds by oversight agencies.
- > Strategic Objective 2: improve PFM capability in select departments to enable more efficient utilisation and accountability of public funds for service delivery.

¹ As the program commenced in the last quarter of 2011, this inaugural AAP covers the 2011 and 2012 calendar years or 15 months. Future AAPs will revert to a single calendar year cycle.

² 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.

- > Strategic Objective 3: generate more timely, reliable and accessible public expenditure management information.
- > Strategic Objective 4: strengthen external oversight of public expenditure management linked to physical performance information.

The 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 may include:

- > National oversight agencies: the Department of Budget and Management (DBM), Department of Finance (DOF)–Bureau of Treasury (BTr) and Commission on Audit (COA) to advance institutional reforms.
- > Spending departments: such as the Departments of Education, Social Welfare and Development, and Public Works and Highways to improve PFM capability and performance. Other departments and 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 supporting implementation of the PFM Reform Roadmap.

A range of activities can be funded by the program. This includes technical advisory assistance, capacity building (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.

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 PFM Inter-Agency Committee that oversees the implementation of the PFM Reform Roadmap. Meanwhile, NEDA plays an advisory role to the program.

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 Progress Report and Annual Program Accomplishment Report. 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 is to meet three times a year, or as necessary, in line with the program’s planning and reporting cycle. Table 1 provides indicative timings of the PSC meetings.

Table 1: PSC Indicative Timetable

Meeting	Purpose	Indicative Timing
PSC Meeting 1	Approval of 2011–2012 Annual Action Plan	Oct/Nov 2011
PSC Meeting 2	Consideration of program progress: mobilisation, operations, activity preparation & recruitment	Jan/Feb 2012
PSC Meeting 3	Consideration of Six-monthly Progress Report	May/Jun 2012
PSC Meeting 4	Consideration of Draft 2013 Annual Action Plan	Oct/Nov 2012
PSC Meeting 5	Approval of Annual Program Accomplishment Report; Approval of 2013 Annual Action Plan	Jan/Feb 2013

The major management and monitoring activities of the Program Office are also outlined in this AAP, as well as program implementation risks.

This AAP was prepared in consultation with many program partners. The program would foremost like to thank Secretary Butch Abad and Chairperson Gracia Tan for their overall guidance. Members of the PFM Committee (formerly GIFMIS Committee), Project Implementation Units and other senior officials in COA, DBM, BTr, DOF NEDA, DepED, DSWD, DPWH and CPBRD provided direction and contributed their valuable knowledge and advice. The views and ideas expressed by development partners (ADB, EU, IMF, UNDP, USAID and World Bank) and CSOs (Action for Economic Reforms, ANSA, INCITEGov, Philippine Public Transparency Reporting Project, Procurement Watch, Social Watch and Transparency and Accountability Network) were greatly appreciated.

PHILIPPINES POLICY CONTEXT

Since forming government in July 2010 the Aquino Administration has targeted improvements in the transparency and responsiveness of government in its pursuit of inclusive growth and poverty reduction. The Philippine Development Plan 2011–2016 (PDP) states this clearly. One of the PDP's aims is to “promote effective and honest governance to create an enabling environment for citizens and the private sector to reach their full potential.” Improving the PFM system is a major component of the overall strategy to achieve good governance.

President Aquino has elevated governance issues within his Cabinet by establishing a Good Governance and Anti-Corruption cluster of Cabinet. This cluster seeks to promote transparency, accountability, participatory governance, and strengthening of public institutions.³ The good governance policy thrust was reinforced further when the Philippines become a founding member of the multi-country Open Government Partnership in September 2011.⁴ The partnership brings together governments, civil society, and industry to promote transparency, increase civic participation, fight corruption, and harness new technologies to strengthen governance.

These policies have led to action. Positive changes in the way the NG allocates and manages public funds have been advanced. Foremost, was the timely passage of the 2011 National Budget, the so-called ‘Reform Budget’, which prioritises fiscal responsibility, transparency, empowering the poor, and spurring inclusive growth and employment. President Aquino’s proposed 2012 budget continues to prioritise these areas and allocates significantly increased resources for good governance initiatives. Of most interest to this program is a P978 million allocation to the e-Government Fund, much of which is earmarked for PFM reforms.

Major budgeting reforms introduced by the Administration in its first year present a positive report card. They include:

- > Introducing Zero-Based Budgeting (ZBB): as a budget planning tool, ZBB is intended to facilitate more systematic review of major spending programs of NG agencies and Government Owned and Controlled Corporations (GOCCs) in terms of their effectiveness and pro-poor bias. According to DBM, ZBB has proven to be an important tool in weeding out waste and redundancies in the national budget and providing fiscal savings.
- > Improving public disclosure of nationwide 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 (PDAF) by legislator, as well as other lump-sum funds, is increasingly available on DBM’s website. This initiative goes hand-in-hand with the Administration’s decisive move to lessen lump-sum allocations in the 2011 and 2012 budgets and in some cases reallocating these directly to frontline units implementing programs and projects.

³ Executive Order No.43 of 13 May 2011.

⁴ <http://www.opengovpartnership.org/countries/philippines>.

- > Formalising civil society participation in the national budget process: several Budget Partnership Agreements (BPAs) between NG agencies/GOCCs and civil society organisations (CSOs) were piloted during the preparation of the 2012 budget.⁵ The BPAs provide one approach to informing national budget appropriations through formalised participatory engagement with CSOs. DBM backed this up with the launch of its first ever 'People's Budget', a simplified version of the national budget to encourage citizen participation in the budget process. And an Open Budget Partnership (OBP) initiative was advanced between the legislative and executive arms of government and several CSOs active in budget monitoring.
- > Publishing a Fiscal Risk Statement for the first time: this is a positive step to better management and disclosure of fiscal risks that remain large and diverse in the Philippines. A follow-up statement in 2012 is anticipated.

PHILIPPINE PFM REFORM ROADMAP

The NG's comprehensive PFM reform agenda is laid out in the *Philippine Public Financial Management Reform Roadmap: Towards Improved Accountability and Transparency*. This Roadmap was launched in February 2011. When implemented it aims to clarify, simplify, improve and harmonize the financial management processes and information systems of the civil service. Where necessary this includes reengineering business processes, integrating relevant systems in BTr, COA, DBM and implementing agencies, and reassigning functions between the oversight agencies. The desired results are improvements in fiscal discipline, fund allocation efficiency, and operational efficiency for the end objective of improving the delivery of public services.

The PFM Inter-Agency Committee has agreed to implement six initial projects that respond to the highest priority reform areas of the Roadmap. Inter-agency Project Implementation Units (PIU) have been established within the NG to take forward these projects, which are:

- > Budget Reporting and Performance Standards Project: to harmonize budgetary and accounting classifications, simplify and consolidate formats for collection of data, and apply a consistent set of accounting rules and regulations for generating financial reports. Actions include revising the NG Chart of Accounts, designing a common results-based reporting framework, and codifying laws, rules, regulations and processes in a new government-wide PFM manual.
- > Improvement of Treasury Cash Management Operations Project: to improve 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. Central to this effort is the decision by the NG to establish a Treasury Single Account (TSA).
- > GIFMIS Development Project: to facilitate the development of an integrated IT solution for a working GIFMIS that can collect and organize financial information in a central

⁵ Guidelines on the partnership and participation of CSOs in the preparation of budget proposals are contained in DBM National Budget Memorandum No.109 of 17 February 2011.

- > database. A two-track approach is proposed. Track I aims for the most part to improve the functionality and interface of the existing information systems in BTr, COA and DBM in the short run. Meanwhile, Track II would design and develop a long-term integrated systems solution for budget preparation, execution and financial reporting. The President issued an Executive Order directing the development of the GIFMIS in September 2011.⁶
- > Capacity Building Project: to build and sustain capabilities within the NG in PFM reform implementation. The NG recognizes the importance of building capability to support PFM reform implementation. It is planned that a whole-of-government integrated training program for PFM capacity development be designed and rolled-out to support the introduction of more integrated and automated systems solutions. The conceptual framework for this training program contains three phases: (i) information dissemination and awareness; (ii) functional/technical training; and (iii) change management and behavioral change.
- > Accounting and Auditing Reforms Project: to implement initiatives that enhance the NG accounting system, including for consistency with international standards (IFRS and IPSAS), as well as strengthen external audit practices.
- > Management of Contingent Liabilities Project: to put in place a system for managing the NG's exposure to contingent liabilities, particularly as it relates to GOCCs and government financing of more Public-Private Partnerships (PPPs).

