PFMP Philippines-Australia
Public Financial Management Program

Supporting the Philippines towards improved efficiency, accountability and transparency

Annual Program Accomplishment Report
2012

February 2013

Contents

Traffic Light Summary

Strategic Objective 1: Increase the efficiency and effectiveness of allocation, utilisation and reporting of budgeted funds by oversight agencies.

PO 1-1: Government Implements improved systems for budget formulation and communication	Support under this Program Outcome will commence in early 2013.	No rating
PO 1-2: Oversight agencies improve management and systems for budget execution, accounting and reporting	Program made solid progress with UACS and TSA, completing detailed design proposals and recommendations on implementation approaches, approved for 2013.	On track

Strategic Objective 2: Improve PFM capability in select department to enable more efficient utilisation and accountability of public funds for service delivery.

PO 2-1: Targeted national government agencies operationalise enhanced budget and expenditure management systems.	Good progress achieved in DPWH, with rollout of eNGAS to all offices complete. Detailed analysis of DepED systems completed; will be assisted to prepare for GIFMIS piloting.	On track
PO 2-2: Targeted national government agencies improve compliance with internal control rules and procedures.	Audit manuals and risk management framework developed for DSWD; ongoing training under way. Support to DepED delayed. PGIAM training behind schedule, with quality concerns.	Caution

Strategic Objective 3: Generate more timely, reliable and accessible public expenditure management information.

PO 3-1: A working Government Integrated Financial Management Information System (GIFMIS) is introduced.	Conceptual design for GIFMIS completed and recommendations accepted. Strong starting point for progress in 2013, with policy issues clearly established.	On track

Strategic Objective 4: Strengthen external oversight of public expenditure management linked to physical performance information.

PO 4-1: Civil society organizations [CSOs] strengthen their participation in the budget process.	Civil Society Engagement Strategy was approved. Support to ANSA / COA for participatory audit under way. Limited direct engagement with CSOs; new approaches may need to be considered.	Caution
PO 4-2: National Government agencies enhance their engagement with civil society.	Overall policy context is strong, and support to DBM Committee on CS Engagement under way but with some delays.	On track
PO 4-3: The budget oversight functions of Congress are more effective	Scoping study to examine options for greater partnership and cooperation between the Congress and COA is under way – initial analysis and discussions complete.	On track

Cross-cutting Program Outcome

PO 0-1: PFM Committee and its member agencies manage whole-of-government reform effectively.	Adequate oversight arrangements in place for reforms. The PMO operational. 2013 focus shifts to implementation, which will require Gov't to adjust to emerging needs.	On track

1. Introduction

This is the first Annual Program Accomplishment Report (APAR) of the Philippines–Australia Public Financial Management Program (PFMP). It provides analysis of the progress and achievements of the Program during CY2012. It is intended to provide the Government of Philippines and AusAID with the basis for making judgments about the adequacy of progress, about the appropriateness of strategies being used by the Program, and about priorities for future support.

The report provides a brief overall assessment of progress during 2012, followed by more detailed discussion under each Program Outcome. The focus of most of the analysis is on progress toward the achievement of Program Outcomes – it does not discuss the detail of individual activity implementation. The report then provides a brief discussion of sustainability and cross-cutting issues, and concludes with a brief description of program management activities.

Annex 1 provides a summary of the progress of individual activities, and Annex 2 provides a detailed assessment against the Program's performance indicators.

The Program

PFMP is a joint initiative of the Governments of Australia and the Philippines. The Program commenced in October 2011 and directly assists the Government to implement the *Philippine Public Financial Management (PFM) Reform Roadmap.* Through the Australian Agency for International Development (AusAID), the Australian Government has committed up to A$30 million over five years, 2011–2016. The Program has four Strategic Objectives in support of its overall goal, as shown in the diagram below.

Diagram 1: Strategic Objectives.
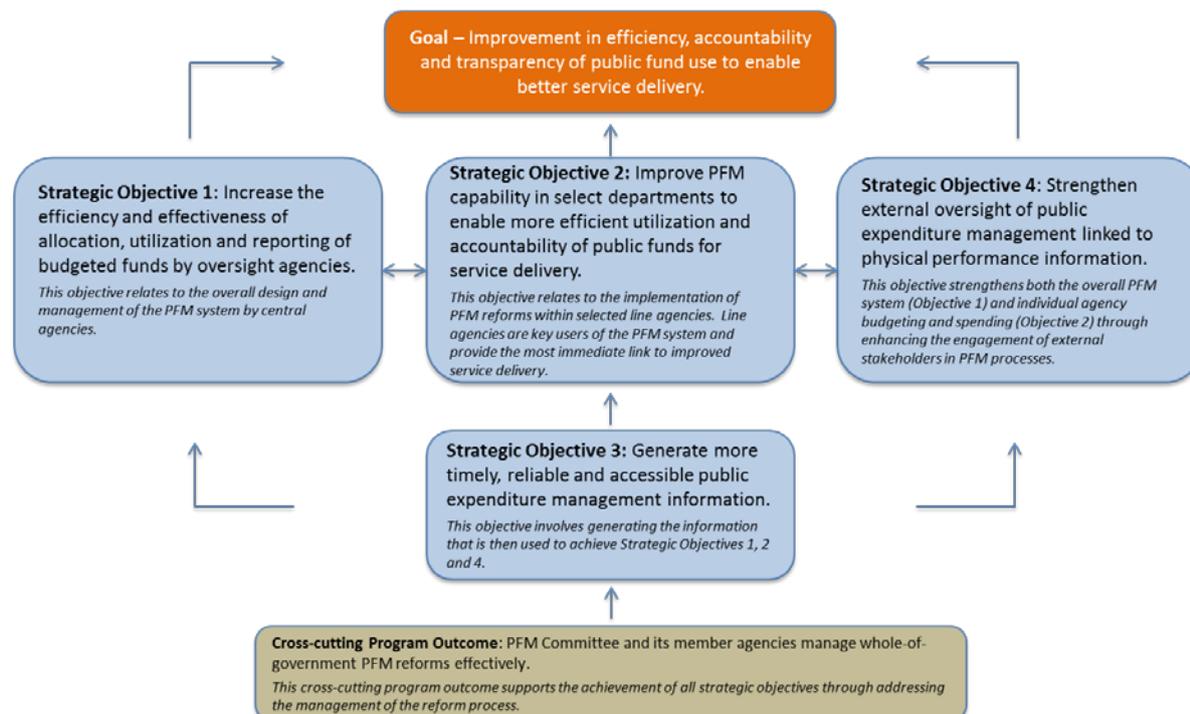
The Strategic Objectives are intended to be achieved within a five to ten year timeframe, and define the expected improvements in the overall PFM system. Each Strategic Objective is broken down into Program Outcomes (nine in total), which identify what is to be achieved within the next three to five years. Program Outcomes are defined in terms of specific institutional practices required to achieve the overall objectives.

A Program Steering Committee (PSC) provides strategic oversight to program planning and implementation and decides funding priorities year to year. It comprises senior officials from the Department of Budget and Management (DBM), Department of Finance (DOF)–Bureau of the Treasury (BTr), Commission on Audit (COA) and AusAID, and aligns closely with the work of the government's inter-agency PFM Committee. Meanwhile, the National Economic and Development Authority (NEDA) plays an important advisory role to the Program.

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

2. Overall Assessment

Achievements

2012 was a successful year for the Philippines Government and for PFMP.

The Program's operating context has remained stable during the year, and PFM reform remains a high profile commitment of the Aquino Administration. PFMP was a key player in supporting the implementation of the PFM Reform Roadmap, assisting the Government to design key reform initiatives, and providing overall program management support through the PFM Program Management Office (PMO) housed within the offices of DBM.

Supported by the Program, the Government reached three major milestones: the completion of design proposals for the unified account code structure (UACS), Treasury Single Account (TSA), and the Government Integrated Financial Management Information System (GIFMIS). It was critical that 2012 be used to establish a clear policy basis for implementing these reforms based on robust, well informed analysis. PFMP played a central role in facilitating this, as described in the sections below.

PFMP also supported financial management and internal audit in the Department of Public Works and Highways (DPWH) and Department of Social Welfare and Development (DSWD) respectively, and scoped out future support to the Department of Education (DepED). The Program began the process of working with both Government and civil society to strengthen their mutual engagement throughout the budget cycle.

More broadly, PFMP has successfully bedded down its operations, established effective working relationships with all key stakeholders (including leadership), and has achieved credibility as a source of quality advice and support. The Program has achieved the necessary clarity about its role and methods of operation, and is now well established as a supporter of the reform process.

Performance Issues

There are currently no critical issues affecting the Program to the point that any of the Program Outcomes are at risk of non-achievement. There have however been some implementation delays.

First, the work in DepED was delayed due to lengthy consultations with oversight agencies via the inter-agency PFM Committee. However, these delays are not likely to have a significant impact on achieving satisfactory outcomes. An agreed change in approach to supporting financial management

reform at DepED will see the Department become one of the pilot agencies for GIFMIS implementation, with PFMP providing transition support in the lead up to the go-live of pilot agencies in 2015.

Second, while progress was achieved in strengthening engagement between Government and civil society, there have been difficulties in the PFMP generating momentum. This is a relatively new area of work for DBM and other agencies, and a new area of focus for civil society (which has not traditionally had systematic involvement in PFM). PFMP will use analytical work planned for 2013 to inform implementation approaches and open up opportunities for enhancing engagement.

Challenges for 2013

In 2013, the focus will shift from *design* of reform initiatives to *implementation*. In this regard, there are at least two major challenges to consider:
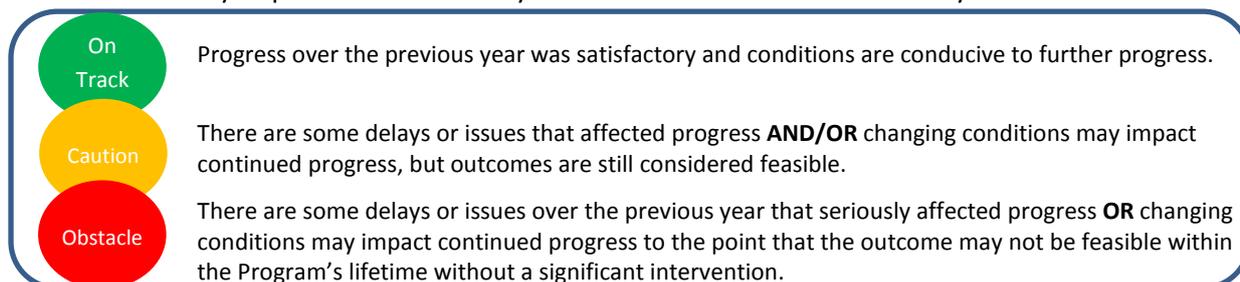
› *Maintaining a strong focus on effective change management.* Change management is an essential part of the success of any reform initiative. It will be particularly important in 2013 given the large number of stakeholders affected by changes (eg UACS), the deep impact of the changes (eg TSA), and the tight timelines for implementation. Inadequate attention to change management will heighten the risk of superficial change, which will in turn undermine the 'irreversibility' of reforms. (See further discussion in Section 4 of this report.)

› *Support to implementation requires sophisticated methods of collaboration.* While support to design processes is 'relatively' straightforward, support to implementation is much more complex, involves a larger number of stakeholders, a greater range of tasks, and higher levels of coordination. PFMP will need to ensure it is alert to these challenges, and that the PMO in particular is well placed to respond.

One of the key challenges for Government is to provide adequate implementation resources. It is the Government's intention to push ahead quickly with reform in 2013 (eg with UACS, GIFMIS and the TSA). There are definite benefits in doing so – it will help to generate and sustain momentum, and will allow adequate time for reforms to be bedded down during the current Administration. However it also comes with risks to the quality of implementation in the short term, and these risks will need to be carefully managed.

3. Analysis of Progress Toward Results

This section analyses progress toward results. The principal focus is on the adequacy of progress toward the achievement of the nine Program Outcomes. (Changes at the strategic objective level are only expected in the medium term, and will not be analysed in depth until the next report.) The analysis is informed both by the progress of individual activities (summarised in Annex 1), progress against the performance indicators (Annex 2) plus broader contextual analysis. The narrative draws out the key conclusions; it does not describe either activities or indicators in detail.

The assessment of progress is summarised using a traffic light system, the purpose of which is to assess the ability to proceed satisfactorily toward the desired outcome. The system is set out below.

On Track	Progress over the previous year was satisfactory and conditions are conducive to further progress.
Caution	There are some delays or issues that affected progress **AND/OR** changing conditions may impact continued progress, but outcomes are still considered feasible.
Obstacle	There are some delays or issues over the previous year that seriously affected progress **OR** changing conditions may impact continued progress to the point that the outcome may not be feasible within the Program's lifetime without a significant intervention.

Cross-Cutting Program Outcome: Reform Management

Program Outcome 0.1: PFM Committee and its member agencies manage whole-of-government PFM reforms effectively.

