

PFMP Philippines-Australia Public Financial Management Program

Supporting the Philippines towards improved efficiency, accountability and transparency

Draft Annual Program Accomplishment Report: 2014

February 2015



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Annex A – Activity Summary

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1. Introduction

This is the third Annual Program Accomplishment Report of the Philippines–Australia Public Financial Management Program (PFMP). It discusses the progress and achievements of the Program during 2014. The report provides a brief overall assessment of progress, followed by more detailed discussion of each program outcome. It then discusses sustainability and cross-cutting issues, and concludes with a brief description of program management activities. The annexes provide more details about individual activities.

Program Background

PFMP is a joint initiative of the Governments of Australia and the Philippines. The Program commenced in October 2011 and directly assists the Government of the Philippines to implement its *Public Financial Management (PFM) Reform Roadmap*. Through the Department of Foreign Affairs and Trade, the Australian Government has committed up to A\$30 million over five years, 2011–2016.

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 the Australian Department of Foreign Affairs and Trade, and aligns closely with the work of the government’s inter-agency PFM Committee. The National Economic and Development Authority (NEDA) plays an advisory role to the Program.

The Australian Department of Foreign Affairs and Trade directly manages the PFMP through a Counsellor / Team Leader, and is supported by a contracted service provider, Coffey International Development, which is responsible for the day-to-day administration of the Program.

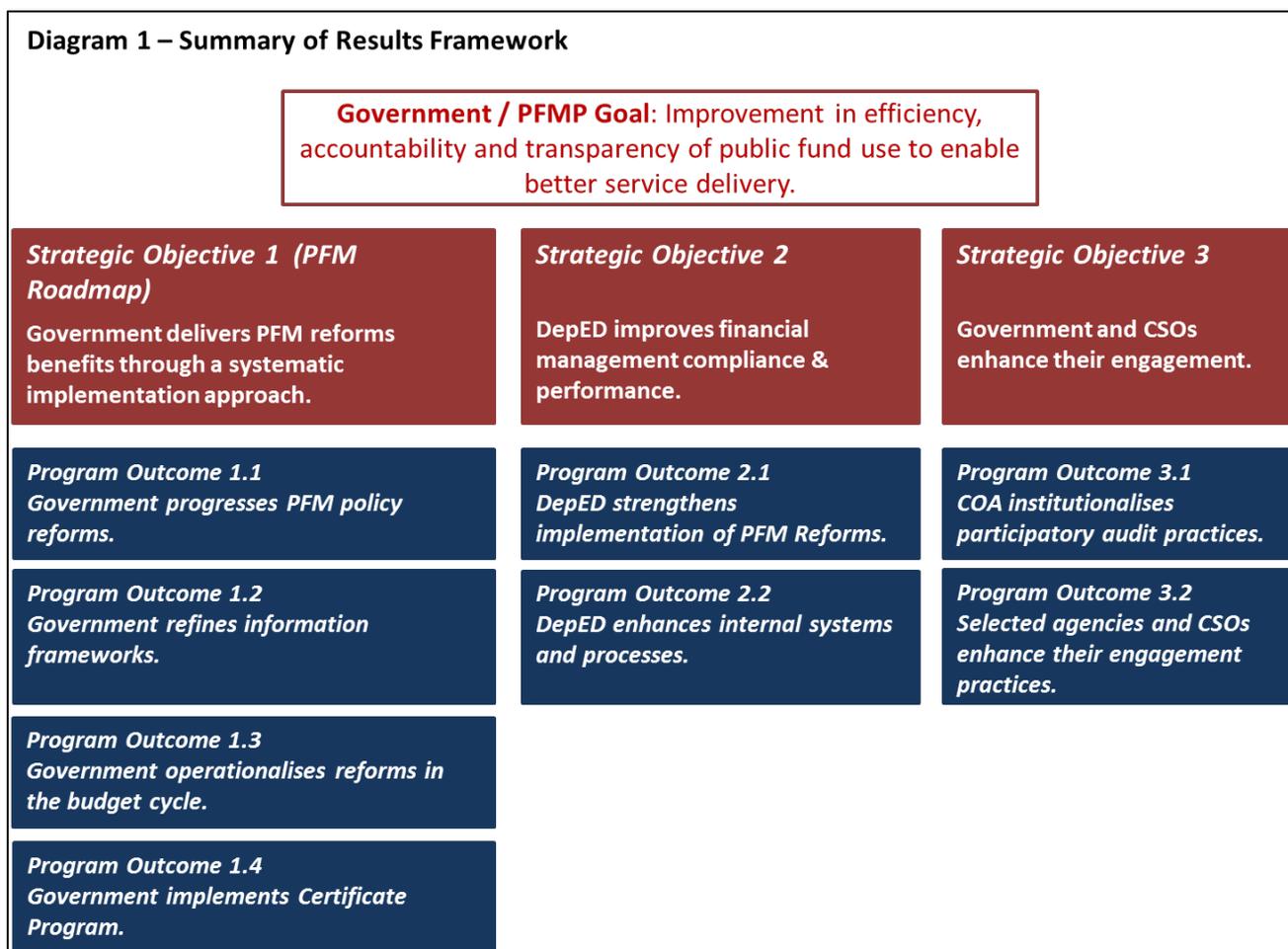
A mid-term review of PFMP was conducted in January 2014, the principal purpose of which was to determine whether or not the Program should proceed beyond its June 2014 stop/go point. The recommendation was made to continue the Program, and a number of further recommendations were made specific to individual initiatives. These are discussed in the relevant sections.