The Roadmap is informed by the Public Expenditure and Financial Accountability (PEFA) assessment prepared by the World Bank (with AusAID co-funding) in 2007–2008. The Philippines PEFA is generally regarded as the most current and comprehensive performance report on the overall PFM system in the Philippines. It serves as a useful baseline of information from which to gauge the impact of the PFM reforms over the medium to long term. Adopting the PEFA as a regular performance monitoring tool for the NG's PFM reforms has been discussed by oversight agencies in the past. This is an option the PFM Committee might want to formally consider.

⁶ Executive Order No.55 of 9 September 2011.

PROPOSED ACTIVITIES FOR 2011–2012

This section of the AAP summarizes the priority activities to be funded by the program in 2011 and 2012. The Philippines policy context provides an important setting for programming decisions, particularly the priority reform areas of the PFM Reform Roadmap and its related action plans. Activity proposals are informed by a round of consultations with program partners in June/July 2011, and refined following further input from oversight agency officials at the GIFMIS Implementation Planning Workshop on 24-26 August 2011. Collectively the activity proposals recognise the importance of, and actively seek to promote the following:

- > Support the NG to be very much at the helm of developing and implementing the PFMP's technical assistance activities.
- > Lay a sound, evidence-based foundation in 2012 to inform the NG's critical, long-term investment decisions with respect to the GIFMIS.
- > Complement the NG's own substantial funding for the PFM reforms in 2012 with well informed and targeted technical assistance.
- > Facilitate a whole-of-government effort by building capability in both central and line agencies.
- > Support civil society to play a constructive role in the PFM reforms.

Most activity proposals represent new frontiers for AusAID. However, some activities under Strategic Objective 2 are legacy activities from former AusAID projects and warrant continuing assistance. When appropriate these activities are funded outside of the PFMP budget, and therefore additional to the A\$30 million GOA commitment, in order to avoid crowding out program resources for the urgent central agency reforms.

Activity proposals are organised by PFMP strategic objective, and alignment to the Roadmap is clearly marked. The four strategic objectives address both the supply and demand sides of the PFM reform agenda. On the supply side, there is a need for the NG to better allocate and utilise public funds for services delivery and to produce more timely and reliable reporting of those funds. On the demand side, there is a need to confirm, through both internal and external accountability mechanisms, that budgeted funds are executed as intended. A wide range of assistance is required to build momentum around NG reforms. This includes supporting government mechanisms that deliver and monitor the PFM reforms undertaken.

A further consideration for the PFMP in selecting activities is achieving systemic change within the NG, especially the PFM systems and processes that are considered essential for improving public service delivery. Program resources should flow to NG agencies that set the rules (oversight agencies) and to those that have responsibility for their implementation (service delivery agencies).

To build reform momentum and to create demonstration effects, it is important that assistance is directed to agencies and implementers that can deliver demonstrable results within a reasonable timeframe. Expectation of program achievement in 2011–2012 is of incremental progress towards the long term strategic objectives.

STRATEGIC OBJECTIVE 1: OVERSIGHT AGENCIES

> *Increase the efficiency and effectiveness of the allocation, utilisation and reporting of budgeted funds by oversight agencies*

The proposed activities in the first year under Strategic Objective 1 are geared towards assisting the oversight agencies to press ahead with implementing the priority projects under the PFM Reform Roadmap. 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 it is proposed that a significant PFMP investment is made in the NG's Program Management Office (PMO).

Five out of the six initial government projects are to be supported: budget reporting, cash management, GIFMIS development, capacity building and accounting and auditing. Tackling budget and accounting classification issues and designing the TSA are critical reengineering processes that must precede the development of the GIFMIS (Track II). Sequencing these activity first fits with the overall reform effort. Finally, building capacity in PFM across the bureaucracy needs to start from the outset of the reforms. This will yield dividends later and complement the introduction of more integrated and automated systems solutions. It is not anticipated the PFMP will be called on to support the contingent liabilities project.⁷

In addition to these activities, the program will support forums for bringing together key stakeholders. An important factor in the realisation of the reforms under the Roadmap will be the continued buy-in from the PFM stakeholder community both within and outside government. Cultivating robust relationships supported by effective communication and engagement strategies will be important. Appropriate learning activities such as workshops and study tours will be considered, including through collaboration with development partners.

Program Activity 1.1 Support for Program Management Office (PMO)

Agency/organisation: **Department of Budget and Management**

Other partners: **COA, DOF, BTr**

Duration: **24 months**

Roadmap topic: **Multiple topics**

The GOP has agreed to establish a PMO to support its PFM reform program. Under the direction of the PFM Committee, the PMO is to be responsible for the overall management, monitoring and evaluation of the implementation of the reforms. Its purpose is to enable the strategies, objectives and desired results set out in the Roadmap to be achieved. The PMO has a management and coordination function, but is also expected to directly assist

⁷ AusAID has made separate grant contributions to multilateral agencies in support of the NG's PPP reforms and fiscal risk management, both of which consider contingent liability issues.

with many of the reforms and the work of the various PIUs tasked with implementing reforms. The PMO will be 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 overall success of the reforms.

The PFM Committee, at its meeting on 7 September 2011, requested AusAID to fund the core personnel of the PMO, which will be housed in the offices of DBM. It is proposed the PFMP assist with a mix of project management and technical expertise in specific areas. The program will contract international and Filipino experts with extensive experience in managing large and complex PFM reforms and who have worked on similar integrated FMIS projects. Initially, this will be to perform the following full-time PMO roles:

- > One (1) Director (international consultant, 24 months): responsible for the daily operations and personnel of the PMO and is directly accountable to the PFM Committee. Reporting to the DBM Undersecretary/Chief Information Officer on a day-to-day basis, he/she will provide the necessary strategic and management direction to achieve the PMO's objectives and deliver its core functions in an efficient, effective and economical manner.
- > One (1) Deputy Director (national consultant, 24 months): responsible for supporting the PMO Director in carrying out the day-to-day operations of the PMO and ensuring the objectives and functions are met in an efficient, effective and economical manner. This is national-designated position, providing complementary Philippines expertise and experience in support of the Director.
- > One (1) GFMIS Expert (international consultant, 24 months): responsible for supporting the PIU in implementing the GFMIS Development Project (Track I and Track II) to design, build and implement the proposed integrated and automated systems solutions for financial management in the national government. He/she is accountable to the PMO Director and will work closely with the PIU Project Manager and other PIU personnel.
- > One (1) Capacity Building Expert (national consultant, 12 months): responsible for supporting the PIU in implementing the Capacity Building Project to develop a whole-of-government integrated training program for PFM capacity development. He/she is accountable to the PMO Director and will work closely with the PIU Project Manager and other PIU personnel so that capacity development strategies and approaches are consistently applied across the PFM reform program. This is national-designated position.
- > Three (3) PMO Support Staff (nationals, 12 months): provide operational support to the PMO's project management functions including the secretariat to the PFM Committee.

The need to build internal government capacity early in integrated financial management information system (FMIS) projects was a main finding of a recent World Bank study.⁸ It is expected that organic staff of the oversight agencies will be assigned to the PMO over time.

⁸ *Financial Management Information Systems: 25 Years of World Bank Experience on What Works and What Doesn't*, Dener et al, World Bank, 2011.

By the PFMP contracting the expertise initially, it satisfies the NG's need for expediency in mobilising the PMO and in sourcing the necessary expertise. However, in the medium term, having external experts working alongside government officials is good practice from an aid effectiveness perspective and can help to build up government capability to manage the reforms over the long term.

Program Activity 1.2 Study and Design of Treasury Single Account

Agency/organisation: **Bureau of Treasury**

Other partners: **DOF, DBM, COA, BSP, Implementing Agencies, Service Banks**

Duration: **9 months**

Roadmap topic: **Modified Disbursement Scheme Accounts (B.8)**

Central to improved cash management in the NG is the establishment of a TSA banking arrangement that is able to keep daily cash balances of government and lower the cost of treasury operations. The BTr aims to pilot-test the TSA by 2013 and to be fully implemented by 2014. The current system of payments under the Modified Disbursement Scheme (MDS) was introduced in 1990. The TSA, as proposed, will be a significant step to improving the efficiency and accountability of government banking arrangements. It is recommended as an essential tool for a government to rationalise and manage its cash resources, especially where fragmented arrangements exist.⁹

In collaboration with COA, the BTr has commenced an inventory of existing bank accounts held by public bodies. Results are incomplete but it is estimated that hundreds of non-MDS accounts are in operation. By rationalising these accounts, the NG can expect to make significant fiscal savings from eliminating idle balances. In the short run the BTr is also considering a transaction fee-based regime to replace the existing seed funds or bank floats with service banks (Land Bank, Veterans Bank and Development Bank of the Philippines).