On Track

The PFM Committee and its member agencies oversaw significant progress during 2012. The Committee provided effective leadership, and the year culminated in the successful completion of the design phase for several key initiatives. The PMO was established, and provided effective support to the PFM Committee throughout these design processes. The key challenge for 2013 will be to successfully manage the transition to implementation.

Given the complex and interconnected nature of the PFM reform effort, the effectiveness of Government's oversight and coordination arrangements is vitally important. The PFM PMO's support in managing change processes and providing program management for the PFM Reform Roadmap is a critical factor in the short term. The medium term challenge is to build internal capability for program management, and it is around this intention that the above cross-cutting Program Outcome was defined.

Overall, the Government's oversight arrangements operated effectively during 2012, with the support of the PMO. The PFM Committee enjoyed continuity of membership, and the members have demonstrated their commitment to reform. This provided a stable environment and robust set of relationships within which to continue to develop and implement the reform agenda.

The PMO was successfully established early in 2012, and is housed within the offices of DBM. Overall, the PMO assisted the Government to adopt a robust approach to establishing the policy framework for key reforms, supported by thorough analysis and consultation (see further details under Program Outcomes 1.2 and 3.1).

The PMO also supported the bedding down of the Government's oversight and coordination arrangements. This included working with the various Project Implementation Units (PIUs) and the PFM Committee to develop the medium term Program Implementation Plan (PIP), which incorporates change management, communication, and capacity building strategies. This document provides an operational level workplan to give effect to the PFM Reform Roadmap, and now provides a clear basis for monitoring implementation progress.

In 2013, the focus shifts from design to implementation, and this will create different pressures for the PFM Committee, particularly given the tight timeframes involved. It will be increasingly important to distinguish clearly between effective project management (at the individual initiative level) and effective policy functions (at the Roadmap level).

Broadening and deepening engagement with spending agencies will also be important, as they are key constituents in the reform process. This will necessitate a wide-ranging and sustained change management effort – not just to raise awareness of reforms, but to provide effective support to the implementation process. (See discussion in Section 4.)

Strategic Objective 1: Increase the efficiency and effectiveness of allocation, utilization and reporting of budgeted funds by oversight agencies.

This objective addresses reforms to PFM systems across the budget cycle as well as the ability of oversight agencies to translate reforms into improved budget performance. While no high level changes occurred in terms of the actual operation of the system, important progress was achieved in designing changes to key building blocks within the system. These are discussed below.

Program Outcome 1.1 Government implements improved systems for budget formulation and communication.

No rating

No rating is provided as direct PFMP support to this Outcome is not expected to commence until early 2013. Nonetheless, the Government's ongoing work on strengthening the manner in which Major Final Outputs are defined and measured, and the Administration's overall commitment to strengthening Government's performance orientation provides positive indications.

During 2012, PFMP was not active under this Program Outcome; support to budgeting reforms is expected to commence in the first quarter of 2013. However, there were some noteworthy developments during the year.

Overall, strengthening the performance orientation of Government remains a high priority for the Administration. Current initiatives include developing a results-based management framework (of which the Organizational Performance Indicators Framework (OPIF) forms an integral part), and establishing the new performance based incentive system (for individual performance management). An inter-agency task force was also 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.

DBM continued work on the development of OPIF. Revised OPIF Guidelines were issued in April 2012 and efforts focused on developing more robust performance frameworks for national agencies (in accordance with National Budget Circular 532). This work, supported by the ADB, involved restructuring Major Final Outputs (MFOs) and Programs/Activities/Projects (P/A/Ps) to improve their alignment, and strengthening the quality of MFOs and performance indicators. This work was ongoing at December 2012.

The progress achieved with developing a unified account code structure will also make a contribution to the further development of budgeting improvements (see details under Program Outcome 1.2 below).

Significant challenges lie ahead. Results-based budgeting will need to be properly embedded within the budget preparation process, within the structure of the budget, and within DBM's own processes and institutional arrangements. It will also require new skill sets (in both DBM and to an extent spending agencies). Effective results-based budgeting will also depend on GIFMIS; without an integrated financial management system it will not be possible to obtain the kinds of (reliable) data required for analysis in a performance budgeting framework. A planned IMF mission in February 2013 may lay down important markers for budgetary reforms.

Program Outcome 1.2 Oversight agencies improve management and systems for budget execution, accounting, and reporting.

On Track

The decision to implement the Unified Account Code Structure and begin consolidating the Treasury's cash accounts into a single account in 2013 are major milestones. The design of both reform initiatives was completed in 2012, informed by extensive analysis and discussion. Many technical and organizational challenges lie ahead, but the implementation of these initiatives in 2013 provides the opportunity for important wins for the Philippines PFM Reform Program.

The preparation of detailed analysis and recommendations regarding the adoption of a Unified Account Code Structure and a Treasury Single Account provided a critical starting point for fundamental reforms related to budget execution, accounting and reporting systems. Each is discussed in turn below.

Unified Account Code Structure

The PFM Committee agreed in December 2012 to roll out the UACS for the 2014 national budget cycle. Endorsement of this decision by the PFM 'Principals' (Budget Secretary Florencio Abad, Finance Secretary Cesar Purisima and the Chairperson of COA, Ma. Gracia Pulido Tan) is expected in February 2013.

The UACS will greatly simplify comparison of expenditure against budget and simplify reporting (thus improving accuracy, transparency and accountability). It will provide an important framework for improved program or performance budgeting (through the incorporation of MFOs into the classification structure), and is an essential prerequisite for the implementation of GIFMIS.

The shortcomings of the existing classification systems have been understood by Government for some time, but without any successful action having been taken to address them. Stakeholders have long recognised the benefits of reform, but it was not until the Administration's PFM reform agenda was established that the political space required for such an inter-agency reform became available. PFMP was also on hand to provide the range of technical expertise and other support required to facilitate the process.

The Budget Reporting and Performance Standards (BPRS) PIU oversaw the development of the UACS, which comprises a set of descriptions and codes based on funding source, organisation, location, MFOs and P/A/Ps and object codes. The process, supported by PFMP, involved analysing the existing account code classification structures across government; developing the new coding structure; testing the structure through simulation exercises in major spending agencies; and developing a user manual.

The implementation of UACS represents a significant challenge for 2013: budget systems need to be revised and training needs to be delivered to some 1,200 staff across government within a short period of time. It is likely that there will be resistance from some line agencies due in part to technology constraints, which will have to be actively managed. There are therefore risks associated with both the short timeframe for implementation and the decision to roll out the UACS to all agencies in the same year. The process will have to be carefully monitored so that areas of non-compliance can be actively addressed.

Treasury Single Account

The PFM Committee agreed in December 2012 to implement the TSA in 2013. Endorsement of this decision by the PFM Principals is expected in February 2013. Implementation of the TSA will streamline the Government's cash management arrangements, improve transparency and accountability in how public funds are used, will contribute to improved budget execution, and should enable significant fiscal savings.

As with the UACS, the decision to implement the TSA is a significant milestone. Government has long understood the need to address the issue, and the current reform agenda again provides the right environment in which to progress. Analysis supported by PFMP has provided the detailed technical information required to make the decision about how to proceed with all the necessary understanding of the options and their respective costs, benefits, and risks.

The Treasurer, newly appointed in November 2012, has indicated her strong intention to push forward quickly with implementation. Subject to the (expected) agreement of the Principals, 2013 will see a significant implementation effort, with the BTr aiming to consolidate its more than 300 accounts into a single TSA. Including other national government agencies will then follow.

Implementation will require capacity development support, will have significant implications for the organisation and functions of Treasury, and – over the medium term – will benefit from the

development of a modern repo market in the Philippines. There is the possibility of resistance from the public banks, for whom the TSA will represent a significant business change. Government will need to be positioned to respond clearly to concerns they may raise.

Strategic Objective 2: Improve PFM capability in select departments to enable more efficient utilization and accountability of public funds for service delivery.

This objective provides support to strengthening financial management systems (DPWH and DepED) and internal audit and risk management (DepED and DSWD), consistent with the broader framework of the PFM Reform Roadmap.

Program Outcome 2.1: Targeted national government agencies operationalise enhanced budget and expenditure management systems.

On Track

DPWH achieved significant progress in the rollout of eNGAS, which is nearly complete across all 206 offices. Despite ongoing data accuracy issues, the improved organisation of financial information has seen increased attention to financial performance amongst senior management. Progress was achieved with setting out reform directions for DepED following the completion of a functional review and FMIS strategic design. Although delays were experienced while stakeholders considered the appropriate response to the review's recommendations, an approach has now been agreed that prioritises DepED as a pilot agency for planned GIFMIS roll-out in 2015.

Department of Public Works and Highways

Effective progress was achieved in DPWH during 2012; the nation-wide implementation of the eNGAS (Electronic New Government Accounting System) across the Department is nearly complete after an intensive six year effort. During 2012, implementation continued on schedule. Parallel testing was completed for the accounting module of eNGAS in the final 34 offices, meaning that it has now replaced manual systems in all 206 DPWH offices. Meanwhile, eBudget (Electronic Budget System) was rolled out in the remaining 32 offices, and parallel testing was completed in 58 offices.[1] The only remaining task is for eBudget parallel testing to be completed in a further 32 offices, which will take place in 2013.

Arguably the most significant achievement during the year was the integration of financial data from eNGAS and eBudget with project management data (from DPWH's Project Management System – PMS). This had two key results:

› The integration process quickly identified that reporting of physical progress has, in general, been overstated. (See more detailed discussion at Indicator 32 at Annex 2). Thus, the integration process helped senior management to obtain a more realistic view of the Department's service delivery progress.

› It also had the broader effect of presenting financial information to managers in a format that they understand – ie, in a project-based structure. They previously had little access to reliable data in this format, and this has been something of a breakthrough achievement. Financial analysis is now a regular agenda item at monthly senior management meetings.

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[1] *Rollout* refers to the initial implementation of the system in an office, and represents the beginning of *parallel testing*, which generally lasts for one year. Parallel testing is completed when the manual systems are shut down.

The Secretary initiated this integration process, and pushed strongly for it to be completed within 2012. As shown at Annex 2, the initial reconciliation between eNGAS and PMS records showed that only a quarter of records matched between the two systems, but by the end of year the figure was just short of 100%. This whole process helped to elevate the importance attached to financial reporting at the Department beyond meeting external reporting requirements.

Although significant progress was achieved at DPWH, there are continuing difficulties with data accuracy. Many data inaccuracies are identified and addressed during parallel testing, however the challenge is an ongoing one.[2] Partly as a result of this, the project extended its support to further system training to new staff across a number of regions, and this will continue during 2013.

PFMP will be conducting a case study into the rollout of eNGAS at DPWH during the first semester of 2013, with a view to identifying lessons learned that may be useful for the government-wide GIFMIS implementation. One obvious lesson is that system implementation at a large, decentralised agency requires a sustained and intensive effort.

Department of Education

During 2012, DepED senior management began preparations to upgrade existing manual budgeting and accounting systems in anticipation of GIFMIS implementation. An FMIS Strategic Design was prepared with PFMP support, to serve as a tool to allow DepED senior management to reach agreement on overall reform objectives prior to the implementation of GIFMIS. This included a functional review of DepED's financial management structures and systems, and identified areas for improving DepED institutional capability and capacity, along with the necessary procedural and organizational changes for the implementation of a computerized solution.

Broadly, the analysis indicated that implementation of a financial management information system is required, along with major process and organisational changes. DepED's systems are highly fragmented, and there is a high reliance on manual systems, leading to largely unreliable information. Detailed recommendations were presented to DepED and the PFM Committee in July 2012. Following consideration of the report by the GIFMIS Development PIU and the PFM Committee, the Committee recommended that DepED should be prioritised and form part of the first batch of pilot agencies for the GIFMIS roll-out.

From 2013, transitional support will be provided to assist DepED with the rollout of the Unified Account Code Structure, consolidation of DepED bank accounts in preparation for the introduction of the Treasury Single Account and further development of the Department's asset management system.

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[2] This is the particularly the case as eNGAS does not have built in mechanisms for validating data entry. Inaccuracies are identified and corrected during parallel testing. This can be in part be measured through the Department's steady reduction in unreconciled balances throughout the implementation process – see indicator 33.

Program Outcome 2.2: Targeted national government agencies improve compliance with internal control rules and procedures.

Caution

Adequate progess is being achieved at DSWD, with the development of audit manuals, a risk management framework, and the ongoing delivery of training. Support to DepED was delayed, while waiting for approval of TOR for support. Approval has now been provided. Delays and concerns over quality have impacted the delivery of government-wide training in PGIAM.

Department of Social Welfare and Development

Adequate progress was achieved at DSWD during 2012. Strengthening internal audit practice and risk management at DSWD is critical as the Department rapidly scales up resources for its social welfare and development programs, especially the Conditional Cash Transfer (CCT) program.[3]

During 2012, a department-wide baseline assessment was prepared and key departmental plans and manuals put in place for internal controls and internal audit. A second phase of support commenced, with a team assisting DSWD to strengthen the implementation of its internal audit program, as well as to implement a risk management strategy and help embed the risk management function across the department.