Program Structure Changes in 2014

During 2014, the PFM Reform Roadmap was updated (although the updated version is yet to be formally adopted). A new Results Framework for PFMP was developed to mirror the new Roadmap, consistent with the recommendations of the mid-term review. The detail of the new structure is explained in the Program Strategy for 2015/16. The main changes from the original PFMP design are:

- › Strategic Objective 1 and its contributing program outcomes (previously focused on the work of oversight agencies) has been restructured to explicitly mirror the structure of the PFM Reform Roadmap.
- › The former Strategic Objective 3 (GIFMIS) has been removed as a standalone objective, with systems development initiatives included into the new Strategic Objective 1.
- › The former Strategic Objective 4 (civil society engagement) and its contributing program outcomes have been recast to reflect the modified approach to that area of work (discussed in the relevant section).

The new PFMP Results Framework, summarised overleaf, provides the structure for this document.



2. Overall Assessment of Progress

Implementation of the PFM Reform Roadmap

As foreshadowed in the previous Annual Report, 2014 was expected to be an important year as the transition from reform planning to implementation gained momentum. It was also foreshadowed that this process would be difficult as – inevitably – the implementation of reforms is where the deepest challenges lie. It is therefore not surprising that the year produced a mixture of results, as summarised below. (More detailed analysis is provided in Section 3.)

Mixed Progress

January 2014 was a key milestone for the implementation of the Roadmap, as it saw the implementation of three key reforms for budget execution.

First, the **Unified Account Code Structure (UACS)** was adopted for budget execution, meaning that 2014 would become the first year in which it has been possible for the Government to report clearly on its expenditure against budget. Important progress was achieved during the year, in particular to do with the uptake of UACS by spending agencies. However, there is still more to be done to ensure that the new coding framework is properly embedded into practice in DBM. PFMP was actively involved in supporting the rollout of UACS, and it will be essential that 2015 sees a successful transition of responsibilities into core DBM functions.

Second, the **Treasury Single Account (TSA)** was adopted for revenue agencies, meaning that revenue accounts were consolidated in the TSA, in what was a significant milestone. Further expansion of the TSA has been difficult however, impeded in particular by technological constraints. (The main technical support from PFMP to the TSA concluded in March 2014.)

Third, the **Performance Informed Budgeting (PIB)** came into effect for 2014 budget execution, as the culmination of efforts in 2013. Further reform was achieved with bringing a stronger outcomes focus into the 2015 budget, but the expected adoption of program budgeting for the 2016 budget was not achieved (being deferred to 2017).

2014 also saw the incorporation of two new initiatives into the reforms: the establishment of a Comptroller General for Government and the drafting of a PFM bill. The establishment of the Office of the Comptroller General has the potential to be an important 'home' for PFM policy into the future and thus provide the institutional framework for the sustainability of the reforms. The establishment of the Office is still in its early stages. (The PFM bill is in the process of being presented to Congress.)

GIFMIS Obstacles and Reform Implications

The GIFMIS procurement was declared a failed bid by Government in January 2015. GIFMIS was to be the technical centrepiece of the reforms. It will now not be possible to implement an integrated IT solution for Government within the term of the Administration, and the focus instead shifts to the implementation of a more limited information system for oversight agencies (which, on current planning, will not go live until 2017). Understanding of the implications of the absence of GIFMIS from the reform process provides important context for all the initiatives discussed in this report.

GIFMIS was only one aspect of the reforms. However, it was the means through which many of the policy and process changes were to be given effect and enforced. The absence of GIFMIS (and in particular the budget execution functionality it would have provided for spending agencies) means that it will not be possible to produce significantly more reliable or timely financial information, a critical shortcoming of the current PFM system. Similarly, continued heavy reliance on manual systems means that controls over budget execution will continue to be less effective than they should be.

Government's emerging response to the absence of GIFMIS is a technology solution reduced in scope, focused on the immediate needs of oversight agencies. The reform narrative is expected to shift away from its original systems-dependent approach to a more balanced approach. There is a positive in this: arguably the centrality of GIFMIS to the reforms had placed too heavy an emphasis on PFM tools, at the expense of broader policy, management, and institutional issues. (For example, GIFMIS would have provided better *information*, but would not have guaranteed better *decisions*.)

But the fact remains that without GIFMIS, the reform process will ultimately shift from being a *transformational* reform program to one focused on *incremental* improvements. Given its profile, the absence of GIFMIS also poses a risk to the perceived credibility of continued reform efforts. ***In this context, it is critical to strongly reinforce the importance of those reforms already rolled out, in particular by demonstrating the benefits of those reforms in practice.***

This is a key theme in the remainder of this report, and the draft Program Strategy for 2015/16.

PFMP in 2014 and 2015

PFMP continued to support the Government's implementation of the Roadmap in 2014, providing substantial support to the rollout of UACS, and continued advice on budget reform, GIFMIS, as well as general management support for the overall reform process. Technical support for the TSA concluded in March 2014. PFMP also continued to be flexible in its approach, providing support to new areas on the Government's agenda (the Comptroller General and the PFM Law) and other ad hoc issues such as the restructuring of DBM.

PFMP remains committed to supporting the Government's efforts to improve PFM despite the non-implementation of GIFMIS. Clearly, this has necessitated a fairly significant shift in focus for PFMP, and a revised PFMP strategy has been developed to provide a framework for continued support to reform. The overall theme of the revised approach is to strongly increase the emphasis on the *practice* of PFM: consolidating progress by assisting the Government (and DBM in particular) to put its new tools into practice in the context of day-to-day work. This involves broadening the current focus on senior executives to include staff at operational levels.