It is proposed that a study is first undertaken of relevant country TSA arrangements as a preparatory step. Through a series of case studies, international practices will be examined and appropriate models recommended for the Philippines. This study would inform BTr management and guide the development of the TSA design. The second component is to design the TSA. This is to include the appropriate institutional arrangements, ICT systems, and preparation of the legal framework for the TSA implementation. This activity will provide technical assistance to complete both steps within a nine-month timeframe. The activity will also need to be coordinated closely with proposed assistance from the IMF (cash flow forecasting) and UNCTAD (DMFAS and corporate reform).

⁹ 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.

Program Activity 1.3 Support for Harmonization of Government Accounts

Agency/organisation: Department of Budget and Management

Other partners: COA, BTr

Duration: 6 months (possible second phase)

Roadmap topic: Definition of Accounts (C.3)

Central to the NG's Budget Reporting and Performance Standards Project is the harmonization of the budgetary, treasury and general ledger accounts. Agreement on a unified government chart of accounts is essential for accurate and timely reporting on 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. This is an area that scored lowly in the Philippines PEFA¹⁰ and is identified as a priority reform by the PIU. Expected results are lower administrative costs and improved reporting compliance. Harmonization is also a prerequisite to moving ahead with the GIFMIS (Track II) and therefore an urgent issue for the NG to address.

COA and DBM staff have commenced the harmonization task by mapping the existing reporting requirements in order to find areas that can be rationalised immediately. COA has also started to revise its chart of accounts in accordance with international standards. Technical assistance is proposed to assist COA, DBM and BTr to design a unified government chart of accounts and classification structure for the budget, accounting and treasury functions.

A second phase of assistance could then be considered for designing a common results-based reporting framework for the NG that forms part of the GIFMIS (Track II) and builds on the existing Organizational Performance Indicators Framework (OPIF). Ultimately, this may lead to fundamental changes in the standards, definitions, formats and processes supporting the national budget cycle and preparation of the government annual financial reports.

Program Activity 1.4 Whole-of-Government Training Program on Internal Controls/Internal Audit

Agency/organisation: Department of Budget and Management

Other partners: COA, OP, Implementing Agencies

Duration: 12 months

Roadmap topic: Internal Control System in Agencies (E.2)

The NG plans to roll-out a coordinated training program on the National Guidelines on Internal Control Systems (NGICS) and the related Philippine Government Internal Audit Manual (PGIAM), and is to include government risk management practices. The PGIAM was officially launched on 6 October 2011. The ADB has funded a train-the-trainers program and is currently assisting with the preparation of the training roll-out. This is expected to be delivered by COA's Professional Development Center in conjunction with

¹⁰ *Philippines Public Expenditure and Financial Accountability*, World Bank, May 2010.

DBM and the Office of the President (OP), and targets managers and internal auditors in NG agencies, GOCCs and other public bodies. DBM has requested the program co-finance the delivery of the training from 2012. While the funding request is expected to be modest, the strategic interest in this training program is high. It links to the strengthening internal control systems (ICS) and internal audit (IA) activities proposed under Strategic Objective 2, below.

STRATEGIC OBJECTIVE 2: SPENDING DEPARTMENTS

- > ***Improve PFM capability in select departments to enable more efficient utilisation and accountability of public funds for service delivery***

The proposed activities under Strategic Objective 2 aim to assist spending departments to build their capability to implement programs and projects more efficiently and better account for how budgeted funds are used. The program logic supposes that by supporting activities that improve budget execution and reporting, there will be a causal link to improved services delivery outcomes. In the first year, activities are targeted at those departments implementing major government spending programs and where AusAID has an existing sector engagement. The Department of Education (DepED), Department of Social Welfare and Development (DSWD) and Department of Public Works and Highways (DPWH) each meet this criterion.

Assistance is focused in two areas: improving internal FMIS; and strengthening ICS and IA. Both areas are identified in the PFM Reform Roadmap as requiring significant strengthening. This viewpoint is also supported by past studies.¹¹ With COA's recent decision to lift its requirement for pre-audit of selected government transactions, the urgency for departmental heads to strengthen ICS and IA and internal PFM systems has been elevated.¹² Program Activities 2.2, 2.3 and 2.4, below, are funded outside of the PFMP budget.

Program Activity 2.1 Strengthening the Financial Management System in DPWH Phase II (Extension)

Agency/organisation: Department of Public Works and Highways

Other partners: COA, DBM

Duration: 24 months

Roadmap topic: Accounting/FMIS (C.2)

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 current activity comprises a project implementation team of four experts (one international, three local) working

¹¹ 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.

¹² COA Circular No. 2011-02 of 22 July 2011.

alongside a large in-house team from the accounting and budget divisions. The activity is due to conclude in December 2011.

Full implementation of both systems to all 206 central, regional and district offices of the department is projected by the end of 2013. Extending this activity for 24 months will support the completion of the systems implementation. Upgrading both systems in accordance with COA's release of its enhanced e-NGAS (version 1.2.2) can be accommodated in this timeframe. Another component of the activity is linking financial information to infrastructure projects by interfacing e-NGAS with the department's Project Monitoring System. Related to this, a centralised financial management data warehouse is proposed to improve the quality of overall monitoring and reporting.

Program Activity 2.2 Strengthening of Internal Controls/Internal Audit in DSWD
Agency/organisation: Department of Social Welfare and Development
Other partners: DBM, OP, COA
Duration: 10 months (possible 12 month extension)
Roadmap topic: Internal Control System in Agencies (E.2)

Prior to the commencement of the PFMP, AusAID agreed to assist DSWD to strengthen its ICS and IA function in response to the rapid growth in the department's appropriations for expanding the NG's social protection programs, especially the flagship Conditional Cash Transfer scheme. Despite some positive findings, the World Bank-prepared Integrity Development Review of DSWD in 2010 recommended further improvements to the department's ICS and IA.

The activity is being implemented under direct contract to AusAID initially, with future transfer to the PFMP to be considered if the activity is extended. Technical assistance in the form of one ICS expert and one IA expert is being provided to the Internal Audit Service (IAS) since September 2011. The activity is assisting IAS as well as other departmental offices to build capability for monitoring and strengthening ICS in accordance with NGICS. It also aims to improve internal practices for undertaking compliance audits (and in some instances performance audits) of DSWD's major programs and projects.

The major components of the activity are: undertaking a baseline assessment of DSWD's current ICS and IA arrangements; formulating a three-year IA Strategic Plan, IA Annual Plan, and work program for capacity development and systems enhancement; supporting the preparation of IA reports; developing a customized DSWD IA manual based on the PGIAM that was launched on 6 October 2011; and preparing a roadmap for continuous improvement in ICS and IA.

Program Activity 2.3 Strengthening the Financial Management System in DepED
Agency/organisation: **Department of Education**
Other partners: **DBM, COA, BTr**
Duration: **5 months**
Roadmap topic: **Accounting/FMIS (C.2)**

As part of its Basic Education Sector Reform Agenda (BESRA), DepED plans to progressively replace its existing manual budgeting and accounting systems with a modern, computerised FMIS and related ICT infrastructure. Currently, the budget preparation and financial control systems in DepED are largely paper-based with widespread use of MS Excel spreadsheets. This has been repeatedly cited as a major financial control and performance issue in the department.¹³

A FMIS strategic design is to be prepared initially, including a functional review of the organization's financial management structures and systems, including recommendations for improving institutional capability and capacity alongside the necessary procedural and organizational changes for the FMIS implementation. It is proposed that a firm with recognized experience in the development and management of FMIS systems in the public sector be contracted to implement this activity.

The strategic design is a 'concept document' to assist DepED senior management reach agreement on the overall FMIS design objectives, supported business processes (scope), business units to be covered (coverage), and nature and extent of support (functionalities). The strategic design will clarify what the FMIS will entail, what it will achieve and how it will be utilised in the context of achieving DepED's requirements. The activity will assess the merits of COA's enhanced e-NGAS (version 1.2.2) for meeting DepED's requirements and consider developments of the government-wide GIFMIS project. A separate detailed functional specification of a system or full system design would follow, if required.

Program Activity 2.4 Strengthening of Internal Audit Service in DepED
Agency/organisation: **Department of Education**
Other partners: **DBM, OP, COA**
Duration: **12 months**
Roadmap topic: **Internal Control System in Agencies (E.2)**

AusAID assisted DepED during 2009–2010 to strengthen ICS and IA, focusing on building the capability and systems in the Management Division and helping to set up the basic systems for a functioning IAS. Much was achieved.¹⁴ Now with a permanent IAS Director

¹³ Refer to *Towards a Comprehensive PFM Roadmap in the Department of Education*, AusAID, 2011; *Fiduciary Risk Assessment of the Department of Education*, AusAID, 2010; and *Baseline Assessment Report under the Strengthening the Internal Control System and Internal Audit in the Department of Education Project*, Tribal Helm, 2009.