One of the main challenges will be to improve the scope and focus of the internal audit function. The primary focus at present is on narrow compliance audits of PDAF funds, which, while politically sensitive, only represent a small percentage of the Department's budget.

Department of Education

At DepED, there remains a strong starting point for support following the development of audit manuals for DepED under PFMP's predecessor program. However, implementation was delayed during 2012. A Terms of Reference for support to internal audit was prepared, but its approval by DepED was significantly delayed. This was largely due to a change in personnel in the audit unit, and the Department focusing on other priorities during 2012. The TOR have now been approved, and support is expected to commence in early 2013.

Philippine Government Internal Audit Manual

The Government is rolling out a PGIAM training program following PGIAM's launch in October 2011. The program targets managers and internal auditors in national government agencies, Government Owned and Controlled Corporation (GOCCs) and other public bodies. PFMP is co-financing the development of the training modules, piloting of the training, and delivery of the first round of training during 2012/2013. DBM is the executing agency and provides direct oversight of the activity. Meanwhile, the Development Academy of the Philippines (DAP) and the COA Professional Development Centre collaborate on the training.

There are currently several concerns over the progress of this activity: the training materials require further development, delivery of training is behind schedule, and participation rates are below expectation (see indicator 36). The management arrangements for the activity have made issue resolution difficult – with a variety of stakeholders playing different roles (including DBM, COA, the Office of the President, DAP and PFMP). PFMP will conduct a performance review of the activity prior to committing support beyond the current phase.

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[3] 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.

Strategic Objective 3: Generate more timely, reliable and accessible public expenditure management information.

Program Outcome 3.1: A working Government Integrated Financial Management Information System (GIFMIS) is introduced.

On Track

Substantial progress was achieved during 2012, with the completion of the GIFMIS conceptual design, and the development of a strong consensus around its conclusions. The design provided Government with a comprehensive analysis of the full range of factors that require policy decisions by Government. It provides a strong basis for moving ahead with the next stage of implementation in 2013, with a view to commencing rollout to pilot agencies in 2015.

The GIFMIS conceptual design was completed during 2012, providing Government with analysis around which to define a clear policy on GIFMIS implementation. The design helped the Government to clarify its thinking on the overall objectives, functional scope, and architecture of GIFMIS, and the business process changes required. It also informed Government's thinking on the implementation approach, including system development and procurement approaches, resourcing, training, and project management.

A formal response to the conceptual design was provided by the GIFMIS Development PIU in January 2013. Discussions to date provide a positive indication that the Government will use the conceptual design to define a strong policy basis from which to rapidly proceed to implementation in 2013.

The *process* of completing the conceptual design was particularly important. As the design itself notes, almost all of Government's existing financial systems were developed in-house. Government's decision (to be formalised in 2013) to approach the market for the development of GIFMIS thus represents a significant departure from previous practice. This decision was driven by the analysis and debate generated through the conceptual design process about the costs, benefits, and risks of different approaches. Government is now much better informed about the scale of the task that GIFMIS represents, and is in a position to put in place the resources and structures necessary to implement it effectively.

In a positive indication of Government's commitment, recruitment has begun of the GIFMIS Implementation Team that will support the next stages of implementation (see details at indicator 39).[4] 2013 should see the Government go to tender for GIFMIS. Timelines are tight, and efficient decision-making will be essential.

GIFMIS is increasingly being recognised across government as the centrepiece of the PFM reform process. As expectations spread and become more concrete, the project is likely to take on its own momentum, rather than having to be driven only from the centre. This will help to, among other things, strengthen the irreversibility of the whole reform process.

It will be important to begin to broaden stakeholder engagement – not just to continue to raise awareness about GIFMIS – but to develop a more detailed understanding of agency needs. Ultimately, the success of GIFMIS will depend in large part on cooperation from agencies. (The example of DPWH, as outlined under Strategic Objective 2 above, suggests that understanding and responding to the needs and priorities of spending agencies will heighten the likelihood of effective implementation.)

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[4] This was a recommendation in the conceptual design, and has also been facilitated by the PMO.

Strategic Objective 4: Strengthen external oversight of public expenditure management linked to physical performance information.

This strategic objective focuses on external oversight, as exercised through civil society, Congress, and potentially the private sector.

2012 witnessed an expansion of Government's engagement with civil society following the establishment of a clear policy agenda to enhance citizen engagement in the budget cycle.[5] Initiatives first established in 2010 and 2011 (such as the Budget Partnership Agreements and Bottom-Up-Budgeting) were expanded to cover more national agencies and/or Local Government Units (LGUs). The 162 BPAs signed between civil society organisations (CSOs) and national government agencies/GOCCs and the counterpart CSOs of 594 LGUs having implemented bottom-up-budgeting in 2012 represent a significant expansion of the amount of civil society engagement.

This provides a positive backdrop for PFMP's support. During 2012, PFMP worked with stakeholders to develop its Civil Society Engagement Strategy. This was approved in October 2012, following wide consultations. The Strategy outlines an approach that involves working with both supply (Government) and demand (civil society), to strengthen engagement throughout the budget cycle. Program Outcomes 4.1 and 4.2 address either side of the engagement process, and need to be understood as a combined and coordinated effort.

> **Program Outcome 4.1: Civil society organizations [CSOs] strengthen their participation in the budget cycle.**
>
> Caution
>
> *The current policy environment is strongly supportive of enhanced civil society participation in the budget cycle. Enhancing CSO capacity remains a priority, but identifying the apppropriate mechanisms for direct engagment by PFMP with civil society is proving challenging, particularly as PFM is not a traditional focus of CSO work.*

Overall, the environment is increasingly conducive to stronger participation by civil society in the budget cycle. However, CSOs' capacity to respond to the emerging opportunities will be a significant determinant of the extent to which the Government's citizen engagement agenda can be fulfilled. The capacity challenges facing CSOs were documented in PFMP's Civil Society Engagement Strategy and the PFMP Baseline Report, and remain largely unchanged during 2012 (although increased activity [eg in relation to BPAs] may be generating expanded participation).

While several CSOs are keen to respond to the opportunities afforded by the Government's citizen engagement policies, many CSOs' existing agendas tend not to be framed within a PFM perspective. The challenge for PFMP is to find the right method to engage with CSOs to help strengthen capacity, as there is no obvious single entry point from a PFM perspective. Initial efforts focused on attempting to identify an organisation to act as an 'intermediary' to bring other organisations into the Program. However, the right organisation with the right connections, commitment, technical competence and organisational capacity could not be identified within the reporting period.

Several studies designed in the latter part of 2012 aim to help progress the situation by examining some of the current obstacles to CSO participation in the budget cycle, and may assist in providing alternative entry points. The studies will examine the implementation of Budget Partnership Agreements, take stock of the existing policy frameworks for CSO engagement, and examine the funding mechanisms for CSOs.

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[5] 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.

One area of tangible progress during the year was PFMP's support for the partnership between COA and the Affiliated Network for Social Accountability in East Asia and the Pacific (ANSA-EAP) to develop a citizen participatory audit framework in the Philippines. In the spirit of constructive engagement, the initiative is supporting COA to enhance transparency, accountability and citizen participation in the public audit process. Cooperation is under way, and one high-profile pilot audit was launched.[6]

Program Outcome 4.2: National Government agencies enhance their engagement with civil society.

On Track

The overall policy environment for Government engagement with civil society is robust, and provides a good basis for progress. The coverage of Budget Partnership Agreements was expanded among oversight and line agencies during 2012, although little information is available about the impact of the BPA process on the quality of budgeting. Support to DBM Committee on CS Engagement is under way and the program is positioned well for 2013 and beyond to help the Government to institutionalize its open budget policies.

As noted above, the Government achieved good progress in strengthening its engagement with civil society and putting in place several initiatives that fall under its overall 'open budget' agenda. As these initiatives are scaled up it will be important to undertake thorough assessments in order to assess the impact of these new practices on the quality of the overall national budget process. PFMP will support DBM in undertaking further analysis of this during 2013.

The intention, as outlined in PFMP's Civil Society Engagement Strategy, is to work 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 (and line agencies) to implement the framework. A detailed work program was agreed with the Committee in November 2012. It focuses on undertaking a series of analytical activities to inform, and perhaps enhance existing policy implementation as well as inform capacity building initiatives planned for later in 2013 (including a possible capacity building program for up to 18 national government agencies).

The very early stages of implementing technical assistance to DBM have revealed some risks. While there is senior level commitment to strengthening civil society engagement, resource allocation and capacity within the DBM bureaucracy for the type of work required is currently limited. It also appears that DBM's specific role in civil society engagement (beyond policy formulation) is not yet fully elaborated. Although DBM is the custodian of government policy regarding engagement with civil society, implementation ultimately takes place within individual sectors. As the principal focus is now on implementation, it will be useful to remain alert to other implementation approaches that generate quick gains and might be replicated. These may be identified through the analytical activities planned for early 2013.

In addition to support to DBM, a separate activity is already under way with COA. As noted under Program Outcome 4.1 above, PFMP supported cooperation between COA and ANSA (funded by PFMP) in relation to participatory audit. While in its early stages, 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.

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[6] The first pilot audit is the DPWH executed CAMANAVA flood control project in Metro Manila identified in consultation with the DPWH Secretary Rogelio Singson.

Finally, it is noteworthy that civil society engagement is not integrated into the PFM Reform Roadmap. This means that civil society engagement initiatives are not subject to the accountability mechanisms that are in place for Roadmap activities (such as monthly reporting to the PFM Committee). The adequacy of current oversight arrangements may be worthy of further discussion.

> **Program Outcome 4.3: The budget oversight functions of Congress are more effective.**
>
> On Track
>
> *Early progress was achieved in collaborating with stakeholders in Congress, COA, and the CPBRD to produce an initial analysis of current oversight arrangements. With a strong emphasis on dialogue and collaboration, it is anticipated that progress under this outcome will proceed slowly in 2013 due to Congressional elections in May 2013.*

During 2012, there were no significant overall developments in relation to the exercise of budget oversight, and the situation remains largely as described in the baseline report. Support to this outcome is in the early stages of analysis.

PFMP made initial progress in discussions with COA and Congress through the preparation of an initial assessment looking at options for greater partnership and cooperation between COA and Congress as key actors in current government oversight arrangements. The key finding thus far relates to the absence of a Public Accounts Committee (or similar body), which means there is little by way of systematic oversight of public expenditure by Congress. As long as oversight remains ad hoc, systemic public expenditure and accountability issues are unlikely to be addressed through the audit process. This is reflected in the fact that large numbers of audit recommendations (as well as adverse and qualified audit opinions) continue to be issued each year.

The analysis conducted so far will provide the basis for further discussion between Congress, COA and the Congressional Policy and Budget Research Department (CPBRD) (and other relevant agencies) about mechanisms for stronger Congressional oversight, and the nature of PFMP support to any such reforms.

This is a challenging area for reform, in which there has been little significant change for a number of years. It will be important to proceed cautiously and collaboratively, particularly given upcoming Congressional elections (in May 2013).

4. Sustainability

The concept of sustainability takes on a specific dimension in the context of a current reform environment in the Philippines. The Aquino Administration has captured this through the idea of *irreversibility* – achieving sufficient progress so that future Administrations cannot 'undo' reforms. This is a challenging task, however it provides a useful framework for thinking about PFMP's approach to sustainability.

The challenge is to translate the high levels of political commitment to reform into sustainable change by embedding reforms as deeply as possible through implementation. Policies can be changed with relative ease; however when practices are deeply ingrained in the systems and processes and capabilities of the Philippines' bureaucracy, and when a wide range of stakeholders support and implement change, both inside and outside of government, it is a lot more difficult to reverse. On that basis, the following considerations are important for the Government and PFMP:

› **Identifying and supporting operational change champions.** Translating political commitment into new practices requires operational-level champions. Without these, reforms cannot be

institutionalised, and benefits cannot be fully achieved. This requires an intense and sustained change management and communications effort, and this is a point on which PFMP provides consistent advice. This will be particularly important in 2013.

› **Broad stakeholder engagement**. As noted, a strong, broad constituency for reform is a critical element of sustainable change. This constituency must be actively developed, through strong and sustained change management, genuine dialogue with line agencies (not just 'information sharing'), and ensuring that key stakeholders all understand how change can benefit them, and thus buy into the process.

› **More resources.** Major PFM reforms of the type currently underway require significant resources – in particular investments in business process change, system development and implementation, and change management. If properly implemented, the savings delivered by the reforms will far outweigh the costs (see for example indicator 28 that outlines the potential savings from the Treasury Single Account alone). Without adequate investment, reforms will remain superficial and easily undone. The issue for sustainability is thus not so much whether the resourcing levels can be sustained by Government, but whether there is sufficient understanding of:

- Trade-off between short term outlay requirements and medium to long term benefits; and

- Need to commit sufficient resources to change management and capability development, without which the full benefits may not accrue.