PFMP recognises that the scale of the reforms has been reduced, however there are still important benefits that can be delivered in the short to medium term, and *demonstrating* those benefits in practice will be important to the credibility of future PFM reform.

Support to DepED and CSO Engagement

Support to the **Department of Education** continued during 2014, with support provided to the implementation of the UACS and cash management reforms. One area of focus was assisting the Department to prepare for GIFMIS implementation (as the spending agency pilot). This work slowed as the future of GIFMIS became increasingly uncertain. A revised approach will be adopted in 2015 in which PFMP will assist the Department to enhance critical internal systems, and in so doing deliver important functional benefits in the short to medium term.

In **Government-CSO engagement**, support continued successfully for COA's participatory audit program with the completion of initial pilot audits, and an additional phase of support was agreed that will work to institutionalise these new approaches. Other aspects of support to civil society engagement saw a successful change of PFMP focus during 2014. Following a period of slow progress in 2013, focused on the policy environment for civil society engagement, emphasis shifted to the actual practice of CSO engagement, with a consequent change in focus from DBM (as the custodian of CSO policy in relation to public expenditure) to selected spending agencies. New areas of cooperation were developed and initiated with DepED, the National Housing Authority and the Department of Health to this end.

3. Progress Toward Outcomes

This section analyses progress toward the achievement of program outcomes during 2014, addressing each of the three Strategic Objectives in turn. It discusses overall Government progress, then places the PFMP contribution into the context of that progress.

Strategic Objective 1: Government delivers PFM reform benefits through a systematic implementation approach.

As noted above, reforms started to move into implementation during 2014. Recognising this change and the fact that the Administration was moving into the second half of its term, it was timely to review the Roadmap to accommodate the lessons learned to date, the evolving scope of the reforms, and to ensure that the desired end point was defined as clearly as possible.

The review was completed with PFMP support, and although the updated version has not been formally adopted, the new Roadmap:

- › Sharpens the focus on implementation by defining in more specific terms what will be delivered by the end of the current Administration.
- › The scope of the reforms was expanded to include some ongoing reforms that were not formally part of the Reform Roadmap. These were: performance budgeting reforms, the PFM Framework Law, the Certificate Program as (the new centrepiece for the Government's capacity building approach), and the establishment of the Office of the Comptroller General. Their inclusion strengthens the overall narrative for the reforms.
- › Emphasises an integrated approach, and restructures the work into a set of twelve linked strategies (instead of the six standalone 'projects' in the original Roadmap).
- › Emphasises embedding responsibility for reform implementation within agencies rather than PIUs. As such, the PIUs are intended to be abandoned. (At the time of writing, this is in the process of being implemented.)

The remainder of this section addressed progress with reform implementation, with the program outcomes structured around the updated version of the Roadmap.

Program Outcome 1.1: Government Progresses PFM Policy Reforms.

The bulk of the policy work related to the reforms was undertaken early in the reform process and involved setting out overall priorities for the reform (which focused on the mechanical aspects of PFM (such as cash management arrangements and IT strategy).

At the beginning of the year, no significant policy work was expected, however two key opportunities emerged during the year: the drafting of the PFM Bill and the establishment of a Comptroller General. PFMP responded to support the Government to address these important opportunities to address some fundamental policy issues.

The drafting of the PFM Bill. The Secretary made the decision to develop this legislation following criticism of the Government's Disbursement Acceleration Program¹ (DAP), which was ruled unconstitutional by the Supreme Court. DBM established an inter-agency Steering Committee (with representatives from the Department of Finance, Bureau of Treasury, and the Commission on Audit) and a series of Technical Working Groups to progress the drafting process.

The Bill was presented to Congress in January 2015. While PFMP and other donors provided a range of technical input into the Bill, the legislative process is obviously a deeply political one, and the final product will be a product of negotiation amongst GOP stakeholders.

¹ A program designed to reallocate funds to priority programs from underspending programs.

PFMP, the World Bank and the IMF provided technical guidance on the drafting, and jointly facilitated a range of workshops. PFMP also engaged legal expertise to review the Constitutionality of the proposed Bill. Key issues of focus for PFMP advice related to the treatment of savings (a critical issue in the context of the DAP) and the definition of reporting requirements.

It is likely that the major positives to emerge out of the process will be the consolidation – and thus clarification – of the existing wide array of financial management regulations. It is also positive that the Bill provides for the establishment of the Office of the Comptroller General. Once the Bill is passed, Implementing Rules and Regulations will then need to be drafted. However, the Bill still has several stages to go through before entering into law.

The decision to establish a Comptroller General for the National Government. This has been an important development. Typically, a Comptroller General (or similar position) is responsible for maintaining a robust system of financial management and internal control based on three pillars: a) managerial accountability, b) central harmonisation for methodology and standards, and c) functionally independent internal audit.

The establishment of a Comptroller General will be an important step in institutionalising the PFM reforms, as it will become the owner of PFM policies, and the mechanism through which compliance is monitored, and agencies provided with the necessary implementation support.

During 2014, a Memorandum of Agreement was drafted for signature by DBM and COA, outlining the intention to establish of office within DBM. (The proposed PFM Framework Bill also provides for the establishment of the Comptroller General.) At the time of writing, the MOA is with the Commission on Audit for review.

PFMP provided advice in early 2014 on the need for a Comptroller General, and subsequently placed an adviser in the newly established office of the Comptroller-General. Advice covered the purpose and functions of the role, and a plan to establish and operationalise the Office was developed.

