

Chapter 10

Public Financial Accountability for Integrity and Results: The Case of the Philippine Bureau of the Treasury

*Leonor Briones**

Introduction

This paper describes the formal mechanism in the Philippines for ensuring public financial accountability, and examines in detail an agency that plays a crucial role in public financial accountability, the Bureau of the Treasury. At the same time, it goes beyond the formal system and places great importance on the role of media and civil society, as well as information technology.

The first section of the paper examines the concept of accountability in public finance as developed in the Philippine experience, starting with the constitutional provisions on accountability. As in other countries, the Constitution is the basis for all laws, rules, and regulations that govern the conduct of the government and the rights of citizens in the Philippines. The second section explains how accountability promotes

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aggregate fiscal discipline in the Philippines and describes various institutional mechanisms to ensure fiscal discipline. We next deal with accountability and the strategic allocation of budgetary resources, the link between planning and budgeting, then a discussion of the crucial role of leadership in promoting financial accountability. To make the general discussion more concrete, the paper then looks at the Philippine Bureau of Treasury (BTr) as an illustration of how financial accountability works in practice. Two specific components of the BTr system are noted: the electronic auction of Treasury bills and bonds, and the Registry of Scripless Securities. The last section presents some conclusions.

Accountability in Public Finance

In the words of Francisco S. Tantuico Jr., former chairman of the Commission on Audit of the Philippines: “Public accountability is the foundation of integrity. It cuts to the soul of government. It unmask the government of the day of whatever façade it wears.” The Constitution of the Philippines describes public accountability thus:

Public Office is a public trust. Public Officers and employees must at all times be accountable to the people, serve them with utmost responsibility, integrity, loyalty and efficiency, act with patriotism and justice and lead modest lives.

And Ledivina V. Cariño, dean of the National College of Public Administration and Governance of the University of the Philippines, defines accountability as:

...the evolution of the actions of appointed career officials in terms of whether their actions are within or outside the bounds of their authority. It may be promoted through the imposition of external controls and through the inculcation of self-regulating values.¹

Dean Cariño identifies the different levels of administrative accountability as: (i) *traditional accountability*, which focuses on the regularity of fiscal transaction and faithful compliance as well as the adherence to legal requirements and administrative policies; (ii) *managerial accountability*, which is concerned with efficiency and economy in the use of funds, property, manpower, and other resources; (iii) *program accountability*, which pays attention to the results of government operations; and (iv) *process accountability*, which emphasizes procedures and methods of operations.

Public financial accountability and audits

Public financial accountability is promoted primarily through the conduct of regular audits. Traditional audits include legal and compliance audit. These are generally limited to audits that examine the legality of financial transactions as well as compliance with established rules, regulations, and procedures. Performance audits look into actual outputs of agencies in relation to programmed goals. Concepts of performance audit have been further developed into program results audit and value-for-money audits.

¹ Cariño, Ledivina V. "Administrative Accountability: A Review of the Evolution, Meaning and Operationalization of a Key Concept in Public Administration," *Philippine Journal of Public Administration*, April 1983.

Financial accountability and reporting

Reporting to oversight entities, the President, the legislature, and the public is an important and indispensable component of financial accountability. In the Philippines, specific laws require all heads of offices and agents of government to submit reports on the status of their accomplishments. This or may or not always happen.

R.A. No. 6713, the Code of Conduct for Civil Servants in the Philippines, which was issued on 20 February 1989, requires all heads of offices and agencies of the government and government-owned or -controlled corporations (GOCCs) to submit and render their annual performance reports.

Section 62 of Presidential Decree No. 1177, a law that has become a part of the Philippine Administrative Code of 1997, also requires all heads of agencies and offices of the government to submit a semiannual report of their accomplishments, both work and financial results, to monitor the efficiency and effectiveness with which budgeted funds are being utilized.

Furthermore, individual audits of all government agencies and instrumentalities are consolidated into three main reports: the consolidated audit reports on national government agencies, GOCCs, and local government units. These audit reports are submitted to both houses of Congress (the House of Representatives and the Senate), as well as to the President of the Philippines. These are also open to the public.

Strengthening financial accountability: The role of the media and of civil society

Reports that are regularly submitted to the different oversight agencies of the government as well as to the legislature and the executive compose the formal reporting system. It is assumed that these reports eventually reach the public.

However, increased participation of civil society in governance has resulted in greater public concern for financial

accountability. Thus, the public expects and demands that it be informed regularly and promptly on the financial status of the government, as well as the performance of financial agencies.

The media—radio, television, and print media as well as electronic media—serve as an essential conduit for informing the public. Because of their reach and access to different sectors of society, the media are frequently utilized as a mechanism for speedy and timely reporting to the public on government operations.

Thus, reports that are regularly submitted to different oversight institutions promptly reach the public. Examples are the regular cash operations report on revenues, expenditures, and the cash deficit in relation to programmed goals; the report on the state of the public debt; and the quarterly reports on economic performance.

Since these important reports reach the public at the same time that oversight officials receive them, public reaction is instantaneous. Oftentimes, public debates ensue, impelling officials to explain to the citizens the meaning and implications of developments in the financial system. There have been occasions when policies have been modified in response to public reaction.

The impact of increased public participation in finance through the media is twofold. First, the public is kept up-to-date on financial policies, programs, and accomplishments. It is able to react and even debate with policymakers. Secondly, public officials now recognize that their ultimate accountability is not only to oversight institutions but to the public itself. They learn to consult affected sectors of society and to communicate with them.