¹⁴ Refer to *Activity Completion Report and Roadmap for Further Reforms in Internal Control and Internal Audit in the Department of Education*, Tribal Helm, 2010.

and full complement of staff, IAS is undertaking an annual program of compliance audits. DepED would like the PFMP to help it build on this foundation and further improve IA capability, practices and general awareness of IA in the department, with particular attention to positioning IAS so that in the future it can adequately respond to the growing internal demand for performance or value-for-money audits.

It is proposed the activity comprises a team of two IA experts to assist IAS for 12 months. The proposed components of the activity are: review existing manuals and tools, and revise if necessary, for consistency with the PGIAM that was launched on 6 October 2011; propose and help implement software solutions for automating IA practices, improving data collection and analysis, and record keeping; strengthen auditing techniques including data gathering and report writing, including in relation to conducting performance audits; support further skills development including professional training and certification; and assist with the preparation of a limited number of audits.

STRATEGIC OBJECTIVE 3: INFORMATION SYSTEMS

> *Generate more timely, reliable and accessible public expenditure management information*

The focus of the proposed activities under Strategic Objective 3 is firmly on the GIFMIS development project. This project is a major step towards modernising public institutions and follows peer countries in the region - Indonesia, Vietnam, Cambodia and Laos. The GIFMIS is at the core of the overall PFM reform agenda and is the most complex of the reforms. A clear vision is required for the best solution for the Philippines. It demands reengineering and perhaps scrapping of some of the 16 stand-alone ICT systems in operation now. More than the technology, it is government commitment, good project design and change management that are critical. If managed well, the GIFMIS project will yield tangible and long term benefits.

Program Activity 3.1 Conceptual Design of Philippines GIFMIS (Track II)

Agency/organisation: COA/DBM/BTr

Other partners: DOF, ICTO, Implementing Agencies

Duration: 6 months

Roadmap topic: Accounting/FMIS (C.2)

The formulation of the GIFMIS conceptual design is a critical early step in developing a long-term integrated systems solution for budget preparation, execution and financial reporting.¹⁵ This is a priority activity of the NG's GIFMIS Project (Track II). A well developed conceptual design is a vital tool for decision-makers to clarify and reach agreement on the objectives that the system is designed to achieve, the business processes the system will support (scope), business units that are covered by the system (coverage), and nature and extent of the support the system is expected to provide (functionalities).

¹⁵ 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.

In other words, the conceptual design is a specification of what the system is, what it will do, and how it is intended to be used.

In order to formulate the GIFMIS conceptual design within a six-month timeframe, it will be necessary to fund a small team of technical experts. It is proposed that a firm with recognized experience in the development and management of FMIS systems in the public sector be contracted to implement this activity. Working under the direction of the PMO, and in close collaboration with COA, DBM, DOF-BTr and implementing agencies, the design is expected to be completed in six months.

The team will need to pay particular attention to the institutional reform thrusts outlined in the PFM Reform Roadmap and the NG's priority reform projects underway. This includes projects looking at reengineering business processes and the possible re-assignment of roles and responsibilities among oversight agencies. In doing so, the conceptual design needs to consider the legal and regulatory environment, budget, accounting and reporting frameworks, and the IT and communications environment and architecture, all key factors in ultimately choosing between a custom-made system or commercial off-the-shelf system. The conceptual design should also contain options for project management and change management arrangements, and recommendations for sequencing system development and implementation.

Program Activity 3.2 Support for Developing a National Payroll System

Agency/organisation: COA/DBM/BTr

Other partners: Implementing Agencies

Duration: 12 months (possible 12 month extension)

Roadmap topic: Accounting/FMIS (C.2)

Under the GIFMIS Project (Track I), the NG is committed to developing a national payroll system (NPS) to enable effective and efficient management of the payroll and to capture real-time personnel management information. It is estimated the NG spends almost 50 per cent of its annual budget on the payroll. At the same time, lack of reliable and timely information prevents oversight agencies from securing accurate, complete, and transparent accounts of government personnel. The Philippines PEFA found similar shortcomings and particular weaknesses in payroll internal controls.¹⁶ This hinders transparency and accountability in government.

DBM and COA are jointly leading this work. They plan to fast-track the development of the NPS and payroll-related Government Human Resource Information System (GHRIS) by modifying COA's existing Electronic Payroll System (ePayroll), existing HRIS and Government Manpower Information System (GMIS). Initially this will be limited to NG coverage. It is envisaged the NPS will manage information required to administer payments of salaries, bonuses and other forms of compensation and employee benefits. It should also allow for direct payment to all employees via BTr. For its part, BTr anticipates major functional changes stemming from the NPS.

A joint development team is being resourced by DBM and COA. P30 million is earmarked for the NPS under the 2012 budget to design and pilot the systems in the three oversight

¹⁶ *Philippines Public Expenditure and Financial Accountability*, World Bank, May 2010.

agencies. A phased roll-out is then planned, firstly to large spending departments and then other national agencies. It is proposed the PFMP complement this in-house development team with external experts in HR/payroll business processes and change management. The composition of technical assistance needs to be agreed. Initial discussions suggest it will focus primarily on downstream activities required to successfully roll-out the systems to agencies. This includes planning for and supporting business processes reengineering and training and support activities. Depending on the pace of systems development and roll-out, it is possible this activity could be extended beyond 12 months.

STRATEGIC OBJECTIVE 4: EXTERNAL OVERSIGHT

> *Strengthen external oversight of public expenditure management linked to physical performance information*

The space for constructive engagement between the NG and CSOs has opened up under the current Administration. The proposed activities under Strategic Objective 4 are designed to maximise this opportunity. The institutionalisation of civil society participation in PFM, in both upstream and downstream activities, can enhance accountability and transparency in the Philippines. It encourages a balance between government and independent viewpoints on PFM issues, and recognises the positive role that CSOs can play to independently affirm real gains made from reforms. Similarly, civil society has a valid role in pointing out failings and making proposals for government to consider and act on, as appropriate.

Program assistance in the first year is focused at supporting discrete reform activities by the NG to improve external oversight. In parallel, the program will formulate a strategy for engaging CSOs that aims to establish the foundation for long term partnerships between the program, civil society and the NG. Future assistance to CSOs will be provided in accordance with this strategy once approved by the PSC.

Program Activity 4.1 Framework for Participatory Audit in the Philippines

Agency/organisation: **Commission on Audit**

Other partners: **ANSA, Other CSOs**

Duration: **24 months**

Roadmap topic: **COA Audit Reports (D.1)**

The COA has requested the PFMP to support its efforts to develop a framework for conducting participatory audits in the Philippines. With anti-corruption at the core of the Administration's agenda, there has been a marked increase in audit requests to COA. However, COA does not have the resources to meet this sudden increase, particularly for performance or value-for-money audits. Taken together with COA's regular audit program, participatory audits can be an effective and powerful means to exact greater accountability among government agencies. Participatory audit involves the direct involvement of CSOs or citizen groups in audits of government activities and transactions, either jointly or in parallel, with public audit bodies.

This activity builds on the pilot participatory audits between COA and the Concerned Citizens of ABRA for Good Government (CCAGG) in 2001–2002. Although the CCAGG pilot

was brought to a halt, according to COA it was a successful initiative. Under the new Commission Proper, there is an opportunity to revitalise participatory processes and systems so they are institutionalised and become a permanent feature of COA's operations. The Philippines generally is fertile ground with positive experiences to draw from such as 'RoadWatch'. There is also an opportunity to learn from other countries such as India, Mexico and South Africa.

To effectively pilot participatory audit in COA, it is necessary to understand the different stakeholders, their interests, expectations, and levels of support needed for undertaking the audits. As such, it is proposed the program partner with ANSA to support this activity over a 24-month period. ANSA is able to readily call on expertise in this field, within the Philippines, regionally and further afield, and has existing wide networks within Philippine civil society.

The details of this package of assistance need to be developed with COA. Initial discussions suggest it will have multiple components supported by a small team of experts, as follows: preparing the framework design that includes the policy and procedures for conducting and financing participatory audits; reviewing the participatory audit manual prepared under the CCAGG pilot; building awareness in COA and citizen groups; developing and delivering training modules for COA staff and CSOs, including training needs assessment and a train-the-trainer initiative through network CSOs; supporting the actual conduct of one pilot participatory audit including by funding CSO participation; and reviewing the framework following the completion of the pilot audit, and prior to full roll-out.