However, other than the notional appointment of the Comptroller General, no other staff have been appointed and thus no further substantive progress has been achieved in giving effect to the role. PFMP may continue to support the establishment of the Office when these resourcing issues are addressed.

Program Outcome 1.2: Government Refines Information Frameworks.

This outcome relates to how Government defines the information it requires to manage the PFM system. Improving the relevance and quality of information available to decision makers has been an important theme in all of the PFM reforms. Two areas of support during 2014 were continued work on the structure of the budget, and further refinements to the design of UACS.

Performance Informed Budgeting

The Government's first Performance Informed Budget was adopted for 2014, in which major final outputs (MFOs) were formally included in the General Appropriations Act for the first time. (Formerly they were through a separate exercise, and not included in the GAA.)

The focus during the first half of 2014 was on achieving a further shift of focus from major final outputs to *organisational outcomes* (with performance indicators) for the 2015 budget. DBM conducted a series of workshops with all National Government Agencies during which information was provided about the new structures and agencies assisted to develop their outcomes and performance indicators. PFMP's Senior

Budgeting Adviser supported the design of the organisational outcomes throughout that process, and assisted DBM with the delivery of the workshops. The result of the process was that the 2015 budget included outcomes with indicators, however resources were still allocated only at the output level. This was still useful progress as it nonetheless made the point of emphasising the higher order results of agencies' work.

With the 2015 budget completed, focus shifted to the 2016 budget and further structural changes – specifically, the shift from *outcome-* to *program-*based budgeting. While the shift from outputs to outcomes for the 2015 budget involved a change in emphasis within existing strategic frameworks (defined under OPIF), the shift to program budgeting involved a more fundamental reconceptualising of the way agencies organise their functions.

The DBM Secretary had indicated his intention to implement program budgeting for the 2016 and preparations were made accordingly with PFMP support. However, toward the end of the year a series of decisions were made: first to implement only in ten agencies, then six agencies, then to pilot only as a parallel, paper-based exercise (ie, with no actual impact on the structure of formal agency budgets). This was largely as a result of concerns from operational areas within DBM about the impact of the introduction of program budgeting on existing systems, workload and on managing two separate presentations of the Budget to Congress simultaneously. The Secretary instructed DBM to fully roll out program budgeting across all government entities for 2017 incorporating changes stemming from the pilot study (currently under way).

While this is disappointing, 2015 still represents an important opportunity to capitalise on the progress that has been achieved. PFMP's focus will shift away from *structural* budget changes toward strengthening the actual *practice* of budget oversight. The structural changes are ultimately only useful if they result in different management practices – with an increased focus on *using* performance information to make decisions about resource allocation and management. This will take place through PFMP initiative to assist with the development of a new analytics system for DBM and provide mentoring support to strengthen operational analytical practices (and the application of UACS and PIB) in selected Budget Management Bureaus (described in the Program Strategy for 2015/2016).

Further, the feedback has been extremely positive from the pilot agencies participating in the workshops on the Program Expenditure Classification (PREXC – the trial approach to program budgeting) with respect to improving their own internal management. The PREXC exercise will also help DBM work directly with pilot departments to better link planning, budgeting and execution.

An unexpected benefit from PFMP's support to program budgeting during 2014 was the opportunity to contribute to the development of an organisational restructure at DBM. This arose out of discussions with the Secretary about the move to program budgeting; DBM went through a process of reconceptualising its own work from a program-based perspective. PFMP's Senior Budget Adviser then worked with the DBM executive to help redesign the Department's *organisation* structure to align to its *program* structure. The new structure is now in the process of being rolled out.

UACS Design Updates

During 2014, PFMP provided advice on a number of refinements to the UACS (the original design of which was adopted in 2013, with support from PFMP). The updates were formalised with issuance of a Joint Circular by DBM and COA. The refinements included the implementation of COFOG, the addition of fund

source cluster codes, location codes, and MFO/PAP codes for Special Purpose Funds. These enhancements strengthen the analytical capability provided by the coding structure.

Overall, this was satisfactory progress during 2014. PFMP may provide further ad hoc support to refining UACS if necessary, but the real priority is now to ensure that the code is being used as the basis for improved analysis: this is focus of efforts under Program Outcome 1.3 below.

Program Outcome 1.3: Government Operationalises Reforms in the Budget Cycle.

This is expected to be the key Program Outcome for the remainder of the Program as the reforms move further into implementation. It focuses on putting new reforms (such as UACS, TSA, PIB) into practice in the context of the day to day work through the budget cycle. GIFMIS was to be the central technological component through which many of the reforms were to be given effect, and thus provides the starting point for this discussion.

GIFMIS

2014 saw the implementation of GIFMIS not proceed, with a more limited, incremental approach to be adopted instead. The implications of this have already been discussed. This section elaborates on the detail of how the process unfolded during 2014 and the response that is emerging.

GIFMIS tenders closed in May 2014 following a successful shortlisting process. Three proposals were received, and assessed over the following two months. The highest rated bidder was identified on August 1, the post-qualification and negotiation process was completed, with the contract being agreed (but not signed) on September 9, 2014.

The process stalled while waiting to secure approval from the NEDA Investment Coordination Committee (ICC), meaning that no contract could be awarded.² Despite several submissions to the Office of the President discussing the request for approval, none was provided and the tender validity period lapsed (following three extensions) on January 17, 2015, bringing an end to the procurement.