› **Accountability for results**. Accountability for delivering reform is critical. Accountability provides an incentive for action, and it is important that reform leadership is well informed about actual results being achieved, and is able to make judgments about the adequacy of progress. In this context, a robust approach to monitoring and evaluation (built into strong accountability structures) is important. This will be an area of focus for PFMP in 2013.

› **Capacity building.** Capacity is always a driver of sustainability. Recognising this, PFMP is supporting not only capacity development for individual reform initiatives, but also the Government's reform management capability. This is a key role of the PMO; having strong staff and structures in place to drive and coordinate reform will help reforms deliver benefits over the longer term. The PFMP's theory of change is based on the assumption that there is "adequate" capability within the civil service to deliver reforms with appropriate support. This assumption remains valid, however capability building will need to remain an area of intensive support, particularly as reform initiatives move into the implementation phase and a much wider range of stakeholders will need to be engaged in delivering reforms.

5. Cross-Cutting Issues

The PFM Reform Roadmap includes the 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 implementation across government. One of the constraints to GAD budgeting is the underdevelopment of the NG's financial and performance 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. No specific gender analysis or activities took place during 2012.

6. Program Management

An intense effort was required in 2012 (as well as the last quarter of 2011) to mobilise the program office, establish operational systems and processes, as well as rapidly scope, source and deliver targeted technical assistance.

Strategic Planning

The 2011/2012 and 2013 Annual Action Plans were presented to the Program Steering Committee (PSC) in November 2011 and December 2012, respectively. The PSC approved both plans (with some amendments), providing the basis for the program priorities and activities in support of the implementation of the PFM Reform Roadmap.

As the focus shifts to implementation in 2013, PFMP will continue to provide advice and support to GIFMIS, UACS, and TSA. PFMP's financing of the PMO will also continue, and new support will be provided to program budgeting at DBM, as well as to building PFM capability in the Philippines' bureaucracy.

Support to line agencies will continue at DPWH (financial management), DepED (GIFMIS transition support and internal audit), and DSWD (internal audit and risk management). Support to the initial phase of government-wide PGIAM training will continue.

There will also be a scale up of support to civil society engagement, and the analysis phase of support to external oversight by Congress will continue.

Staffing and Recruitment

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.

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.

Recruitments completed during 2012 are shown below.

Program Activity	Position Title	Name	Mobilisation
Program Activity 1.1 Support for Program Management Office	Director	Greg Robins	March 2012
	Deputy Director	Ma. Teresa Garcia	March 2012
	GIFMIS Adviser	Roberto Garcez	May 2012
	Capacity Building Expert	Sheila Villaluz	March 2012
	Support Staff	Sealdi Calo	May 2012
	Support Staff	Agnes Arban	April 2012
	Support Staff (Resigned Nov 2012)	Nikole Alicer	April 2012
	Support Staff (Replacement)	Raymond de Vera	January 2013
	Office Assistant	Laurice Talusan	January 2013
Program Activity 1.2 Study and Design of Treasury Single Account	*Sofreco*: International Expert on TSA / Local Expert on TSA	Richard Brun / Cecilia Soriano	May 2012
Program Activity 1.3 Support for Harmonization of Government Accounts	International Expert on Harmonisation of Government Accounts	Richard Walsh	March 2012
Program Activity 2.1 Strengthening the Financial Management System in DPWH Phase II (Extension)	*DM Cleary & Partners* : FMIS Expert/Team Leader Local Consultants, FMIS	Mike Cleary / Maritess Oguing Normando Siazar Alicia Macarig	January 2012
Program Activity 2.2 Strengthening of Internal Controls/Internal Audit in DSWD	*PDP Australia:* Team Leader/Risk Management Expert Internal Audit Expert (Local) Risk Management Expert (Local)	Jeanne Wehlau Alicia Calingin - Manuel Nelia Villeza	August 2012
Program Activity 2.3 Strengthening the Financial Management System in DepED	*PDP Australia:* Team Leader/PFM Specialist FMIS Specialist Local Consultant, FMIS Local Consultant, FMIS (short term) Local Consultant, FMIS	Stephen Macleod Bruce Pollock Consuelo Calangan Rosario Manasan Liza delos Reyes	February 2012
Program Activity 3.1 Conceptual Design of Philippines GIFMIS (Track II)	*PWC India:* Project Director and PFM Expert GIFMIS Specialist GIFMIS Expert IT Infrastructure Specialist GIFMIS Specialist HR/Change Management Specialist FMIS Support Resource GIFMIS Technical Support	Ranen Banerjee Chaithanya Chava Allan Maclean Anindya Sengupta Subashish Dar Janet Chowdhury Shashi Mikund Aashima Verma	July 2012
Program Activity 4.3 Scoping Study for Establishing a Public Accounts Committee in the Philippine Congress	Scoping Study Expert	Wayne Brian Bartlett	November 2012
Program Activity 4.5 DBM CSO Engagement Activity	Civil Society Engagement Coordinator	Manolito Novales	January 2013
Technical Advisory Team	Senior PFM Adviser	Desmond Ferguson	February 2012
	Governance Adviser	Basile Gilbert	February 2012
	Monitoring and Evaluation Specialist	Gary Ellem	July 2012
	Program Coordinator (Replacement)	Princess Shimmadar Battung	November 2012

Monitoring and Evaluation

The M&E Framework for the PFMP was approved by the PSC in December 2012. The full M&E System was developed, and the Baseline Report against which progress will be monitored is attached to this Report.

Risk Management

An updated risk management matrix was included in the 2013 Annual Action Plan, presented to the PSC in December 2012. There were no material changes to the previous risk analysis, and no major risk events materialised during 2012.

Program Expenditure

As at the end of December 2012, of the program's total A$18 million budget for 2011–2014, 82% or A$14.7 million was committed against existing and future program activities (i.e., what is referred to as the overall program pipeline), with 55% or A$9.8 million already obligated, and 25% or A$4.4 million disbursed. The program currently has uncommitted funds of around A$3.3 million, which is available for future and emerging areas of support. This breakdown is shown in Chart 1 below. Meanwhile, Charts 2 and 3 provide a breakdown of committed program funds against PFMP strategic objective and PFM function, respectively.
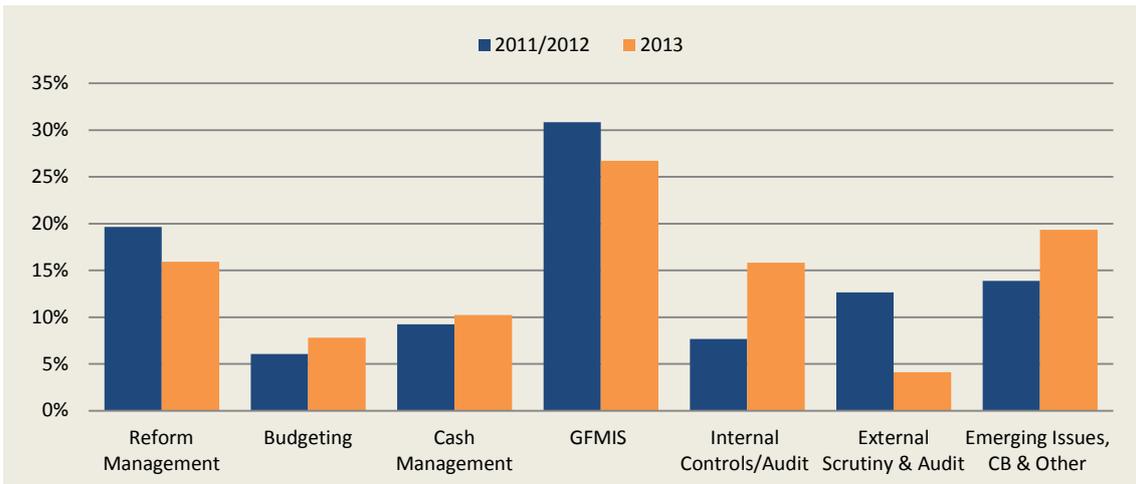
Chart 1: Program Budget Performance, 2011–2014 (A$) (As at 31 December 2012)
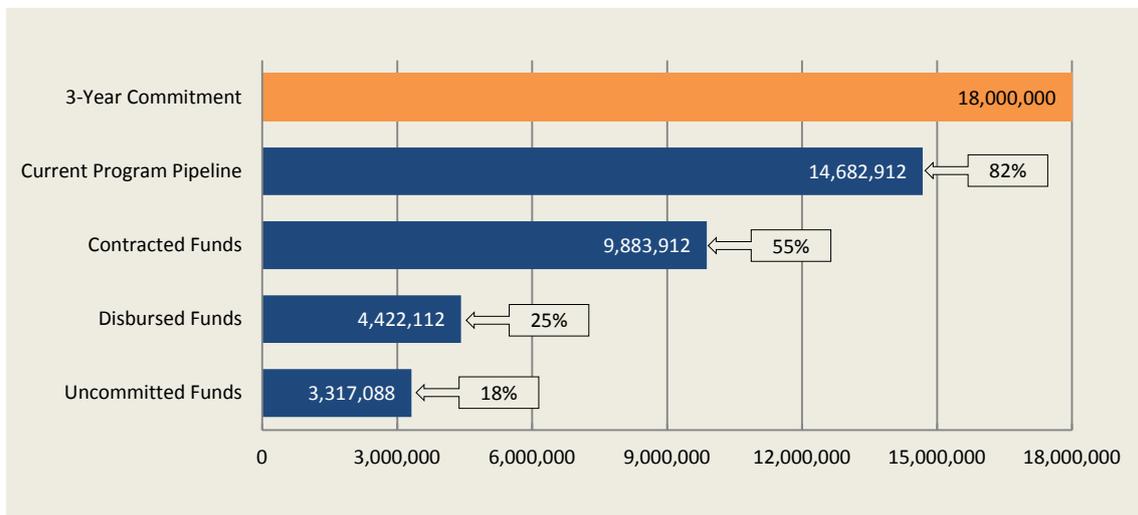
Chart 2: Programming Funds by Strategic Objective in 2013 (%)
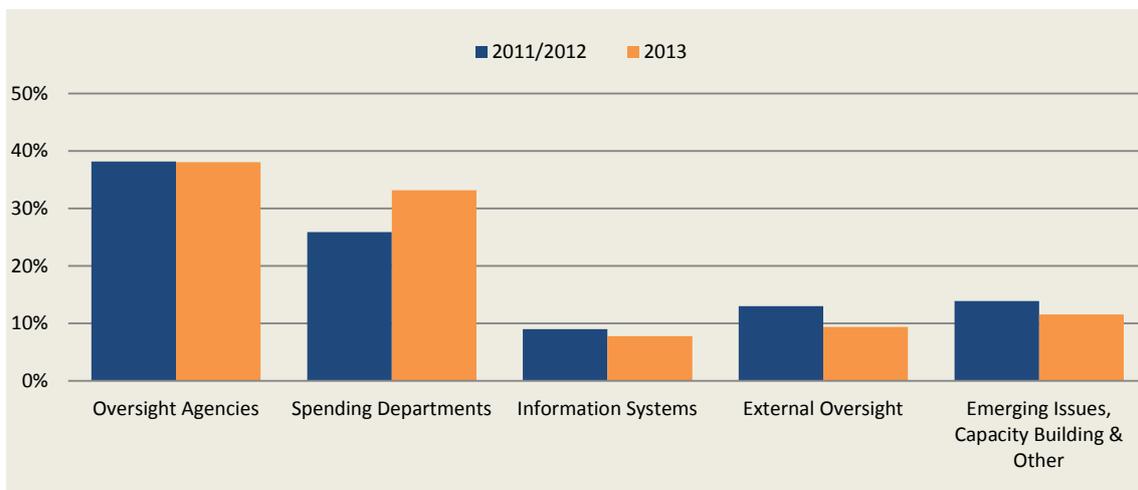
Chart 3: Programming Funds by PFM Function in 2013 (%)

Annex 1 – Activity Implementation Summary: January – December 2012

Activity/Partners	Duration	Implementation Team	Outputs / *Significant Deviations*
Cross-cutting Outcome 0.1: PFM Committee and its member agencies manage whole-of-government reforms effectively.			
Support for PFM Program Management Office – DBM/COA/DOF/BTr	Start: March 2012 End: April 2014	Greg Robins (Director), Tess Garcia, Roberto Garcez, Sheila Villaluz; Support Staff	PFM PMO operations were successfully established, with the PMO now reporting to the PFM Committee; initial effort focused on establishing structures and operations. Main areas of substantive advice have been in relation to: › Development of Conceptual Design for GIFMIS; › Design of organisational arrangements to support GIFMIS implementation; › Preparation of Program Implementation Plan and related PIU Action Plans and related management arrangements; › Development of change management strategy; › Provision of operational support and technical advice to PFM Committee and PIUs; › Support to development of (and rollout planning for) the Unified Account Code Structure; › Other technical advice (eg in relation to the development of the National Payroll System).
Strategic Objective 1: Increase the efficiency and effectiveness of allocation, utilisation and reporting of budgeted funds by oversight agencies.			
Program Outcome 1.1: Government implements improved systems for budget formulation and communication.			
Support to Budget Reform	12 months / expected mobilisation of Senior Budget Adviser in March 2013.		
Program Outcome 1.2: Oversight agencies improve management and systems for budget execution, accounting, and reporting.			
Design of Philippines Treasury Single Account – BTr	Start: May 2012 End: Feb 2013	SOFRECO (Richard Brun, Chil Soriano)	The Consultants completed: › A comprehensive functional review of NG's organisational frameworks and processes for managing the controlling the cash resources; › Detailed design recommendations for the Treasury Single Account developed in consultant with key stakeholders. Recommendations also covered the implementation process ("business plan"). Recommendations were supported by the Treasurer, and were considered by the PFM Committee and then endorsed to the PFM Principals in December 2012.