Program Activity 4.2 CSO Engagement Strategy for the Program

Agency/organisation: PFMP

Other partners: CSOs, DBM, COA

Duration: 6 months

Roadmap topic: PFM Reporting and Monitoring System (C.1)

The program aims to support the role of CSOs in budget monitoring and potentially independent budget analysis. Through constructive engagement with the NG, it is recognised that CSOs, academia included, have a valid role in informing and monitoring government performance as well as in the implementation of the PFM reform agenda. The space for CSOs to engage constructively with the NG has opened up under the current Administration. However, the PFMP does not have a clear strategy and approach for engaging CSOs.

It is proposed a Governance Adviser be recruited to the program's Technical Advisory Team in the first year to formulate a CSO Engagement Strategy as well as assess CSO proposals and opportunities for program assistance. The strategy will establish clear criteria for engaging CSOs including, but not limited to, a broad set of technical capabilities desired. It will also specify the types of CSO-managed activities that ought to be funded. Wide consultation with CSOs and the relevant parts of the NG will be conducted. Some mapping of CSO capabilities is expected. AusAID's Coalitions for Change initiative may be utilised in these processes.

This activity is also expected to assist DBM and COA as they continue to refine their own policies and mechanisms for engaging with the CSO community.

Program Activity 4.3 Scoping Study for Establishing a Public Accounts Committee in the Philippine Congress

Agency/organisation: **Congressional Policy and Budget Research Department**

Other partners: **COA**

Duration: **3 months**

Roadmap topic: **COA Audit Reports (D.1)**

The Congressional Policy and Budget Research Department (CPBRD) of the House of Representatives requested the PFMP support a scoping study of options for establishing a Public Accounts Committee in the Philippines Congress. In many countries a legislative committee formally receives, scrutinizes, and reviews audit reports submitted by the supreme audit institution. There is no such committee in the Philippines, though copies of COA audit reports are furnished to Congress.

This situation contributed to the International Budget Partnership's Open Budget Survey in 2010 rating the Philippines as 'moderate' with respect to the extent of effective oversight of legislatures and supreme audit institutions. According to the survey, budget oversight provided by the Philippines' legislature is inadequate because, among other things, it does not fully scrutinize audit reports.

The scoping study will look at the international experience with Public Account Committees and draw from a series of case studies, as well as the relevant laws and regulations in the Philippines, to propose options for strengthening stronger cooperation and partnership between the Philippine Congress and COA.

CROSS-CUTTING ISSUES

GENDER AND DEVELOPMENT

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 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 similar systems constraints to the wider 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.

PROGRAM MANAGEMENT AND MONITORING PLAN

ORGANISATIONAL OVERVIEW

Through the Team Leader (TL) and Program Coordinator (PC), AusAID has direct leadership and management responsibility for PFMP planning and implementation, and is directly accountable to the PSC. This includes for the preparation of this AAP and the overall quality assurance of program activities.

Supporting AusAID is a contracted Service Provider (SP) that provides technical, project management and administrative personnel and services, and is responsible for the procurement and day-to-day administration of the program. This includes a Technical Advisory Team (TAT) that backstops the program in specialist areas beyond the capacity of the TL/PC.

Together the TL/PC and contracted personnel constitute the PFMP Program Office. The organisational structure of the program is provided at **Annex 1**.

TECHNICAL ADVISORY TEAM

The TAT comprises a small number of experts in specialist areas who provide technical advice and inputs to the program and work closely with program partners. This includes, but is not limited to, assessing the feasibility of activity proposals, developing activity concept notes, and appraising technical papers, reports and other activity outputs as part of the program's quality assurance role. TAT personnel may include full-time, part-time or periodic inputs.

It is proposed the following positions are recruited to the TAT in the first year:

- > Senior PFM Adviser: this is a full-time position to provide advice, expertise and technical guidance to the various budgeting and accounting reforms supported by the program. This position requires a public sector financial management professional with more than 10 years experience operating in a senior capacity in central ministry reforms, both in developed and developing country contexts. This is a two-year position.
- > Governance Adviser: a full-time governance adviser is required for six months to formulate the program's CSO Engagement Strategy and assess CSO proposals and short and long term opportunities for program assistance. This task aims to establish the foundation for long term partnerships between the program, CSOs and the NG. The position requires a professional with more than 10 years experience working in governance fields, preferably with a mix of public sector, non-government, and Philippines experience. Subject to the strategy outcome, this position may be extended to support activity implementation.
- > M&E Specialist: this is a full-time position required to support all monitoring, reporting and evaluation activities under the program (refer below). The M&E Specialist is a three-year position and specified in the PDD.

In addition to these full-time positions, a partnership arrangement with the World Bank is being explored for it to perform a formalised advisory role to the GIFMIS project and provide quality assurance of the PFMP's support activities to the GIFMIS development. This is expected to comprise periodic inputs/missions by World Bank professional staff. A similar arrangement with the IMF could be considered with regard to the PFMP's technical assistance to BTr.

PROGRAM OFFICE ACTIVITIES

The program's first year requires an intense effort to mobilise the program, put in place the necessary operational systems and processes, as well as scope, source and deliver the required assistance in accordance with this AAP. The major activities of the Program Office in the first year are:

- > Program mobilisation: a Program Office in Manila external to AusAID and the GOP will be established within six weeks of program commencement. All Program Office personnel required by the SP will be recruited, contracted and mobilised within three months. A Mobilisation Report of progress is due six weeks after program commencement.
- > Delivery of quality technical assistance: the program will source and provide partners with timely and value-for-money access to technical advice and expertise from within the Philippines and abroad, across a range of PFM topics. There is added pressure in the inaugural year as a suite of new program activities get underway and resourced concurrently. In order to mobilise quality technical assistance quickly across the life of the program, a pre-qualified pool of consultants will be established and maintained for potential engagement by the program.
- > Operational plans and manuals: a Human Resource Management Plan and Program Operations Manual will be prepared by the SP within three and five months of program commencement, respectively. The former outlines how the SP will recruit, support and manage the performance of Program Office, TAT and technical assistance personnel. The latter contains the systems and processes for financial, procurement and logistical support management and services.
- > Guidance notes: the Program Office will prepare a series of guidance notes to inform and formalise key program roles, responsibilities and processes. The first is the Terms of Reference (TOR) for the PSC. The second is a guidance note on the structured process for the preparation, appraisal and approval of program-funded activities. This will update the criteria for the selection of activities initially proposed in the PDD. Other guidance notes will be prepared as deemed necessary by the PSC and/or Program Office.
- > Information and communication plan: a factor in the realisation of PFM reforms is buy-in from the PFM stakeholder community. An effective information and communication plan is important in this regard. It will outline how the Program Office will support communication of appropriate information to program partners and other stakeholders, as well as support the delivery, advocacy and promotion of the program and its activities. It will be prepared within six months of program commencement.

A capacity development strategy for the program was proposed under the PDD to document the capacity diagnostic methodology and specific approaches to capacity development supported by the PFMP. The purpose of capacity development in the program is to improve government performance in using public funds through sustainable systemic change towards the policies and objectives the NG sets for itself. Thus 'capacity' is defined in terms of 'performance'. In 2011–2012, the program will prioritise support for the NG's own capacity building project and approaches to capacity development (refer Program Activity 1.1: Support for PMO). After 12 months of the project, the need for a program-specific capacity development strategy will be considered again.

MONITORING AND REPORTING

The monitoring and evaluation (M&E) framework for the PFMP provides management information to make sure the program is heading in the right direction and to improve program effectiveness. M&E for the program operates at four levels of analysis:

- > Program objectives: achieving the overall program goal and strategic objectives is not wholly within the control of the PFMP, but the program's efforts are intended to make a substantial contribution to achieving them. NG initiatives and other donor interventions will contribute to these objectives, and their achievement will also be influenced by exogenous factors.
- > Intermediate program outcomes: intermediate outcomes measure progress towards long term objectives and in many cases will require additional customised data collection and/or analysis to provide indicators of progress. Independent evaluation at the outcome level will also be undertaken in the third year of the program.
- > Activity outputs: the outputs produced at the activity level will be monitored for quality assurance and assessed in terms of their contribution to development outcomes and results. It is a core requirement of all activities funded by the program to clearly articulate intended outputs and the related indicators to measure progress and performance.
- > Activity inputs: inputs will be monitored throughout implementation in order to provide information on resource utilisation and cost. The extent of use of the various modes of support, the relative costs of different inputs, and the range of sources for procurement will be reported.

The PFMP is designed to minimise formal program-specific reporting so that it is not a distraction from activity implementation for implementers, program managers and partners. A number of regular reports are, however, necessary:

- > Annual Program Accomplishment Report: prepared by the Program Office to provide an overview of annual program progress, based on agreed performance indicators.
- > Six-monthly Progress Report: prepared by the Program Office on the basis of exception reporting to highlight significant achievements, areas of concern and/or opportunities.