PFMP provided technical support throughout the procurement process in 2014, which included assistance with drafting the contract documentation, the provision of extensive technical analysis and advice to the Special Bids and Awards Committee during the assessment process, and assistance with contract negotiations. PFMP also continued to provide advice to DBM on establishing the project management arrangements required to implement GIFMIS.

As it became increasingly clear that GIFMIS was unlikely to proceed, PFMP offered advice on alternative approaches. Ultimately, Government agreed a revised approach to procure a system to deliver critical functionality to oversight agencies only.

The proposed Budget and Treasury Management System (BTMS) will support budget management, budget execution (for oversight agencies), cash management, accounting and fiscal reporting functions, with interfaces to a small number of other critical PFM systems.

² The administrative context for this is complex. However, simplifying as far as possible, despite the issuance of Executive Order 55 by the President initiating the GIFMIS project, final approval was not provided by NEDA's Investment Coordination Committee (ICC), which is chaired by the President. There was a view that ICC endorsement was not required, but approval was ultimately sought on the assumption that it would be a formality. However, clearance was not provided.

It will not support budget preparation, or budget execution in spending agencies. In contrast to GIFMIS, which would have had around 25,000 users across the National Government, the BTMS will likely have a user population of 400 users at a maximum, almost all of them at BTr and DBM. The project will not require NEDA ICC approval given its significantly reduced cost.

The best case scenario would see this system go live in January 2017. Despite the smaller scope of the system, it will take two years to roll out, which demonstrates the extremely ambitious nature of the original GIFMIS timelines. But there are still risks associated with the BTMS procurement (as there is with any system implementation). PFMP will continue to provide technical guidance on the procurement of the BTMS to help minimise risks of a technical nature.

As noted, PFMP will also assist DBM by developing and procuring an analytics tool to enable improved use of data that is already available from existing DBM systems. This aims to increase the focus on improving how existing information is used in the short term, and in so doing help to better equip DBM to profit from the proposed BTMS in due course (rather than just relying on BTMS – or any other system – as a silver bullet). It is also an effective risk management approach – if there are delays in BTMS, DBM will at least have something in place to strengthen its analytical capability in the short term.

Unified Account Code Structure – Implementation

[PFMP conducted a rapid review of progress with UACS in December 2014. A summary of the findings, on which the following discussion is based, is attached at Annex B.]

Application of the UACS for budget execution began in January 2014. This was a significant milestone in the reform process, as it marked the beginning of Government’s ability to report on its expenditure against budget in a clear, consistent format. (The former system of reporting had separate coding frameworks for budget and expenditure data.)

Good progress was achieved during the year, particularly in strengthening agency understanding of the value of UACS and how to use it. PFMP analysis suggested a growing agency understanding of UACS from a practical perspective, but just as importantly a growing recognition of the significant of UACS to good PFM practice.

PFMP provided significant support to this outcome through the development and delivery of a major program.

PFMP also worked with DBM to put the policy, procedures and systems in place to oversee and maintain the UACS (through UACS Administration process and the UACS Repository system, both of which have been successfully operationalised). PFMP helped to develop the DBM Help Desk, intended to provide support to agencies (though the UACS Help Desk).

Summary of Support Delivered by PFMP in 2014

Training and Other Agency Support

- > Designed training for UACS application for spending agencies and for DBM oversight functions.
- > Delivered UACS application training to around 4,000 spending agency participants in 53 batches.
- > Designed and delivered TOT training for DBM and COA. (COA then cascaded training to its auditors, and DBM to SUCs and OEOs).
- > Developed UACS Primer and oversaw development of UACS website.

Help Desk

- > Provided Help Desk training to DBM staff.
- > Designed and supported the introduction of Help Desk processes.

UACS Maintenance Process

- > Designed the UACS Administration process, adopted through DBM Office Order in August 2014.
- > Designed and implemented the UACS Repository for maintaining account codes, integrated with relevant DBM systems.
- > Provided training for 43 DBM staff on processes and repository.

Aside from some minor upgrades required to the UACS Repository, there are three main challenges to be addressed, summarised in the table below.

| Challenge | Response |
|--|--|
| <p><i>The importance of UACS is not being reinforced in practice by DBM. Agencies uniformly report that they do not receive feedback about either the form or substance of their reports. Continued absence of dialogue about or analysis of the information agencies provide will undermine the value of any coding or reporting system.</i></p> | <p>DBM analysts must be actively encouraged to analyse data provided by agencies, and engage in <i>systematic</i> dialogue about the substance of that analysis. How DBM uses UACS to support PIB (and budget oversight in general) is fundamental, as this will determine how spending agencies really prioritise its use. PFMP's forthcoming analytics activity will assist with this in selected BMB units.</p> |
| <p><i>The UACS Help Desk does not appear to be operating effectively. Within DBM, responsibility for delivering the help desk service, and monitoring and enforcing that service, has not been clearly established. Overall, it appears that the decentralised design of Help Desk operations has worked against clear accountability. On the other hand, feedback from agencies is that while they do want support, they do not want to use a Help Desk given previous negative experiences with such arrangements.</i></p> | <p>DBM needs to clarify responsibility for the delivery and management of help desk services. It may be useful to consider streamline the mechanics of the help desk to ensure that assistance is provided in a form that spending agencies find helpful, and that DBM staff are able to deliver confidently. PFMP may be able to provide some support for this.</p> |
| <p><i>The UACS version of eNGAS has not yet been rolled out to spending agencies, meaning those agencies who use it still have to use UACS manually, and are unable to produce reliable or timely reports, or derive any internal management benefit from UACS.</i></p> | <p>COA needs to prioritise the stabilisation and rollout of the new version of eNGAS. However, agencies should be encouraged to implement their own systems if they wish to. The absence of GIFMIS means there is no quick fix for this issue.</p> |

Progress with UACS will continue only if agencies – both spending and oversight – believe UACS to be of benefit. As long as they do so, they will put measures in place to ensure they can use it correctly. Indeed, the experience of 2014 demonstrates this: agencies that have their own FMIS have largely completed upgrades to be UACS-compliant, on their own initiative and using their own resources. Selling the management benefits of UACS is important and is a key DBM responsibility. It will provide the incentive for agencies to address the technical challenges. This is particularly important in light of the absence of GIFMIS (which will make compliance by agencies more difficult).