Activity/Partners	Duration	Implementation Team	Outputs / *Significant Deviations*
Support for Harmonization of Government Accounts – DBM/COA	Start: March 2012 End: September 2013	Richard Walsh	› Detailed analysis of existing classification structures completed; › Detailed proposal for the UACS was prepared following consultations with DBM, COA, DOF, and major spending agencies. › Initial testing of the proposed UACS completed in consultation with a range of agencies. › Draft UACS manual developed to support 2013 rollout. › Training Plan for budget staff in new UACS commencing March 2013. Recommendations were considered by the PFM Committee and endorsed to the PFM Principals in December 2012, in anticipation of rollout in 2013 (for the 2014 budget).
Strategic Objective 2: Improve PFM capability in select departments to enable more efficient utilisation and accountability of public funds for service delivery.			
Program Outcome 2.1 – Targeted national government agencies operationalise enhanced budget and expenditure management systems.			
Strengthening the Financial Management System in DPWH	Start: January 2012 End: December 2013	Michael Cleary and Partners	Continued rollout of accounting and budget modules of eNGAS: › The budget module was rolled out to all remaining 32 offices, meaning rollout is now completed to all 206 DPWH offices. Parallel testing was completed for accounting module in 34 offices, and in 58 for budget module. All parallel testing complete, but for eBudget in 32 offices (to be completed in 2013.) › Significant ongoing technical support to system operations (including supplemental training delivery). Also provided: › Support to integration of financial and project management data. Data from eNGAS integrated with the DPWH Project Management System (PMS), as basis for establishment for integrated project database. › Ongoing general advice to senior staff regarding system implementation and financial reporting.

Activity/Partners	Duration	Implementation Team	Outputs / *Significant Deviations*
Strengthening the Financial Management System in DepED	Start: February 2012 End: July 2012	PDP Australia	Two deliverables completed: › A functional review of the 'as is' financial management practices; › A comprehensive strategic design for a new financial management information system. Recommendations covered a wide range of issues, including regarding significant business process redesign. The implementation of an effective FMIS will require substantial business process redesign and major systems development. *There were delays in approval of the recommendations of the report. Discussion focused on whether to proceed with implementation of an FMIS prior to GIFMIS, or include DepED as a pilot agency for GIFMIS rollout. PFM Committee ultimately decided to include DepED as a pilot agency, resulting in the need to refine the expected approach to the activity.*
Program Outcome 2.2 – Targeted national Government agencies improved compliance with internal control rules and procedures.			
Strengthening of Internal Audit Service in DepED	12 months - team will mobilise on 4th March 2013		Terms of Reference were agreed for this engagement, focused on building capability in internal audit planning and practice. *Although expected to commence in 2012, this activity will now commence in 2013 following delays to approval of TOR.*
Strengthening Internal Controls / Internal Audit in DSWD	Start: September 2011 End: August 2013	Cowater International (Phase I) / PDP Australia (Phase II)	During Phase 1 (September 2011 – June 2012): › A department-wide baseline assessment was prepared and key departmental plans and manuals adopted. During Phase 2 (commenced August 2012): › Drafted a Risk Assessment and Risk Management framework across the department. › Developed Internal Audit training plan. › Implementation of Internal Audit Training Plan ongoing. › General support to internal audit activities.
Government-Wide Capacity Building Program on Internal Controls / Internal Audit – DBM / COA	Start: July 2012 End: March 2013	COA Professional Development Centre / Development Academy of the Philippines (DAP)	The COA Professional Development Centre and DAP were engaged to deliver an eight-module training program on internal controls and internal audit in support of PGIAM. › Eight-module training program developed. › Training delivery commenced, with Module 1 complete to all four batches, and partial delivery of Modules 2,3, and 5 to 8. Module 4 delivery has not commenced as there were delays to completion of materials. *Further development of materials is required; participation rates are below expectation (around 50% for module 1, and 25% for other modules); and delivery is behind schedule.*

Activity/Partners	Duration	Implementation Team	Outputs / *Significant Deviations*
Strategic Objective 3: Generate more timely, reliable and accessible public expenditure management information.			
Program Outcome 3.1 A working Government Integrated Financial Management Information System is introduced.			
Conceptual Design of Philippines GIFMIS – DBM/COA/DOF/BTr	Start: July 2012 End: December 2012	Pricewaterhouse-Coopers India (PwC)	The conceptual design was completed in December 2012. It provided: › Comprehensive analysis of 'as-is' PFM processes › Comprehensive description of proposed 'to-be' processes and system coverage. › Detailed analysis and recommendations regarding proposed implementation approach. The document provides the basis for decisions by Government about the strategic direction of and implementation plan for the GIFMIS. Recommendations were considered by the PFM Committee and endorsed to the PFM Principals in December 2012).
Support for Developing a National Payroll System – DBM	Dropped from workplan.	None.	*This activity was earmarked to support downstream activities associated with the roll-out of the National Payroll System. However, system development difficulties and a consequent change of approach by DBM mean the activity was not implemented in 2012.*
Strategic Objective 4: Strengthen external oversight of public expenditure management linked to physical performance information.			
Program Outcome 4.1 – Civil society organizations [CSOs] strengthen their participation in the budget process. *Program Outcome 4.2 – National Government agencies enhance their engagement with civil society.*			
Development of a Civil Society Engagement Strategy	Start: January 2012 End: September 2012	Basile Gilbert	A draft strategy was submitted to the PSC for consideration in May 2012, following consultation with both government and civil society. A revised strategy was approved by Program Steering Committee in October 2012.
Enhancing Transparency, Accountability and Citizen Participation in Public Audit – COA	Start: April 2012 End: April 2014	Affiliated Network on Social Accountability (ANSA)	COA's Citizens Participatory Audit program was initiated with support from ANSA through consultations and the establishment of the project coordination mechanisms. A MOA was signed between COA and ANSA, and a COA Office Order established an implementation team for the program in COA. Initial activities were: › Situation and stakeholder analysis and mapping/profiling of CSO partners. › Joint inception workshop for project stakeholders. › Module development and capacity building was initiated for both COA and CSO partners. › Modalities were identified for a first participatory audit through a MOA between COA and DPWH and the audit of the CAMANAVA Flood Control Project was initiated. › A Public Information System (PIS) was designed to enhance interaction with citizens. › I-Kwenta advocacy portal established (as part of the PIS) for citizens' feedback and quick access to audit reports.

Activity/Partners	Duration	Implementation Team	Outputs / *Significant Deviations*
Support to DBM CSO Desk	November 2012 to April 2014	Basile Gilbert / Chito Novales	A package of technical assistance was designed and initiated to strengthen DBM's role in fostering civil society engagement in the budget process. With the objectives of enhancing the strategic policy and implementation framework for CS engagement in the budget process and building the capacity of stakeholders to implement CS engagement, the assistance includes activities such as policy analysis, studies and assessments, support to dialogue with stakeholders and tools such as a mapping system of CSOs and the development of an M&E framework for CS engagement work.
Program Outcome 4.3 – The budget oversight functions of Congress are more effective.			
Scoping Study to Examine Options for Greater Partnership between Congress and COA – CPBRD/COA	Start: November 2012 End: February 2013	Wayne Bartlett	Initial baseline assessment completed outlining role of Congress in providing external oversight of public expenditure, and role of COA in supporting Congress. Report provides basis for further discussion and analysis with DBM, COA and Congress.

Annex 2 – Assessment Against Performance Indicators

Introduction

This annex provides an assessment against the indicators in the PFMP M&E system as at December 2012.

As explained in the M&E Framework document, most indicators for the Strategic Objectives are not expected to change in the short term, and thus not all are tracked every year (particularly given the resources required for data collection). However, as implementation of the M&E System progresses, studies will be undertaken to examine specific aspects of progress toward the strategic objectives.

Unlike the Program Baseline Report, this indicator update does not provide an extensive narrative. Key developments and conclusions are highlighted instead in the narrative of the Annual Program Accomplishment Report. This annex provides the raw data from which the conclusions are drawn (along with other sources of analysis).

Structure

The Report is structured around PFMP's results as outlined in the M&E Framework, dated December 2012.[7] The results framework contains **Strategic Objectives**, which describe improvements in the overall functioning of the PFM system to be achieved over a five to ten year period. Analysis of strategic objectives is informed by a series of performance questions, and performance indicators that address those questions. Analysis of objectives also draws conclusions from the cumulative effect of results in the underlying program outcomes.

Beneath the strategic objectives is a series of **Program Outcomes**, to be achieved over a three to five year period, which describe the specific practices that will drive the overall system improvements. Key result areas are defined within each outcome, analysed with reference to their own performance indicators.

Strategic Objectives
- 9 Performance Questions
- 17 Indicators

Program Outcomes
- 25 Key Result Areas
- 31 Indicators

The Baseline Report is separated into two parts. The **Summary Baseline** (this part) provides a general description of the baseline situation under each Strategic Objective and Program Outcome. The **Detailed Baseline** provides the underlying analysis that explains those conclusions with reference to the relevant performance questions, key result areas and performance indicators.

Cross-Cutting Program Outcome 0.1: PFM Committee and its member agencies manage whole-of-government PFM reforms effectively.

KRA 1: PFM Reform Roadmap is appropriately prioritized, costed and delivered according to agreed timeframes.

Indicator 1: No material, unexplained deviations from approved PIP.
The Program Implementation Plan provides the detailed workplan (tasks and sequencing) that will deliver the PFM Reform Roadmap. The PIP thus provides the basis for monitoring Roadmap implementation. The purpose of the indicator is therefore to monitor the extent to which the PIP is being translated into implementation – delivery of the PIP will suggest adequate resourcing of and attention to the Reform Roadmap.
Assessment
The Program Implementation Plan (PIP) was developed through a series of consultations with PIUs over the course of 2012, coordinated by the Program Management Office (PMO). The PIP provides a strategic

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[7] There have been some minor modifications to the results framework in order to improve clarity and reduce overlap – but no changes to substance or intent.

Indicator 1:	No material, unexplained deviations from approved PIP.
overview of implementation, showing the 'critical path' and sequencing of the implementation process. This includes defining the dependencies between different areas of the reform process.	

KRA 2: PFM Committee maintains a strategic approach informed by evidence and good practice.

Indicator 2:	No material, unexplained amendments to approved PIP.
The PFM Committee is responsible for the oversight of reform implementation. The PIP provides the basis for monitoring implementation progress. As such, it will be important that the integrity of the PIP is maintained and that no changes are made without proper analysis, in particular of costs, priority and sequencing, risk and scope of reform. This is therefore the basis for monitoring PFM Committee decision-making.	
Assessment	
N/A. Tracking will commence in January 2013.	

Indicator 3:	Government maintains institutional structures appropriate to reform implementation that make an effective distinction between strategic oversight and implementation.
Effective delivery of complex reforms requires a clear division of tasks between providing oversight the technical detail of individual reform elements, and overall policy coordination.	
Assessment	

Overall arrangements were effective, evidenced in particular through formalising recommendations to the PFM Principals on the three key design tasks for 2012: UACS, TSA and GIFMIS. (See Program Outcomes 1.2 and 3.1 for details.)

However, there appears to have been a tendency to escalate decision-making from PIUs to the PFM Committee, and (to some extent) from the PFM Committee to the PFM Principals. For example, the action items listed on the PFM Committee's issue tracking sheet suggest that the PIUs are seeking decisions from the PFM Committee for a number of technical issues (and in some cases administrative issues) that might be considered to be within the PIUs' authority to address.

During 2013, it will be important to monitor the operation of PIUs, particularly as the focus shifts to implementation, to ensure that their mandates remain appropriate, are sufficiently well-defined, and ensuring that their resourcing and mode of operation are appropriate to the tasks defined.

KRA 3: An appropriate whole-of-government approach to reform is maintained, supported by effective change management practices.