- > Activity Implementation Reports: prepared by activity implementers (i.e. sub-contractors and consultants). They take a similar exception reporting approach, providing regular reports to the Program Office and program partners.
- > Quarterly SP Progress Reports: prepared by the SP to report on the provision of contracted program inputs and services to AusAID and the PSC.

An indicative M&E matrix specifying performance indicators and data sources was included in the PDD. This is provided at **Annex 3**. The M&E Specialist will review, and update as appropriate, the M&E framework so that methodologies and approaches are consistent across the program, and to the greatest extent possible utilise NG systems to maximise the value of data and reporting for program partners. Links with the NG's PMO will be important in this regard. This task will be completed within six months of program commencement.

IMPLEMENTATION RISKS

The potential significant benefits of reforming PFM systems 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 development risks to the program in 2011–2012, and their treatment, are outlined in **Annex 4**.

Management of development risks under the program is the responsibility of the PSC, Program Office and Activity Implementation Teams. Strategies to identify, assess and manage risks include:

- > Engaging closely with the NG through the PSC, observer status to the PFM Committee, and direct support for the PMO so the program maintains its central involvement in the planning and implementation of the PFM reform agenda.
- > Supporting coalitions for change between the NG, development partners and CSOs via the Philippines Development Forum (PDF) and other fora to exert pressure on the NG to continue to commit to and adequately resource reforms.
- > Supporting the NG to deliver an effective communication and information strategy around the PFM reforms in order to garner a wide level of buy-in and compliance.
- > Assessing the feasibility of program activities during design, and conducting sound institutional analysis that considers development risks and mitigation strategies.
- > Establishing internal program coordination structures and communities of practice that facilitate cross-activity communication and exchange.
- > Monitoring performance issues and development risks through regular activity implementation reporting.

PROGRAM BUDGET FOR 2011–2012

Table 2: Program Budget Estimates for 2011–2012 (\$A)

Diagram 1: Programmed Funds* by Strategic Objective, 2011-2012

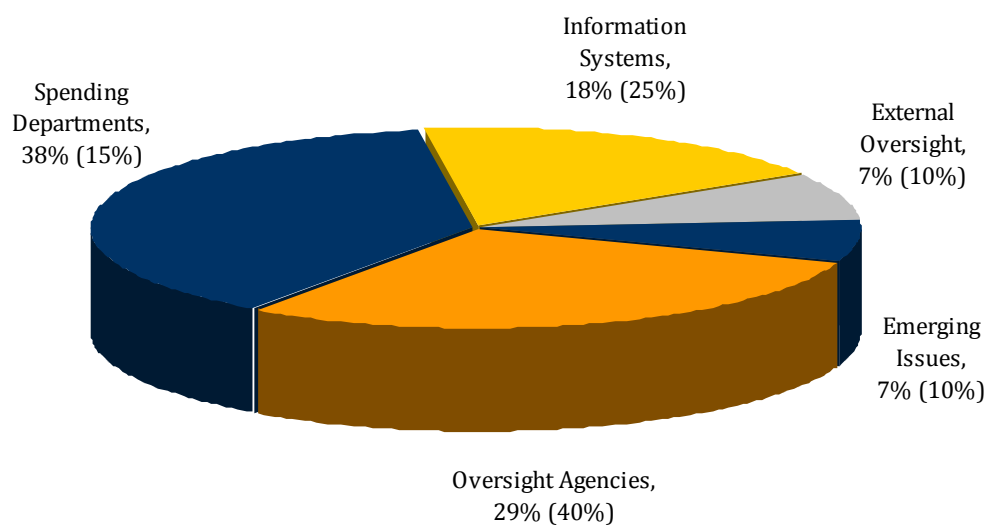
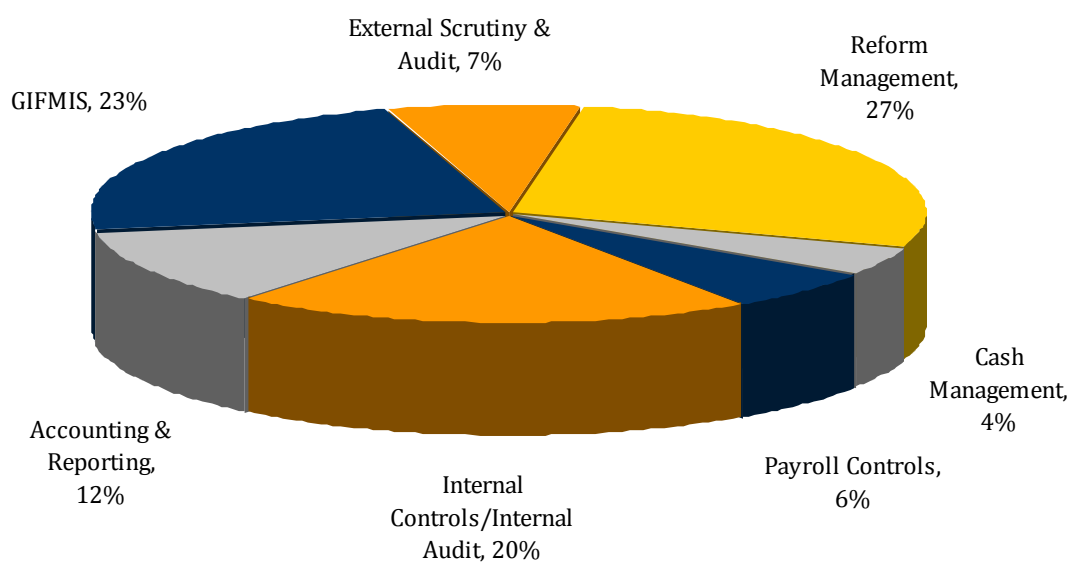
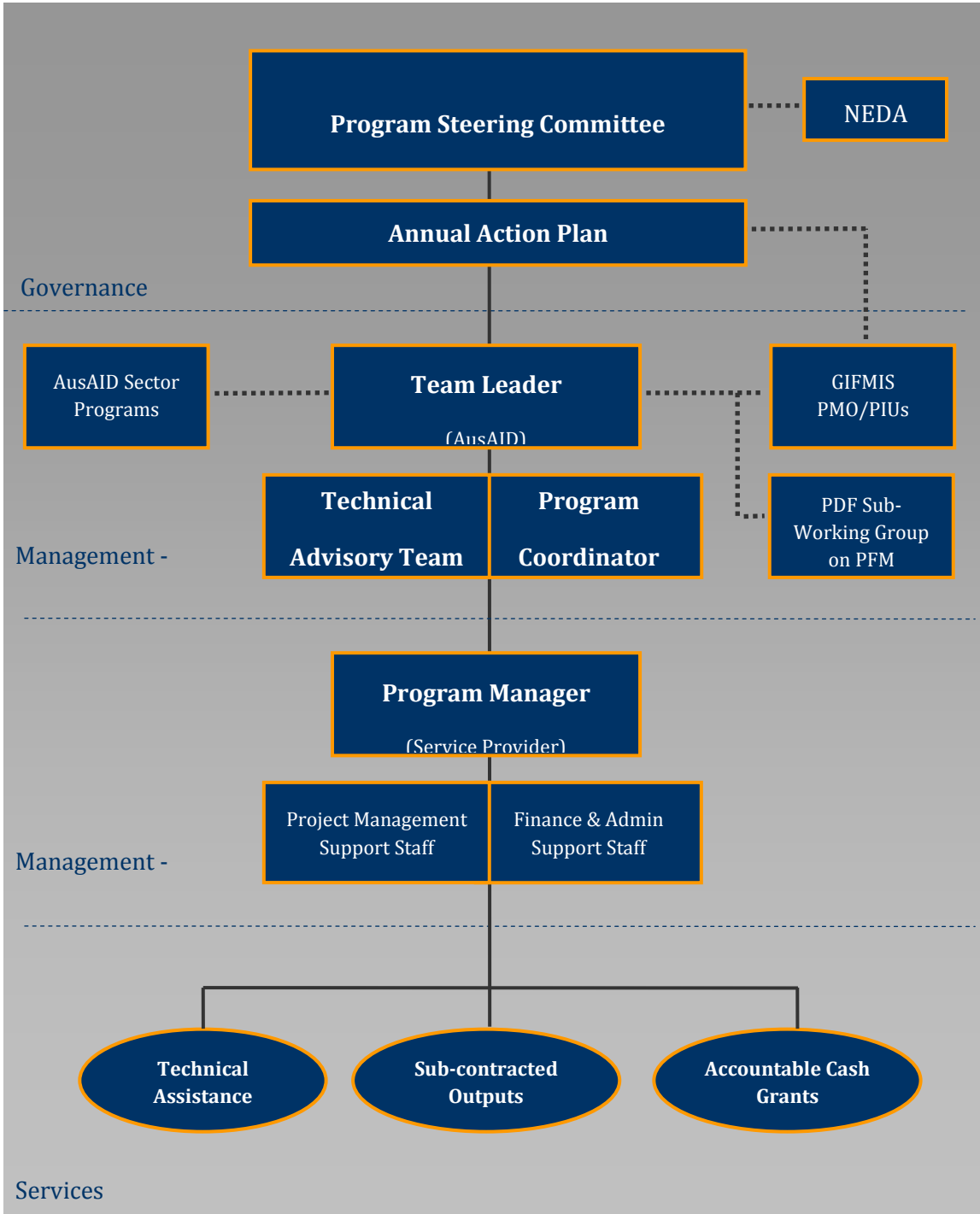