Finally, underlying all of the above issues is the importance of ensuring that responsibility for all UACS-related tasks be properly embedded into DBM. The UACS is no longer “a reform”. It is simply a coding framework that DBM (and COA) must maintain, oversee compliance with, assist agencies to comply with where necessary, and – most importantly – use for their own oversight purposes. (The PFM Committee agreed that once reforms are finalised, responsibility for their operationalization lies within relevant agencies.)

Division of responsibilities for UACS needs to be clarified; it is essential that responsibility for all UACS-related work is formally built into the day-to-day tasks and accountabilities of DBM staff, and not allocated solely to “core teams” or other ad hoc bodies.

PFMP support to DBM during 2014 was very ‘hands on’. This helped to ensure that UACS support was rolled out effectively, however it possibly came at the cost of DBM taking full responsibility. The agreed support was completed in January 2015. Any further PFMP support in 2015 will need to be more hands off in nature.

Treasury Single Account

The TSA is a significant reform that intends to provide a stronger framework for centralised cash management. It has the potential to generate significant savings through improving the Government's visibility of its cash position, as well as improving the efficiency of budget execution. Implementation of the TSA will consolidate the bulk of the Government's cash balances into a single account.

Implementation of the TSA began in January 2014 with the initial focus on consolidating revenue accounts. This was a significant milestone for the Government in centralising its cash management operations. During 2014, Bureau of Treasury, BIR, BOC and other receipts accounts were incorporated into the TSA (based on the design developed with support from PFMP).

There are implementation challenges with the current TSA operations, arising largely from the limitations of the TSA Reporting and Monitoring System – TRAMS (which is a registry of bank statements and not a cash management system). Furthermore, expanding the Government's visibility of its cash position to include expenditure accounts (as is the objective) is not possible until a cash management system is in place that provides proper accounting and electronic payments functionality, as well as adequate controls (in particular for bank reconciliation). Ultimately, this functionality will be provided by the proposed Budget and Treasury Management System discussed above.

BTMS will not go live until 2017. In the interim, BTr intends to stabilise its existing systems and update them to be UACS-compliant. Also, BTr intends to work with spending agencies to assist them in consolidating their existing accounts.

PFMP's core program of technical assistance to the TSA, which began in 2012, concluded in March 2014. No further assistance was requested. However, PFMP supported an assessment of BTr's existing Oracle systems, which are in urgent need of upgrading to prevent the serious risk of loss of data. BTr has agreed to the recommendations arising from that analysis. PFMP also made recommendations on strengthening BTr's existing accounting systems to make them UACS-compliant, which have also been accepted.

Program Outcome 1.4: Government Implements Certificate Program

In 2013, PFMP worked with the Government to develop a competency framework for PFM. This was significant insofar as it provided a comprehensive set of definitions for the functions of PFM staff, and the skills and knowledge required to perform them.

In 2014, PFMP helped progress this initiative to the next stage by assisting the Government to develop a strategy where, by the end of 2016, the Government will have developed the curriculum for the PFM Certificate Program, piloted selected courses, and developed an effective delivery model (ie, structure, staffing, appropriations). The delivery model is properly embedded in policy by DBM and the Civil Service Commission. During 2014, the activity was designed and a service provider selected and mobilised.

Other Support to Roadmap Implementation

Since its inception, PFMP has provided a range of other support to the *management* of the reforms. At the centre of this support was the PFM Program Management Office (PMO), staffed entirely by PFMP. The role of this body was to provide both strategic advice and administrative support to the PFM Committee and the six Project Implementation Units (PIUs). It had a major focus on project management for GIFMIS.

In January 2014, the PFMP Mid Term Review recommended that PFMP's organisational structure be merged, to no longer differentiate between PMO and other advisors. DFAT agreed with this recommendation on the

basis that this would improve efficiency and internal coordination. Importantly, it would also serve to begin the process of transitioning responsibility for administering the reform process to GOP, with the support provided by PFMP/PMO gradually becoming more hands-off.

The PFMP-funded PMO formally ended its operations in June 2014, although the transition process has in practice been gradual. This has involved the technical members of the PMO³ adopting more clearly *advisory* roles as PFMP consultants. Support staff have largely continued in their existing roles, although these too are now changing, with GOP counterparts taking more direct responsibility for administrative functions. Two GOP staff currently staff the PMO (now called the PFM Project Unit) on a full time basis.