Indicator 4:	Line agencies understand and support reform process.
Effective reform that changes the substance of work practices requires buy in from spending agencies. Securing this buy-in through effective change management must be a priority for oversight agencies.	
Assessment	

Commitment levels amongst senior Government figures are high, driven by the reform agenda of the Administration. What is less clear, and what will be critically important, is the levels of commitment amongst middle managers, which will be key to pushing through reforms. The first PFMP Annual Agency Survey, to be conducted in 2013, will help to provide a snapshot of this issue.

During 2012, nine high level briefings were conducted by DBM, with approximately 120 participants at each. The focus of these briefings, attended primarily by Undersecretaries and senior financial management staff, was on raising awareness of the PFM Roadmap as a whole.

The PFM Committee also oversaw the establishment of a PFM reform website (www.pfm.gov.ph) and the release of a video to promote awareness of the reform program (http://pfm.gov.ph/?p=3339).

Indicator 5:	Change management and capacity building support is appropriate to implementation requirement, and are consistent with PIP.

This indicator assesses change management methodology (benchmarked against good practice) as a proxy for the likelihood of the successful rollout of new initiatives. (It will be assessed through an annual change management study of selected initiatives.)

Assessment

During 2012, there has been recognition of the importance of change management to the reform agenda, evidenced through the establishment of the Capacity Building PIU and the identification of change management activities across all PIUs (in the PIP). Activities appeared to focus on promoting awareness and branding, with limited focus on detailed substance (not unreasonably, given the early stage of implementation). The first major reform implementation (UACS – see Program Outcome 1.2) will take place in 2013. Analysis of this indicator will take place following this rollout.

The PFM Reform Change Management Plan forms part of the PIP. It outlines an integrated approach to change management, in which change management involves communication, business process review, communications and capacity building. It emphasises that change management requires involvement from a wide range of stakeholder groups, and is not just a standalone task that is the responsibility of change management specialists.

In the PIP itself, some change management activities are the responsibility of the Capacity Building PIU, whereas others are integrated into the workplans of technical PIUs. (Some change management tasks are repeated in both sections.) It will be important that there is sufficient clarity about allocation of responsibility as initiatives proceed, and that change management neither falls between the cracks nor becomes confused because of overlapping or uncoordinated efforts.

Tracking against the PIP will commence in January 2013.

KRA 4: Effective project management practices are established and maintained to support reforms.

Indicator 6:	PFM Committee meets monthly to examine implementation progress.

This indicator tracks the basic performance of the PFM Committee's oversight role, including monitoring the PIP and the process of assigning and monitoring action items.

Assessment

The PFM Committee met on four occasions during 2012 (June, July, October, December). There was no quorum in August and November, and during September the Tagaytay 5 workshop served as a *de facto* PFM Committee meeting. As the scope and pace of implementation increases during 2013, it will be important that the Committee meets with improved regularity in order to monitor progress and provide effective coordination.

The PFM Committee regularly assigns and monitors action items in response to identified issues. Due dates are not currently being assigned to action items and thus it is not possible to objectively assess the timeliness with which issues are being addressed. Identifying due dates for action items would be beneficial.

However, in 2012, the Committee did respond efficiently and effectively at the critical stage when design recommendations were completed for UACS , TSA, and GIFMIS, and made prompt recommendations to the PFM Principals regarding the adoption of those recommendations.

Indicator 7:	PFM Committee reports annually on progress against PFM Reform Roadmap.

This indicator assesses the PFM Committee's effectiveness in providing meaningful analysis to the PFM Principals (and other relevant stakeholders) on implementation progress.

Assessment

There is currently only monthly progress reporting to the PFM Committee, focused at the activity level. Developing a formal framework for higher level annual reporting will be a priority for 2013.

Indicator 8:	Government engages with industry partners effectively.
A key element of any major reform implementation exercise is knowing when and how to engage industry expertise. It will be important that Government identifies when to engage industry to provide expertise, and that industry partners are engaged effectively and efficiently, through robust procurement approaches and with due attention to the costs, benefits, and risks of alternative approaches.	
Assessment	
The approach to developing GIFMIS has followed a well balanced approach path in terms of industry engagement. The key factor has been the development of the GIFMIS conceptual design – not only did this process serve to help Government define the functional coverage of GIFMIS, but it identified the key decision points with regard to the implementation approach itself. Initially, Government had focused on developing an in-house solution for GIFMIS. However, Government is now more broadly informed about the range of implementation options available to it and the relative benefits, costs and risks of those options. Government now expects to engage external service providers for major aspects of GIFMIS implementation. (Similar to GIFMIS, the National Payroll System reform also change its approach to embrace industry partners.)	

Strategic Objective 1 – Increase the efficiency and effectiveness of allocation, utilization and reporting of budgeted funds by oversight agencies.

PQ 1: To what extent is the budget linked to GOP's policy narrative, supported by specific performance expectations?

Indicator 9:	Composition of expenditure out-turns compared to original approved budget. [PEFA Indicator 2]
This indicator assesses the credibility of the budget by examining the extent to which expenditure complies with the original approved budget (and not reallocated between budget line items).	
Assessment	
Not formally assessed during the period. However, there has been no change in the underlying systems relevant to this result, thus no significant variation from the baseline is likely.	

Indicator 10:	In-year adjustments as % of original current year appropriation.
The scale of in-year adjustments has implications for the credibility of the budget as a policy tool.	
Assessment	
Data not yet available for 2012. Will be assessed again following the release of final expenditure figures for 2012.	

PQ 2: To what extent is the budget informed by past performance?

Indicator 11:	Agency and COA annual reports describe physical and financial performance in a manner comparable to original approved budget, using UACS.
This indicator assesses the extent to which budget and accountability documentation can be used as a reasonable basis for assessing performance.	
Assessment	
No changes to reporting structures were defined during 2012, however significant progress was achieved by DBM and COA in developing the Unified Account Code Structure, which will provide the basis for aligning budgeting and reporting frameworks. Further detail is provided under Program Outcome 1.2.	

PQ 3: To what extent have timeliness, relevance and accuracy of in-year and out-turn budget reporting improved?

Timeliness Indicators

Indicator 12:   *Timeliness of in-year reports [PEFA Indicator 24 - dimension ii]*
This is an important measure because timely in-year reporting is essential for effective budget monitoring and for managing cash releases by DBM. It is also a useful proxy indicator for the overall orderliness of financial management systems.
Assessment
No material variation from baseline. Conclusions about the widely varied timeliness of reporting by a selection of Agencies (DPWH, DepED, DSWD, DILG, DA, DOH) were applicable to 2012 data also. There were no fundamental changes to reporting requirements or underlying reporting systems.

Indicator 13:   *Timeliness of submission of financial statements [PEFA Indicator 25 - dimension ii]*
It is important that financial statements are completed in a timely manner so that results can be considered by Congress before budget decisions are made.
Assessment
The overall practices for submission of statements were unchanged, and thus no material change took place. As noted in the baseline report, analyzing the timeliness of report submission is not straightforward due to different submission practices by different agencies. For FY2011 reports submitted during 2012, the data shows a slight decline in performance from the baseline. Out of all executive Departments, only the Department of Energy submitted its statement on time. Twelve agencies submitted reports over two months late. Five submitted over five months late. The AFR was completed by COA in September 2012, after the consideration of the budget commenced in July.

Indicator 14:   *Timeliness of submission of external audit reports to legislature [PEFA Indicator 26 – Dimension 2]*
It is important that audit reports are completed in a timely manner so that results can be considered by Congress before budget decisions are made.
Assessment
Records show that COA did not complete any 2011 AAR reports before the deadline of 28 February 2012. According to the COA website, only 3 agencies out of 20 received complete Consolidated AAR from COA during 2012.

Relevance Indicators

Indicator 15:   *Scope of in-year reports in terms of coverage and compatibility with budget estimates [PEFA Indicator 24 – Dimension i]*
It is important that agencies provide information through in-year reporting that supports effective monitoring of the budget.
Assessment
Not formally assessed during the reporting period. However, there have been no material changes to the requirements for reports. Some consolidation of reporting requirements is expected in 2013.

Indicator 16:	Comprehensiveness of information included in budget documentation. [PEFA Indicator 6]
This indicator assesses whether the information provided in budget documentation is sufficient to allow the public to appreciate the government's fiscal strategies, budget proposals, and budget out-turns.	
Assessment	
There has been no material change since the baseline, however see also indicator 47 for other developments in relation to transparency.	

Accuracy Indicators

Indicator 17:	Number of agencies receiving qualified or adverse Agency Audit Reports from COA.
This indicator is a proxy for the accuracy of financial reporting.	
Assessment	

Expenditure Year	Opinion Rendered								
	Unqualified	%	Qualified	%	Adverse	%	Incomplete	%	Total
2011	44	20%	159	72%	17	8%	2	1	222

No material change from baseline in percentage terms.

Indicator 18:	Effectiveness of internal controls [PEFA Indicator 20]
This indicator is a proxy for data accuracy on the basis that effective controls enhance the reliability of financial information.	
Assessment	
No further information available since baseline. However, material change is unlikely as no relevant systemic reform took place during 2012.	

Indicator 19:	Quality of information used in in-year reporting [PEFA Indicator 24 – dimension iii]
This indicator relates to accuracy of data for the purposes of in-year monitoring.	
Assessment	
Not formally assessed during period. However, material change is unlikely to have occurred as there were no significant changes to underlying information systems.	

Program Outcome 1.1 Government implements improved systems for budget formulation and communication.

KRA 5: Government introduces more effective systems and processes to enable a shift to program budgeting within an MTEF.

Indicator 20:	NEP / GAA structured in a way that is comparable to OPIF outputs.
The purpose of this indicator is to assess the extent to which program budget mechanisms are incorporated into the core of the budget process.	
Assessment	
There was no fundamental change from baseline in the structure of budget information. However:	

> › The development of the Unified Account Code Structure, which intends to align all P/A/Ps under Major Final Outputs (MFOs) will have some bearing on this indicator when it is rolled out in 2013 (for the 2014 budget). See further discussion under Program Outcome 1.2 in the narrative.
> › The implementation of NBC 532 (regarding restructuring MFOs and P/A/Ps to better align the two)

continued during 2012. The original target of March 2012 to complete the restructuring process was not met. However, an initiative funded by the ADB has been supporting the restructuring process. Initially targeting six agencies, the activity has been significantly broadened, ideally to cover all Departments in time for the 2014 budget.

› As part of this restructuring process, changes have also been made to the way major final outputs are costed. Whereas previously agencies' total costs were allocated across outputs, the new method of costing aims to focus more on the marginal costs associated with output delivery, such that there is a better basis for understanding the cost implications of different levels of output delivery.

Indicator 21:	Integration of forward estimates into budget [PEFA Indicator 12]

This indicator assesses the extent to which the budget takes into account a medium term fiscal outlook.

Assessment

There were some changes to how the medium term fiscal outlook is incorporated into the budget process.

The Paper on Budget Strategy is being replaced by Budget Priority Framework for the development of the 2014 budget. The major change in the process is to incorporate more broader and thorough stakeholder engagement in the process.

Whereas budget ceilings had previously been determined exclusively by DBM (based on raw data provided by agencies), the modified process will be led by the new Office of the Cabinet Secretary (established under Executive Order 99, October 2012), involving input from NEDA, DBM, and DOF as well as all Cabinet Secretaries. The intention is to define budget ceilings within a clear policy framework – not just based on forward estimates of existing programs. Future budget calls are expected to highlight policy priorities approved by the President, with budget ceilings that reflect and accommodate those priorities.

At this stage, no comment on the substance of these processes is possible.

Indicator 22:	DBM (or other executive oversight agencies) undertake systematic, ongoing substantive review of program delivery.

The rationale for this indicator is that program budgeting can only be effective if it includes systematic assessment of financial and physical performance. Assessments should form part of an accountability structure and feed into resource allocation decisions.

Assessment

No material process changes from baseline, although the ongoing work of restructuring MFOs and P/A/Ps should provide a better base of performance information to inform future analysis. However, DBM has indicated that it intends to establish an evaluation unit, which would be a positive development.

KRA 6: Management and analytical capability is improved to support a stronger focus on results.

Indicator 23:	DBM staff are equipped and supported to undertake analysis of financial and physical performance.

This is a proxy indicator, based on the logic that staff are more likely to undertake analysis if they are provided with adequate support to do so.

Assessment

No change to training / capacity building framework for DBM, however DBM is currently considering its response to recommendations from a training needs analysis undertaken in 2012, which highlighted an urgent need for training in relation to program budgeting.

KRA 7: Greater use of performance information in the annual budget cycle.

Indicator 24:	DBM and COA streamline reporting requirements.

This is a proxy indicator, based on the rationale that streamlined / clear information requirements suggest a greater likelihood of using information. Overlapping / excessive information is less likely to make a meaningful contribution to decision-making.

Assessment

During 2012, DBM and COA developed a joint proposal for merging 5 DBM and 3 COA reports into a single quarterly report. No formal Circular was issued during 2012, however this will be monitored in 2013. In particular, it will be important to ensure that the consolidation addresses the substance of information provided, and not just the number of reports *per se*.