Diagram 2: Programmed Funds* by Function, 2011-2012



**Programmed funds' captures both the PFMP budget and external funding from other AusAID programs. For Diagram 1, percentages in parentheses represent only the PFMP budget.*

ANNEX 1: PFMP ORGANISATIONAL STRUCTURE



———— Line of Accountability Line of Coordination

ANNEX 2: SUMMARY OF ACTIVITY PROPOSALS

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 Program Management Office (PMO) Lead partner: DBM Duration: 24 months	2.1. Strengthening the Financial Management System in DPWH Phase II (Extension)^a Lead partner: DPWH Duration: 26 months	3.1. Conceptual Design of Philippines GIFMIS (Track II) Lead partner: COA/DBM/BTr Duration: 6 months	4.1. Framework for Participatory Audit in the Philippines Lead partner: COA Duration: 24 months
	1.2. Study and Design of Treasury Single Account Lead partner: BTr Duration: 9 months	2.2. Strengthening of Internal Controls/Internal Audit in DSWD^{ab} Lead partner: DSWD Duration: 10 months	3.2. Support for Developing a National Payroll System Lead partner: COA/DBM/BTr Duration: 12 months	4.2. CSO Engagement Strategy for the Program Lead partner: PFMP Duration: 6 months
	1.3. Support for Harmonization of Government Accounts Lead partner: DBM Duration: 6 months	2.3. Strengthening the Financial Management System in DepED^b Lead partner: DepED Duration: 5 months		4.3. Scoping Study for Establishing a Public Accounts Committee in the Philippine Congress Lead partner: CPBRD Duration: 3 months
	1.4. Whole-of-Government Training Program on Internal Controls/Internal Audit Lead partner: DBM Duration: 12 months	2.4. Strengthening of Internal Audit Service in DepED^b Lead partner: DepED Duration: 12 months		

^a. Existing projects to be rolled into PFMP

^b. Activities funded by other AusAID programs and additional to the PFMP budget

ANNEX 3: INDICATIVE M&E MATRIX

Performance Indicator	Baseline Information	Intermediate Outcomes	Means of Verification
GOAL – Improvement in the efficiency, accountability and transparency of public fund use in the Philippines to enable better service delivery			
A. Government efficiency of allocating public resources for development is improved	Despite comprehensive budget documentation, there is weak planning-budgeting nexus, frequent delays in approving the budget, extensive in-year reallocations of the approved budget, and difficulty in tracking budget allocations; each of these factors undermines the credibility of the budget	<ul style="list-style-type: none"> a. Annual budget is delivered within a fixed budget calendar b. Ability of government to monitor implementation of the agreed annual budget is improved c. OPIF is more effective as an agency performance management and resource allocation tool 	Annual budget documents; OPIF Book; COA Annual Audit Reports; Annual Financial Statements of government; diagnostic studies (PEFA, PERs); Government/DP sector program reports; President's Budget Message; Legislative Budget hearings; third party assessments (SEPO, CPBRD, CSOs, Academe)
B. Government efficiency of delivering public goods and services is improved	Lack of interdepartmental coordination combined with uncertainty around budget execution procedures and a complex system of budget and accounting reporting results in a highly labour intensive PFM system	<ul style="list-style-type: none"> a. Comprehensive PFM reform program is launched by government b. Key budget execution systems and procedures are improved c. Internal controls systems and internal audit are strengthened 	Annual budget documents; OPIF Book; COA Annual Audit Reports; Annual Financial Statements of government; budget execution documents and reports; diagnostic studies (PEFA, PERs, PETS); third party assessments (SEPO, CPBRD, CSOs, Academe)
C. Government accountability and transparency of appropriated funds is improved	Sub-par external reporting is exacerbated by fragmented data and unconnected manual and electronic PFM information management systems, as well as significant portions of approved appropriations being outside spending agencies and normal accountability mechanisms	<ul style="list-style-type: none"> a. More timely and reliable public expenditure information better informs government and the public b. More capable civil society builds demand for improved accountability and transparency c. Budget oversight role of Congress improves 	Annual budget documents; OPIF Book; COA Annual Audit Reports; Annual Financial Statements of government; President's Budget Message; diagnostic studies (PEFA, PERs, PETS); Legislative Budget hearings; third party assessments (SEPO, CPBRD, CSOs, Academe)
OBJECTIVE 1 – Increase the efficiency and effectiveness of the allocation, utilisation and reporting of budgeted funds by oversight agencies			

Performance Indicator	Baseline Information	Intermediate Outcomes	Means of Verification
A. Whole-of-government coordination for implementing PFM reforms is improved	An agreed whole-of-government PFM reform strategy or program does not exist	<ul style="list-style-type: none"> a. Government PFM Reform Roadmap is agreed, costed, and appropriately prioritised and sequenced b. Interdepartmental information flows and reporting is improved through better coordination amongst oversight agencies c. PFM 'core group' implements 'quick win' reforms 	Strategy or reform document which is publicly available; Executive and Congress are willing to support PFM reforms; President's Budget Message
B. Systems and procedures for budget formulation are improved, including the timeliness, presentation and communication of the budget	Budget documents are comprehensive but presentation of data is not user friendly and the complex appropriation structure, combined with re-enacted budgets, prohibits a reliable and efficient means of calculating out-turn budgetary information	<ul style="list-style-type: none"> a. Public version of the PBS is prepared in a timely manner to explain budget decisions in terms of government policy b. Format of budget documentation is improved and/or a simplified budget brief is prepared to communicate key budget outcomes c. Options developed to simplify the appropriation structure of the budget, especially the reporting of automatic appropriations, and improve procedures for agencies to manage re-enacted budgets 	Budget documentation; PBS; official budget Guidelines and Circulars; Executive Orders; OPIF Book
C. Systems and procedures for budget execution are improved so there is predictability in the availability of funds and better reporting of utilisation of public funds	Budget execution procedures such as cash management and in-year budget reporting are cumbersome and resource intensive for agencies, with low compliance in some areas	<ul style="list-style-type: none"> a. Complete a government PFM manual to provide a common understanding of budget execution laws, regulations and procedures b. Options developed to streamline interdepartmental cash management and release procedures, in-year budget processes and reporting c. Controls and monitoring of MDS accounts and bank reconciliation system 	Budget documentation; budget execution documents and reports (ABM, SAROs, NCAs, SAOB); Monthly Cash Program; official budget Guidelines and Circulars; Executive Orders; MDS guidelines; PFM manual

Performance Indicator	Baseline Information	Intermediate Outcomes	Means of Verification
		is improved	
OBJECTIVE 2 – Improve PFM capability in select departments to enable more efficient utilisation and accountability of public funds for service delivery			
A. Budget execution in select agencies is improved, leading to the removal of PFM-related blockages to service delivery	Most large spending agencies received either qualified or adverse opinions by COA	<ul style="list-style-type: none"> a. PFM reforms are included as a key component of sectoral programs of government and DPs b. Budget and finance offices in select agencies improve capability to utilise and account for government funds c. Some expenditure monitoring and reporting processes are improved in select agencies 	OPIF Book; COA Annual Audit Reports; Annual Financial Reports; Agency Performance Reviews; Budget Performance Assessment Reports
B. Internal control systems in select agencies is improved	Internal control systems exist in most large spending agencies but non compliance is routine and widespread	<ul style="list-style-type: none"> a. Management Divisions (or equivalent units) of select agencies improve capability to monitor and assess internal controls b. NGICS applied in and tailored to select agencies 	OPIF Book; Agency Performance Reviews; Budget Performance Assessment Reports; COA Annual Audit Reports; risk management plans and reporting; ICS operating manuals
C. Coverage and quality of internal audits by select agencies is improved, and attests to agency performance reporting	Internal Audit Units are established in most large spending agencies, but capability and the quality of internal audit reports is generally sub-par, and responses to audit finding are often delayed	<ul style="list-style-type: none"> a. Internal Audit Units of select agencies improve capability to undertake quality internal audits b. PGIAM applied in and tailored to select agencies 	Review of PGIAM; agency audit plans; quality of internal audit reports and links to Agency Performance Reviews; Budget Performance Assessment Reports; COA Annual Audit Reports; management responses to audit findings; IA operating manuals
OBJECTIVE 3 – Generate more timely, reliable and accessible public expenditure management information			
A. Usage of OPIF as a tool for agency performance management and resource	OPIF Book of Outputs is produced annually and has full coverage of government agencies, but the quality of financial and	<ul style="list-style-type: none"> a. Finalise and roll-out OPIF guidelines to provide clear standards for linking MFOs and performance indicators, and 	OPIF Book; OPIF guidelines; budget documentation; Agency Performance Reviews; Budget Performance