During 2014, specific areas of support provided by PFMP/PMO included:

- › *Secretariat and PIU support services.* Arranged and provided briefings for all PFM Committee and PIU meetings. Included briefing stakeholders on key issues and monitoring action items arising from Committee meetings, and coordinating budget and overall work planning issues related to the reforms (including performing oversight of DBM's change management contract with DAP).
- › *Roadmap review.* PFMP undertook the Roadmap review (the substance of which was described in an earlier section) at the request of the PFM Committee. This involved a series of consultations with PIUs and other stakeholders. Coordinated with stakeholders on a range of decision-points for the updated Roadmap. An updated draft Roadmap document was handed over to the PFM Committee in December 2014.
- › *Training coordination,* particularly for the UACS training, which included performing oversight of logistics services provided by the Development of the Philippines. Also coordinated with COA on UACS training, including for the process of cascading to COA auditors. Assisted DBM to establish its Speakers Bureau, who assisted with aspects of UACS training.
- › *Communications support.* This included development and production of the 2011-2013 PFM Accomplishment Report, the PFM website and data drive, audio visual presentations on UACS, TSA, and the PFM Principals, drafting of input into the President's 2014 Budget Message (in coordination with OSEC), Tech Notes, People's Budget; Memoranda for the President on TSA, dormant accounts, and GIFMIS. Also prepared FAQ and messaging documents regarding the non-approval of GIFMIS and alternative courses of action, in addition to monitoring media reports on the issue. Other activities included providing communications and documentation support for events. New materials were developed: flyers, briefers, FAQs, posters, UACS materials, and PFM merchandise that were used during training sessions.

Strategic Objective 2: DepED improves financial management compliance and performance.

This component of the Program provides support to strengthening financial management systems at DepED, consistent with the broader framework of the PFM Reform Roadmap. (The wording of the strategic objective was adjusted to recognise that the focus of this work is now exclusively on DepED. PFMP previously support financial management strengthening at DPWH and DSWD.)

³ The PMO Director, Deputy Director, Senior Budget Specialist, GIFMIS Adviser, Communications Adviser, Capacity Building Adviser. (The PMO Director position was vacated at the end of May 2014. A replacement was not recruited given the reducing workload on GIFMIS. Different aspects of responsibilities were covered by the Team Leader, Deputy PMO Director, Senior Budgeting Specialist, and Senior PFM Adviser.

DepED is key for both GOP (as the largest spending agency in Government) and DFAT (as education has been the key sector of focus for the Australian aid program). Support to DepED continued in 2014; Phase 1 concluded in May 2014, but support rolled over into a new phase with largely the same scope of support.

Program Outcome 2.1 DepED Strengthens Implementation of PFM Reforms

This outcome relates to assisting DepED to operationalise key reforms being rolled out by the oversight agencies. During 2014, the focus was on the adoption of UACS in budget execution, and preparing for the TSA and GIFMIS. Progress was achieved in each of these areas.

Training for UACS was completed; in total around 5,000 staff were trained (including through training provided by DepED trainers who received TOT from the PFMP team). PFMP also provided advice on the upgrading of DepED's main budget and accounting systems, to ensure UACS-compliance.

Assistance for TSA implementation involved developing an inventory of bank accounts, developing an initial TSA implementation plan, and providing training on bank reconciliations (conducted as part of the UACS training). However, TSA implementation cannot proceed in earnest until BTr finalises the *Implementing Rules and Regulations* for spending agencies.

Assistance was also provided to help DepED prepare for GIFMIS: an initial change readiness assessment was conducted (which included visits to the 18 proposed pilot sites), a change management plan developed, and an inventory of ICT hardware was completed. All of this built on a process-mapping exercised that was completed in 2013 (based on the GIFMIS conceptual design).

However, effort in this area tapered during the course of the year as the future of GIFMIS became increasingly uncertain. Effort gradually shifted toward developing an alternative course of action in the event that GIFMIS would not proceed; this is explained under the new Program Outcome below.

Program Outcome 2.2: DepED enhances internal systems and processes.

In the absence of GIFMIS, it was determined that PFMP would assist the Department to integrate its two main financial management systems the *Budget Management System* and the *Electronic Financial Reporting System*, both of which are currently stand alone.

It would not be realistic to attempt the implementation of an entirely new FMIS at this late stage of the Administration's term. Integrating the two systems is the next best solution: it has the potential to provide reasonably near term benefits at relatively low cost, and without having to roll out major changes at the operational level (meaning minimal disruption relative to the potential benefit).

Initial scoping work has already been undertaken, as the basis for a detailed design. Aside from simply integrating the two systems, the implementation process will also deliver some improvements to the functionality, architecture and overall user experience of the systems. The new system will aim to ease the work burden (and thus data entry backlog) by: eliminating redundancy; simplifying and streamlining consolidation of data; and producing all reports from the system automatically (detailed and consolidated).

Strategic Objective 3: Government and CSOs enhance their engagement.

2014 was a year of change in the approach to Government-CSO engagement. Overall, the revised approach that emerged involved shifting away from an *oversight agency / government-wide policy* focus toward a *spending agency / operational* focus, including more direct demand-side support.

The original Program intention had been for a series of analytical studies (undertaken in 2013) to provide the impetus for refining the policy framework for Government-CSO engagement on public expenditure. However, no action arose out of these studies. The reasons for lack of progress were discussed in the 2013 Annual Report; major factors were the distribution of responsibility for CSO policy between different areas within DBM, and the absence of a clear priority for taking this policy work forward.

While Government has demonstrated an overall policy commitment to improving citizen engagement, it was concluded that the appropriate focus will be at the practical engagement level. This shift in focus was also consistent with a recommendation of the PFMP Mid Term Review to reorient toward supporting engagement at a practical level. Consistent with this shift, the program outcomes were refined under this component, as shown below.

Program Outcome 3.1: COA institutionalises participatory audit practices.

This area of work continues broadly unchanged. The existing phase of support was completed in May 2014, with the completion of three pilot participatory audits (with DENR, DPWH and DSWD) and the establishment of institutional structures to implement the program.