Program Outcome 1.2: Oversight agencies improve management and systems for budget execution, accounting, and reporting.

KRA 8: Budget classifications and unified account code structure is implemented across Government.

Indicator 25:	% agency budget proposals and accountability reports that comply with UACS.

This indicator is essential to track implementation of the new coding structure.

Assessment

N/A. Will be tracked in 2013.

KRA 9: Centralised cash management procedures are strengthened through TSA and other systems.

Indicator 26:	Number of accounts held by Government

This is a basic measure of the consolidation of the Government's accounts.

Assessment

No change from baseline. Treasurer agreed to a timetable targeting establishment of a single account for Treasury by December 2013. In 2012, the PFM Committee agreed on four key issues, that serve as the basis for recommendations to the PFM Principals:

›   The Central Bank will have **custody** of the TSA.
›   The **coverage** of TSA should include (i) central government including treasury, (ii) extra-budgetary funds, (iii) donor funds (iv) heavily subsidized GOCCs.
›   The TSA should have a **decentralized structure**, in which line agencies are authorized to retain separate transaction accounts in the banking system, and all transaction accounts have to be swept into the TSA main account at the end of the day.
›   The TSA should have a **decentralized transaction processing** model, in which each budget institution processes its own transactions and directly operates its own bank accounts under the TSA, with bank accounts being swept back and zero balanced each evening.

Indicator 27:	Percentage of Treasury cash held in TSA
This indicator further assesses the consolidation of the Treasury's bank accounts by tracking the balances within the Single Account.	
Assessment	
N/A. Will be assessed in early 2014.	

Indicator 28:	Savings achieved (eg through reduced borrowing costs and other transaction costs)
This indicator involves making estimates of savings, using the same structure that was used to assess the costs of the existing cash management arrangements.	
Assessment	
N/A. This will be assessed in 2014 at the earliest.	

Strategic Objective 2: Improve PFM capability in select departments to enable more efficient utilization and accountability of public funds for service delivery.

PQ 4: To what extent are major spending programs in select departments being disbursed in accordance with plans?

Indicator 29:	Total agency expenditure out-turn compared to original approved budget for selected agencies.
This 'bottom line' indicator shows expenditure against budget for the three Departments supported by PFMP. It provides the basic utilization rate as a snapshot, which is then further broken down by the next indicator.	
Assessment	
Final 2012 data is not available. However, indications are that the final utilisation rate will be comparable to previous years for DepED. Third quarter data for DPWH indicates the likelihood of a significantly improved utilisation rate. While further analysis of 2012 expenditure will be conducted when all data becomes available, at the end of the third quarter, DPWH had obligated 72% of allotments released by DBM. On the assumption that the fourth quarter spending rate will be higher than the rate for the previous three quarters (based on prevailing trends across Government), it is reasonable to assume that DPWH will finish the year with a significant improvement over 2011's result of 58%. This will be further analysed in 2013, including discussion of the underlying factors (which are likely to cover both PFM and non-PFM factors). It is likely that utilisation rates will further improve in 2013, as DBM increases the threshold contract amount below which funds can be automatically released by DBM (via the Agency Budget Matrix).	

Indicator 30:	Extent to which priority spending programs are delivered.
This indicator examines utilization rates for priority programs. It provides a more direct measure for expenditure related to service delivery.	
Assessment	
Final 2012 data is not available. However, indications are that the final utilisation rate will be comparable to previous years for DepED. (Note general comments regarding DPWH under indicator 29 above.) Further analysis will be conducted as data becomes available.	

PQ 5: To what extent is improved financial information leading to more effective decision-making for using public funds?

Indicator 31:	Management regularly reviews Agency expenditure against budget.

The indicator is a proxy for the usefulness of financial information to agency operations. Management is only likely to systematically review financial information if it is timely, in a useful format, and is perceived to be accurate.

Assessment

DPWH

During 2012, the integration of eNGAS with DPWH's Project Management System (described further at Indicator 32 below) provided the basis for an apparent shift in attitude toward financial information amongst senior management. Both project and DPWH financial management staff report that financial status is for the first time a regular agenda item at senior management meetings. As an organisation whose services are project based, the linking of financial data to individual projects made a dramatic improvement to the usefulness of the information as perceived by Departmental managers.

DepED

Not analysed further since comprehensive baseline assessment in 2012.

Program Outcome 2.1: Targeted national government agencies operationalise enhanced budget and expenditure management systems.

KRA 10: Better organized financial management information systems are in place that strengthen the link between planning, execution and accountability.

Indicator 32:	Financial management systems are integrated with project management and other relevant systems.

This indicator is about the extent to which financial information can be linked to agencies' cores services. This linkage is an important elements in making financial informational relevant to agency needs.

Assessment

DPWH

During 2012, eNGAS data was integrated with data from DPWH's project management system (PMS). This brought to light serious data inconsistencies between the two systems. The initial reconciliation of project numbers and other project related data between the PMS and eNGAS for all 206 Offices of the Department during February identified that only **26.51%** of the projects in eNGAS matched the PMS Project ID. As of November 30, 2012, compliance in the use of PMS Project Numbers in eNGAS has increased to **98.51%.**

Reconciliation carried out throughout the year identified considerable data quality issues in both eNGAS and PMS. In the PMS it was obvious that physical progress of projects is bloated when compared to financial progress. This is an issue that is being addressed by the Secretary, Senior Management Committee, and management of the Department. There were also many data quality issues identified with financial data in eNGAS. Financial progress is computed as a percentage from eNGAS data to make it easier for managers to understand and utilize the information. While the data exists in eNGAS, the financial progress percentage must be computed as it is not readily available. Financial progress is computed by dividing disbursement amount by overall project (contract) cost. Financial progress should never exceed 100%. There were many projects that exceeded 100% financial progress, with some exceeding 1000%, with a high of over 24 billion %. Almost all Offices had financial progress incorrectly stated for some projects. In most cases the misstatement is due to overall project (contract) cost being understated in eNGAS.

In other cases, the financial progress is understated, meaning that financial progress never reaches 100%. This can be caused by recording a disbursement in an incorrect (different) project subsidiary ledger, or having duplicate project subsidiary ledgers. In addition, other information between the two systems was compared and disparities and deficiencies were identified. The cause for the differences could be in either or both systems. More care is needed with the entry of information in these systems. (eNGAS system is not designed

to check for proper entry of data, the user must do so upon entry and approval of data and transactions.

The new integrated system and associated data warehouse is now known as the electronic Project Life Cycle (ePLC) system. This system is intended to expand in the future to include further project planning, procurement, construction management, and other project information. The system and data warehouse are nearly completed and are currently being tested. This is targeted for completion in January 2013, with immediate deployment once the system testing is completed.

DepED

Not analysed further since comprehensive baseline assessment in 2012.

KRA 11: Financial management systems are better implemented.

Indicator 33:	% reduction in unreconciled balances.
This is a proxy indicator for the rigour of financial systems and the standard to which they are implemented. Robust financial management practices should prevent growth in unreconciled balances.	
Assessment	

DPWH

7.5% / P17 billion reduction from December 2011. (P210.8 billion in unreconciled balances at Nov 2012).

DepED

Data not yet available for 2012.

Program Outcome 2.2: Targeted national government agencies improve compliance with internal control rules and procedures.

KRA 12: Management systems and practices are in place to implement NGICS.

Indicator 34:	Adequacy of internal controls (according to NGICS requirements), in particular for internal audit and risk management.
NGICS provides the Government's guidelines on internal control systems, and provides a framework for making an assessment of the adequacy of agency's controls. Availability of documented guidance on internal controls should be assessed.	
Assessment	

DepED

No change to systems since baseline assessment.

DSWD

On 14th June 2012, DSWD issued a memorandum circular institutionalizing a risk assessment and management framework in the department. The Office of Strategy Management was established on 31 May 2012, and plans are being made in to implement a strong information and communications program on the relationship between a strong risk management system and improvement in the department's internal control system. However, the OSM staffing is delayed/insufficient. The DSWD's risk management process incorporates the 7 elements of ISO's 31000 risk management's – principles and guidelines.

DSWD Management also approved a strategic plan for internal audit for 2012-2014, which incorporates a 3-year risk-based audit plan; 3-year capability development plan; organizational plan & quality assurance review program (all developed under Phase 1 of PFMP's assistance to DSWD). The Department also adopted a customized IA operations manual within the framework of the PGIAM. The manual includes templates for audit programs, audit plans and audit procedures and practice. The quality assurance plan for 2012-2014 is being implemented by IAS.

Manuals were further refined during the early stages of Phase 2 (which began in September 2012).

Indicator 35:	Agencies undertake an audit work program that meets requirements of PGIAM and is appropriate to the operations of the agency.

This indicator assesses the scope and frequency of internal audit, and extent of management response to reports.

Assessment

DepED

No further assessment since baseline.

DSWD

Audit areas were identified in accordance with the DSWD Secretary's priorities (with slight variations during the 3 year period), i.e. policy and systems review of the department's major programs, e.g. 4Ps program, NHTS-PR, KALAHI–CIDDS and key units/offices e.g. Financial Management Service, Policy Development and Planning Bureau and field offices, PDAF validation and quick response audit. The IAS is in the process of benchmarking its organization and processes against the NGICS/PGIAM and international standards criteria with a view to achieving quality assurance of all its audit work.

Indicator 36:	Government establishes and rolls out a systematic internal audit training program, in support of PGIAM.

This indicator tracks the rollout of the training program. Reporting will track scope of program (ie, number of trainees), and comment on the quality and relevance of content.

Assessment

Pilot of PGIAM training commenced in 2012. The training comprises eight modules delivered over 17 training days, and is being delivered to four separate batches of participants. There were delays in finalizing Module 4 (risk management), and training had not commenced in this module.

› Module 1: 1 day - 424 participants / 62 agencies (all batches complete). 50% of target participants.
› Module 2/3: 3 days – 63 participants / 16 agencies (2 batches complete)
› Module 4: 3 days – 0 participants / 0 agencies (0 batches complete)
› Module 5: 2 days – 51 participants / 15 agencies (2 batches complete)
› Module 6: 2 days – 125 participants / 23 agencies (3 batches complete)
› Module 7: 3 days – 137 participants / 24 agencies (3 batches complete)
› Module 8: 3 days - 134 participants / 22 agencies (3 batches complete)

(Participation numbers as at November 2012.)

The following is noteworthy from the above:

› Modules are not being delivered in sequence.
› The number of participants attending modules is less than expected (around 25% of target figures).

Training was to have been completed in May 2012, but at December 2012 is ongoing.

Strategic Objective 3: Generate more timely, reliable and accessible public expenditure management information.

PQ 6: To what extent have automated solutions improved the quality and disclosure of public expenditure information?

Indicator 37:	Number of agencies completed piloting / implementation of GIFMIS.
It is important to track the scope of agency rollout, as this defines the proportion of financial information that is produced through automated systems. This information is essential for answering the performance question.	
Assessment	
Nil. Piloting will commence in 2015.	

Program Outcome 3.1 A working Government Integrated Financial Management Information System (GIFMIS) is introduced.

KRA 13: Government establishes policy coherence and consistency on GIFMIS implementation.

Indicator 38:	Clear policy position established by PFM Principals in response to conceptual design, and maintained through implementation.
A clear policy position will be essential in order to provide a strategic framework within which to direct the implementation process and make tradeoffs in priorities where necessary.	
Assessment	

The GIFMIS conceptual design was developed during 2012, providing a comprehensive analysis of the "as-is" situation, setting out the proposed scope of GIFMIS, and making recommendations on both business process changes and the implementation approach.

The key policy decisions for Government identified in the conceptual design related to:

› Functional coverage of the system;
› Proposed implementation timelines (including phasing plan for agencies and piloting, and phasing for functional coverage);
› Centralised processing of transactions;
› Application development approach (COTS v custom);
› Procurement approach;
› Prioritisation of policy and legal changes (in order to ensure completion prior to go-live, and to enforce system adoption);
› Allocation of resources (funds, personnel);
› Creation of dedicated project management structures;
› Functional and technical quality assurance (through establishment of Implementation Team);
› Early initiation of capacity building.

It is expected that Government will respond to these issues through issuing clear policy statement (in the form of a resolution from the PFM Principals) early in 2013. This response will become the basis for ongoing monitoring of this indicator. Initial indications (from the proceedings of the PFM Committee meeting in December 2012 and subsequent briefing to the PFM Principals) suggested a strong consensus on most of the above issues.

Institutional and reporting arrangements are in place to oversee adherence to policy priorities when finalised (through the PIUs reporting regularly to the PFM Committee).

KRA 14: Government implements necessary business process changes.

Indicator 39:	Clear government position adopted and delivered on major process changes.

Making business process changes – as opposed to simply automating existing processes – is a critical element of the reform process. The purpose of this indicator is to summarise major process changes relevant to the implementation of GIFMIS (as progressively identified under the previous indicator). Details of implementation are monitored under the respective Program Outcomes where relevant (ie Program Outcome 1.2 for UACS and TSA).