Performance Indicator	Baseline Information	Intermediate Outcomes	Means of Verification
allocation decisions is increased	performance information needs to be verified and improved in some cases	for identifying more robust performance information b. Reporting of PAPs expenditures is improved for major spending agencies and can be verified by DBM	Assessment Reports; records of Budget Hearings in the Legislature; President's Budget Message
B. Core systems and processes for reporting of budgeted funds are improved	Currently there is a lack of coherence between the classification system used for budget formulation, execution and reporting	a. Concrete steps taken to improve coherence between the format DBM formulates the budget in and the one COA reports on	Budget documentation; OPIF Book; Agency Performance Reviews; Budget Performance Assessment; Annual Financial Reports of government; COA Annual Audit Reports; Annual Report on Allotments, Obligations and Disbursements; GIFMIS
C. Transparency of in-year and out-turn reporting on government expenditures is improved	Public reporting of budget execution is limited, with little in-year reporting, and out-turn reporting compromised by different classification systems between DBM and COA	a. Make in-year budget reporting, such as a consolidated SAOB, readily available to the public b. Concrete steps are taken to improve the alignment of out-turn budget reporting with the GAA and improve the timeliness of reports	Budget documentation; in-year budget reporting (BEDs, BARs, SAOB, Monthly Report of Disbursements), Annual Financial Reports of government; COA Annual Audit Reports; Annual Report on Allotments, Obligations and Disbursements; GIFMIS plan
OBJECTIVE 4 – Strengthen external oversight of public expenditure management linked to physical performance information			
A. Constructive engagement between CSOs and government on budget analysis and monitoring is increased	Analysis of budget execution and performance by civil society is limited and no formal channels for cooperation with government exist	a. Recognised research body or 'think tank' on budget analysis is formalised by credible CSOs and academe b. Capacity of CSOs to provide an objective measure of government budget execution and performance is improved c. Forum for cooperation between government and select CSOs is agreed	Government websites; civil society reports/websites; media evidence of CSOs and academe reports influencing decision making; Congress/Legislative Budget hearings

Performance Indicator	Baseline Information	Intermediate Outcomes	Means of Verification
B. Quality research and analysis by CSOs and academe is used by government to monitor and report on public service delivery	Civil society analysis and monitoring of government expenditure for service delivery is limited	<ul style="list-style-type: none"> a. Preparation of key pieces of analysis by civil society, which is publicly available and utilised by key stakeholders b. Oversight agencies use civil society reports in budget planning and formulation 	Government websites; civil society reports/websites; media evidence of CSOs and academe reports influencing decision making; Legislative Budget hearings
C. Capacity of Congress in its budget oversight function is improved	Despite having a constitutional mandate to oversight budget execution, this is scarcely practiced by either Houses of Congress	<ul style="list-style-type: none"> a. Congressional budget oversight role is more widely understood b. Tools for conducting budget oversight are provided to Congressional staff and technical offices 	Legislative Budget hearings

ANNEX 4: RISK MANAGEMENT MATRIX

Source of Risk	Risk Event	Assessment			Risk Treatment/Measures	Responsibility
		L	C	R		
Changes in leadership	Changes in key leadership championing the PFM reform agenda (Secretaries and senior officials) and/or personnel turnover affect the familiarity with and/or commitment to reforms and to the activities supported by the program.	3	4	H	<p>The PSC will monitor key leadership changes closely. Internal program coordination structures will facilitate cross-activity communication of personnel changes and its likely impact.</p> <p>Through its support for core personnel in the PMO, the program will aim to maintain the continuity of external expertise and help compensate for any changes in key NG leadership positions.</p> <p>The program will ensure that incoming counterparts are fully briefed about program activities and understand the consequences of indifferent or lack of commitment.</p>	PSC; Program Office; Activity Implementation Teams
Changes in policy and practices	Frequent policy and operational changes in the PFM reform agenda and the way the NG manages reforms leads to uncertainty in the objectives and approaches of program activities and inhibits the effectiveness of technical assistance.	3	4	H	<p>Close engagement with the NG via the PSC, observer status to the PFM Committee, and support for the PMO situates the program centrally to stay abreast of significant policy shifts.</p> <p>Likewise, internal program coordination structures will 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.</p>	PSC; Program Office; Activity Implementation Teams
Financing of reforms	Unexpected changes in national budget allocations and/or operational constraints to efficient and effective spending of budget allocations inhibits the capability of oversight and line agencies to fully implement PFM reforms in agreed timeframes, in particular the FMIS reforms.	3	4	H	<p>The 2012 budget proposal for the PFM reforms is sufficient if passed by Congress. The program will consider the budgetary constraints of the NG in implementing reforms and provide complementary assistance where appropriate. The program's support to the PMO to boost operational capability in project management forms part of this approach.</p> <p>Co-financing arrangement with the international</p>	PSC; Program Office

Source of Risk	Risk Event	Assessment			Risk Treatment/Measures	Responsibility
		L	C	R		
					financial institutions could also be explored.	
Resistance to reforms	As reforms are developed and rolled-out across the NG there may be resistance from politicians, senior and middle level officials and other stakeholders, leading to delays and slow progress on reforms.	3	4	H	<p>Close engagement with the NG via the PSC, PFM Committee and support for the PMO allows the program to monitor resistance centrally.</p> <p>Resistance at the agency level will be monitored through regular activity implementation reports. The program can respond accordingly by adjusting or ceasing existing activities and/or commencing others.</p>	PSC; Program Office; Activity Implementation Teams
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 medium to long term.	3	4	H	<p>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 will advocate for a greater number of full-time NG personnel to drive the reforms, in particular assigning organic staff to the PMO.</p> <p>All program activities have designated government counterpart staff and have capacity building as an expected outcome. Capacity building will be monitored under the program's M&E arrangements.</p>	PSC; Program Office; Activity Implementation Teams
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.	3	4	H	<p>Recruitment of technical assistance personnel/ advisers will be implemented in partnership with NG counterpart agencies and other program partners.</p> <p>Ongoing performance management of advisers is a core element of the program and will be monitored as part of the ongoing assessment of aid effectiveness through the M&E framework and contractor performance.</p>	Program Office; Activity Implementation Teams
Coordination with development partners	Lack of coordination and cooperation between development partners can lead to duplication of effort and overburdening of GOP partners, which could undermine the program's effectiveness. Furthermore, poor donor communication can risk driving the debate	3	3	H	Ongoing collaboration and coordination will be sought through the PDF Sub-working Group on PFM, which AusAID co-chairs with DBM. Co-financing or collaborative analytical work should be actively pursued between development partners to support the	Program Office

Source of Risk	Risk Event	Assessment			Risk Treatment/Measures	Responsibility
		L	C	R		
	towards a rushed or inappropriate agenda that suits the needs of individual development partners more than government.				NG reform agenda.	
Political commitment to reform	The Administration is unable or unwilling to follow through on its PFM reform agenda, leading to a status quo regarding the quality, accountability and transparency of public fund use and slow progress on national-level reforms. Legislative action could be curtailed by lack of political will if and when it is required to formulate and/or amend legislation critical to reform implementation.	2	5	H	<p>The Administration's commitment to PFM reform is high so this risk is unlikely to occur during the current election cycle. Nevertheless, the PSC should monitor the political situation.</p> <p>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.</p> <p>The program will advocate 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 Administration to continue to commit to planned reforms.</p>	PSC; Program Office
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.	3	2	M	<p>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.</p> <p>The program will advocate 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.</p>	PSC; Program Office; Activity Implementation Teams

L = Likelihood: 1=Rare, 2=Unlikely, 3=Possible, 4=Likely, 5=Almost Certain

C = Consequence: 1=Negligible, 2=Minor, 3=Moderate, 4=Major, 5=Severe

R = Risk Level (combination of L&C): L=Low, M=Medium, H=High, VH=Very High