Following the completion of that support, a further phase of support was discussed with COA – to continue trialling different models of participatory audit and embedding new practices into COA policy and procedures. The participatory audit activity has been a high profile initiative for COA, and there is a good opportunity to build on the progress achieved to properly embed new practices and also engage a broader range of stakeholders in audit such as the media, universities and the private sector. PFMP has had conclusive discussions with the Philippines Centre for Investigative Journalism (PCIJ) to start a complementary initiative in early 2015 to help raise awareness about COA findings.

Program Outcome 3.2: Selected Agencies and CSOs enhance their engagement practices.

The focus during 2014 was on developing a new program of work consistent with the shift of strategic direction explained above.

A needs assessment and diagnostic study analysing CSO engagement was completed (by the Asian Institute of Management) in May 2014. This examined the engagement practices of four agencies: DepED, DPWH, DOH, and the National Housing Authority. No formal follow up action was agreed within DBM; however this analysis provided useful insights as well as an entry point for more direct engagement with spending agencies. Building on this, several new activities were identified:

- › **DepED**, to strengthen collaboration with CSOs to monitor major expenditure programs. This will be the largest single area of work under this component.
- › **DOH and National Housing Authority**, to provide technical assistance to operationalise strategic frameworks for CSO engagement in relation to public expenditure matters.

Work under this outcome will also include cooperation with several CSOs in the health sector, to strengthen their evidence-based research practices in relation to budget utilisation. This work is now moving into implementation, and 2015 should see a renewal of momentum in this component.

4. Sustainability

Previous reports have discussed sustainability by using the Government's idea of *irreversibility*: the principle that reforms should progress to the point that they cannot be undone by future Administrations. The foundation for irreversibility was to build systems and processes as the basis for longer term performance improvement. Much of this was to be embedded in GIFMIS and thus the non-implementation of GIFMIS is a setback to the idea of irreversibility; by 2016, Government will not have in place the technology in place to enforce compliance to standardised, automated PFM processes.

On the positive side, 2014 saw the emergence of two new policy initiatives that should help to strengthen the foundations of reform into the future, the details of which have been discussed above:

- › The establishment of the Office of the Comptroller General, which should become the institutional home of the reforms, including for monitoring and supporting agency compliance with PFM policies. The Office of the Comptroller General has the potential to be a key element in the sustainability of reform, and thus its resourcing and proper operationalization must be important priorities for the Government in 2015.
- › The PFM Framework Law. Although not yet presented to Congress, the Law does have the potential to provide a solid framework around which to continue to build good practice.

The GIFMIS setback does not mean the reforms cannot be sustained. The challenge for Government – which, as discussed, PFMP will continue to support – is to consolidate what has been delivered already to ensure it is embedded into the day-to-day practices of both oversight and spending agencies.

First, this involves oversight agencies putting into practice the agreement of the PFM Committee that once reforms are adopted, they become the responsibility of the relevant agencies (rather than of inter-agency Project Implementation Units). Following the Roadmap review, it was agreed to disband the PIUS, their intended purpose largely having been fulfilled. The challenge for oversight agencies now is to ensure that new functions (such as maintaining the UACS and providing a help desk service) are formally embedded into the organic functions of the agency, and resourced and managed accordingly.

Second, it involves agencies properly putting the products of reforms – eg UACS, PIB, TSA – into practice in the context of their day to day operations, and making the benefits visible. This means ensuring operational staff understand and buy into reforms: if these stakeholders understand the value of the reforms in practice, the reform process becomes easier and more effective. During 2015, PFMP will increase its engagement with operational-level staff (in particular through the Analytics initiative at DBM).

A key element in this is also capacity building. During 2014, the major capacity building focus was on building understanding of the UACS, with around 9,000 staff receiving training in total. During 2015, the training focus will shift to the rollout of the Certificate Program for PFM, which aims to establish a systematic training delivery model for Government staff.

5. Cross-Cutting Issues

There are three cross-cutting issues:

Gender. 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. 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. Implementation of GAD budgeting is expected to be strengthened as a result of the reforms to enabling systems over the medium to long term. No specific gender analysis or activities took place during 2013.

Anticorruption. PFMP's support to improvements in transparency and accountability in PFM will contribute to anticorruption efforts. Relevant initiatives include support to GIFMIS, improvements in financial reporting, the establishment of a single account for the Treasury, and strengthening engagement between Government and Civil Society.

Working in partner systems. Strengthening PFM systems in the Philippines will ultimately contribute to enhanced opportunities for donors to work through partner systems in the Philippines.

6. Program Management

Strategic Planning

As discussed at the beginning of this report, 2014 involved significant planning to ensure that the Program's strategic framework aligned to Government's updated Roadmap. This was a difficult process given the uncertainty that surrounded GIFMIS. However, a draft Program Strategy (including an updated Results Framework) has been developed to provide direction to the Program over its remaining 16-month period. It reframes the Program's approach in the absence of GIFMIS, and accommodating the fact that only a relatively short period of time remains. It is being submitted to the Program Steering Committee for endorsement together with this document.

Monitoring and Evaluation

During 2014 the PFMP Monitoring and Evaluation Specialist was principally focused on supporting the Government's review of the PFM Reform Roadmap, the detail of which has been discussed already.

The other major M&E activity (aside from the preparation of this report) was the completion of two studies on UACS implementation: the first in May 2014 (to provide a baseline) and the second in December 2014, following the completion of all the UACS training and other support activities. Conclusions from these analyses are described under Program Outcome 1.3 above, and additional details are provided at Annex B.