Assessment

The conceptual design proposed a range of business process changes. The major proposals to date are:

› Centralising payments and cash management within Treasury;
› Implementing a Unified Account Code Structure for budget preparation, execution, and accountability;
› Making changes to fiscal reporting requirements (ie, consolidating of DBM and COA reporting requirements and harmonising with international standards).

During 2012, preparations began for the implementation of UACS, with the Government's stated intention to implement UACS for the 2014 budget. (See Program Outcome 1.2.)

KRA 15: Government commits adequate resources (people, finances) to support system development and implementation.

Indicator 40:	Fully staffed GIFMIS implementation team is established and maintained.

Tracking this indicator is critical to understanding adequacy of ongoing resourcing to GIFMIS implementation.

Assessment

The conceptual design developed in 2012 estimated a total design and rollout cost of USD40-50 million (based on similar implementations elsewhere, rather than on a specific costing).

The following resource requirements were identified by the Program Management Office in 2012 for Government's implementation team:

› Functional team: 28 positions
› Technical team: 6 positions
› Change management team: 10 positions
› Project management and support: 5 positions
› Central contact centre: 6 positions
› Quality management: 2 positions

Positions are intended to be primarily technical in focus, not administrative or management.

Indicator 41:	System financing requirements are met without significant variation.

Tracking this indicator is critical to understanding adequacy of ongoing resourcing to GIFMIS implementation.

Assessment

Detailed resource requirements will be defined following the completion of the conceptual design, and the establishment of a more detailed implementation strategy and costing in 2013.

KRA 16: Spending agencies understand and have buy in to the roll out of GIFMIS.

Indicator 42:	Pilot agencies implement appropriate preparations to allow for piloting in October 2015.

Timely completion of preparations will be an indication of their engagement in the process. This includes preparing infrastructure, training / deploying staff, putting in place appropriate project management arrangements etc.

Assessment

N/A

Indicator 43:	Agencies actively participate in the development process.
This indicator is important from a change management perspective; it reflects a key driver of agency buy-in and ownership.	
Assessment	
Six spending and revenue agencies were consulted during the development of the conceptual design. Consultations focused on building a complete picture of PFM processes across Government. However, spending agencies were not involved in reviewing or discussing the substance of the conceptual design or recommendations – this dialogue took place amongst oversight agencies only.	

Strategic Objective 4: Strengthen external oversight of public expenditure management linked to physical performance information.

[Not all indicators have been defined in this component; these will be finalised following the completion of several studies early in 2013. The text provides general conclusions from recent situation analyses, supported by more detailed commentary in the tables, which are 'placeholders' for future indicators.]

PQ 7: To what extent does the public understand Government expenditure?

Indicator to be defined.
Assessment
Not further assessed since baseline. However, there have been a number of initiatives under way (either new initiatives or expansions of existing initiatives) to make more information available to civil society. These are discussed under Program Outcome 4.1 below.

PQ 8: To what extent is the budget process responsive to expressed citizens' needs?

Indicator to be defined.
Assessment
This has not been directly assessed since baseline, but some general comments are possible.
Budget Partnership Agreements have been expanded to 162 agencies (see discussion under Program Outcome 4.1 below). A more detailed assessment of BPAs, plus a stocktake of all citizen engagement policies will be undertaken by DBM and PFMP during 2013. These assessments should begin to build a stronger understanding of the *substance* of engagement between Government and the citizenry.
To date, there is little evidence available of the quality of the CS input leading to the amounts allocated to additional poverty alleviation projects. Put into perspective, the BUB represented a significant government and citizen mobilization effort but the P8.4 billion allocated to additional poverty reduction projects through the exercise represents approximately 0.3% of the P2.006 trillion budget targeted for the year.

PQ 9: To what extent is interaction between the executive, legislature and civil society contributing to strengthening external oversight of public expenditure?

Indicator 44:	Audit recommendations actioned by Executive [PEFA Indicator 26 – dimension iii]

The rationale for this indicator is that follow up to recommendations reflects a functional oversight system, and tends to suggest an effective relationship between the Executive and COA.

Assessment

There have been no changes to processes since the baseline assessment.

Indicator 45:	CSOs are systematically engaged in the public audit process.

This indicator assesses whether CSOs have a systematic engagement in the oversight process.

Assessment

Overall, there is no substantive change from the baseline. Citizens, CSOs and the media occasionally comment on audit reports and conduct public awareness activities based on information found in COA audit reports but this appears to be ad hoc in nature.

In 2012, COA finalized the design of its citizen participatory audit program, which could provide the basis for more systematic involvement by CSOs in the audit process. With financial and technical assistance from the PFMP, COA initiated the program in cooperation with ANSA-EAP. The program is set up to implement pilot citizen participatory audit exercises in real time and develop the capacity of CSOs to take part in participatory audits. The program is intended to help COA determine which form of citizen participation in auditing can be sustained and institutionalized in COA. At December 2012, one participatory audit was being piloted.

COA also started developing a new Public Information System (PIS) including a new website (I-Kwenta) to provide information to citizens on COA activities and auditing reports. The PIS will also include citizen feedback mechanisms using social media such as Twitter and Facebook. These new COA initiatives are considered a starting point to increasing interaction between COA and citizens.

Program Outcome 4.1: Civil society organizations [CSOs] strengthen their participation in the budget cycle.

KRA 17: More meaningful engagement with government on budget preparation, execution and accountability.

Indicator(s) to be defined.

Assessment

During 2012, initiatives started in 2010/11 such as the BPA and BUB were expanded to cover more agencies and/or LGUs. Based on its experience in the BPA process with a limited number of pilot agencies in 2011, the government expanded the coverage of the BPA process to all government agencies and GOCCs through National Budget Circular 536 issued in January 2012. The 162 BPAs signed between CSOs and NGAs/GOCCs and the counterpart CSOs of 594 LGUs having implemented bottom-up-budgeting in 2012 represent a significant expansion of the amount of CS engagement initiatives having occurred between CS and government in 2012.

Although well received by several government agency and CSO stakeholders, few assessments have so far generated conclusions on the value and meaningfulness of these mechanisms. Stakeholders recognize that these are new initiatives and that there needs to be improvements to the processes for them to lead to more meaningful interaction between government and CSOs.

COA's citizen participatory audit pilot program is opening new venues for citizen involvement in budget accountability. While generating meaningful exchanges, with one pilot participatory audit initiated in 2012, it is too early to comment further about substantive outcomes of the mechanism.

KRA 18: Strengthened CSO capacity for research, analysis and advocacy and deepened understanding of public administration (including PFM) and sectoral policies and programs.

Indicator(s) to be defined.
Assessment
CSOs gained additional experience in dealing with Government, as evidenced by the raw expansion of participation noted under the previous KRA. This has provided opportunities for development partners to implement capacity building activities with CSOs. The inception of the COA Citizen Participatory Audit program also provided a venue for CSOs to be capacitated in COA auditing practices. One of the constraints to CS engagement has been the lack of financial resources available to CSOs to undertake government program research and monitoring. Additionally, certain operational and accountability issues have constrained existing sources of government funding from becoming available to CSOs. To help address this gap, a group of CSO networks and DILG are setting up a multi-stakeholder mechanism to facilitate the transfer of funds from the DILG Empowerment Fund to CSOs for engagement activities and capacity development. This is a significant step forward to enable more CS engagement initiatives with government through various existing mechanisms. Toward the end of the reporting period, PFMP helped define a study to clarify legal issues related to reporting and accountability of CSOs making use of government funds.

Program Outcome 4.2: National Government agencies enhance their engagement with civil society.

KRA 19: Oversight agencies provide budget and expenditure information in a user-friendly format for the public.

Indicator 46: *Government provides public with access to key fiscal information. [PEFA Indicator 10]*
This indicator assesses the transparency of key elements of public fiscal information.
Assessment
During 2012, there have been several initiatives to improve disclosure: › The first People's Budget was released in 2012 (for the 2013 budget) which presents the budget in the form of a narrative that links the President's policy priorities. › A DBM issuance (NBC 542) requires Agencies to comply with the "Transparency Seal", which is a certificate that an agency has complied with the reporting requirements of the GAA provision (eg SAOBs, disbursement and income reports, physical plan and financial report of operation). Some agencies partially comply with this requirement, posting some of their budget execution reports online, e.g. DSWD has its financial stewardship tab that contains status of allotments, obligations and balances by project; DILG-attached agencies such as the PNP; the BJMP also posts some of key financial information on fund utilization; DPWH posts its utilization of budget albeit at an aggregate level by major objects of expenditures, i.e. MOOE, CO. › DBM began making budget data from the NEP available in spreadsheets, thereby allowing analysis by the public. This should be of significant benefit to civil society. As one of the key features of the BPA process is for government agencies to make information available to CSOs, it is *likely* that a greater number of CSOs received increased budget information as a result of the broadened BPA processes that took place during 2012 (as noted under 4.1 above). The **Open Budget Survey 2012** provided a similar score to the Philippines in 2012 to that of 2010. With a score of 48%, only "some" information on the national government's budget and financial activities is accessible and comprehensive. Only four of the eight key budget documents were made available by DBM. However, this survey relates to reports provided by oversight agencies only, and thus it is possible that CSOs have access to relevant information from other sources, such as from individual Agency websites or direct interaction with NGAs and GOCCs.

In DSWD for example, different offices have signed a total 379 MOAs with CSOs for program implementation and monitoring initiatives. These relationships are supported by information sessions and the provision of information through DSWD's website. The website contains broad annual budget information as well as statements of Income and Expenses, mid-year Status reports (allotments, obligations and balances, etc.). The department solicits feedback and suggestions from clients and partners through Twitter and Facebook accounts and through a client interactive portal.

No assessment allowed PFMP to determine if these mechanisms provide CSOs with sufficient information to adequately monitor DSWD overall expenditures but it certainly provides a venue for interaction on specific programs, including resources allocation to them (ex. CCT program).

KRA 20: Government has a coherent policy framework for participatory governance and constructive engagement.

Indicator(s) to be defined.
Assessment
The fundamental policy framework did not change materially during 2012 but the coverage of BPAs was broadened, as noted above. During early 2013, PFMP will support a stock take of all existing policy mechanisms related to civil society engagement.

KRA 21: Government implements its policy framework for participatory governance and constructive engagement.

Indicator(s) to be defined.
Assessment
As noted under Program Outcome 4.1, the coverage of BPAs was broadened. Basic assessments of the two key government mechanisms for CS engagement in the budget process, namely the BPA and BUB, report similar process and operational difficulties as experienced during previous years. While several stakeholders remain positive about the engagement initiatives, constraints to making the mechanisms work continue to be reported such as insufficiently clear guidelines on the mechanics of the consultative processes; the lack of commitment of some stakeholders; insufficient ongoing dialogue between parties; government budget information being insufficiently clear to support strong engagement of CSOs; capacity issues on both the government and CSO sides.

KRA 22: Wider appreciation of the benefits of civil society engagement across the bureaucracy.

Indicator(s) to be defined.
Assessment
No specific assessment or identification of perceptions generated robust information towards measuring an increased appreciation of the benefits of CS engagement in the bureaucracy. However, over the course of the year the Aquino Administration has continued advocating for CS engagement through the expansion of several existing policies and mechanisms. This resulted in continued awareness building among personnel of the civil service, especially in service delivery agencies with programs directly affecting citizens such as social welfare services, education, health, housing, etc.

Generally however, understanding of the benefits of CS engagement for government programs and services across the bureaucracy remains limited, as assessed at the beginning of PFMP in January 2012. It is possible that there may have been some increase in *awareness* about the need for CS engagement due to the issuance of policies, the high profile accorded to CS engagement from leadership, and the expansion of BPAs. However, since implementation is still in the relatively early stages, there are few initiatives producing demonstration effects that would support a more significant change in mindset across the bureaucracy.

Program Outcome 4.3: The budget oversight functions of Congress are more effective.

KRA 23: Mechanisms for congressional oversight of budget outturns are improved. /
KRA 24: Congress expresses more demand for information and analysis from technical bodies. /
KRA 25: Congressional appreciation of PFM and the benefits of reform is enhanced.

[These three KRAs are considered together as they are interlinked and mutually reinforcing. Progress in one area implies progress in the others.]

Indicator 47:	COA audit report formats focus on relevant, targeted information.
This indicator assesses the relevance of information that Congress receives in order to support its oversight role.	
Assessment	
Not further assessed since the comprehensive baseline conducted in 2012.	

Indicator 48:	Expenditure oversight committee (such as a Public Accounts Committee or similar mechanism) is established and operationalised.
This indicator assesses the core feature of Congressional oversight.	
Assessment	
No change from baseline: Public Accounts Committee or similar mechanism exists. There was a provision for the establishment of a Joint Oversight Committee on Public Expenditures (JOCPE), which was intended to be operational in 2012 (Sec94 of the GAA general provisions), but, as in 2011, the Committee did not convene.	