As noted earlier, civil society is now increasingly concerned with governance, particularly accountability. Crises of global proportions, e.g., global environmental concerns as well as regional economic crises, have mobilized civil society into pushing for national, regional, and even international action. In the Philippines, the impact of the Asian financial crisis on

the Philippines has sensitized Filipinos to the risks of overborrowing and lack of accountability. The state of the economy and its financial status have become the subject of intense public interest. Public officials are often called to account for their performance or the lack of it.

In recent years, the Philippines has had one of the most dynamic civil societies. Nongovernment organizations, private voluntary organizations, and political movements have been instrumental in bringing to public attention issues of public finance and accountability. Very often, because of their grassroots orientation, they have the capacity to translate complex economic and financial issues in terms that are understandable to the man or woman on the street. These macro issues are the everyday concerns of ordinary citizens.

The heightened role of media and civil societies has led agencies to report directly and immediately to the public, thus eliciting immediate public response. While the law does not explicitly require this, it has broadened concepts of public accountability far beyond formal requirements, and enables civil society to exact accountability directly from officials responsible for maintaining the financial system of the country.

How Accountability Promotes Aggregate Fiscal Discipline

In the Philippines as well as in other countries, formal mechanisms ensure accountability and promote fiscal discipline. The Development Budget Coordination Committee is one such mechanism. It is composed of the Department of Budget and Management (DBM), the National Economic and Development Authority, the Department of Finance (DOF), the *Bangko Sentral ng Pilipinas*, and the Bureau of the Treasury. It provides the linkage between planning and budgeting and establishes the aggregate targets for the annual government expenditure program and ceilings of government spending for the various sectors.

Another mechanism that promotes financial accountability in the Philippines is the Cash Programming and Monitoring Committee (CPMC), created in accordance with the DOF-DBM Circular No. 1-90A on 19 November 1990. It is headed by the Treasurer of the Philippines. The CPMC was created to provide closer coordination between DOF and DBM in the release of funds based on the short-term calculation of cash availability. It is directly responsible for controlling the release of the Notices of Cash Allocation vis-à-vis the inflow of revenues, as well as ensuring that the deficit target is not exceeded. The CPMC also facilitates the management of cash balances by the Bureau of the Treasury and rationalizes the flotation of government securities while encouraging agencies to optimize cash utilization in the implementation of priority programs and activities of the government.

At the level of the Bureau of the Treasury, the Cash Flow Committee is a formal mechanism to ensure fiscal discipline, by monitoring cash operations and the level of debts on a day-to-day basis.

An effective public accountability system promotes aggregate fiscal discipline. Two features of such a system make this possible. First is efficient and effective monitoring and reporting as required by law, rules, and regulations. In the Philippines, two crucial reports on fiscal performance are submitted monthly. These are the cash operations report and the report on the public debt.

The cash operations report is submitted by the Treasurer of the Philippines to the Secretary of Finance. It contains information on levels of revenue, expenditure, and borrowing on a monthly basis, thus allowing fiscal performance to be monitored on a monthly basis. Shortfalls in revenue, as well as excesses in expenditure, are immediately pinpointed and corrective action is undertaken. The report also enables policymakers to identify well-performing as well as underperforming agencies, leading to corrective action or to agency commendation, thus exercising fiscal discipline on a

timely basis and dealing with problems before they get out of hand.

Second, fiscal discipline is enhanced by regular monitoring done by media and civil society. Mention was earlier made of two reports that are submitted monthly by the Bureau of the Treasury: the cash operations report and the report on the public debt. Days before these reports come out, members of the media bombard the BTr and the Department of Finance with calls, to get the numbers first and come out with scoops. Once the reports are out, the results are avidly discussed on radio, TV, and print media. Civil society organizations then take over and put pressure on policymakers if performance has been less than satisfactory.

At present, the Bureau of the Treasury prepares preliminary reports every two weeks to keep the Secretary of Finance update. This enables him to take immediate action if there are danger signs.

Because timeliness is very important in fiscal performance, and again because these two reports are regularly expected by the media and civil society, the Treasurer personally oversees the preparation of these reports and constantly thinks of ways to improve them and make sure they are submitted on time.

Constant watching by media and civil society makes fiscal agencies more sensitive to public reaction and enhances discipline. As a result, both the Bureau of the Treasury and the Department of Finance keep an eagle eye on fiscal performance, knowing that the size of the monthly cash deficit is considered by the public as an indicator of good performance as well as fiscal discipline.

Leadership and Public Financial Accountability

In addition to formal mechanisms, media, and civil society, leadership plays a crucial role in promoting financial accountability.

The National College of Public Administration and Governance pioneered studies on graft and corruption in the Philippines, which further led to a wide array of research on the topic. The role of leadership in bringing about public financial accountability was a common finding of these studies. Agencies identified as “flagships” of accountability were known to be headed by people who themselves actively initiated strategies and tactics to bring about accountability.

The Philippine Bureau of the Treasury (BTr)

The functioning of the BTr illustrates how the combination of formal mechanisms, media, civil society, and leadership can bring about financial accountability in the Philippines. The BTr is a member of the cluster of agencies within the Department of Finance. It is known as the custodian of all government funds. But the functions of the Bureau are not limited to this. The BTr is also very active in national policy formulation, particularly in financial management, public borrowing, and capital market development. On the operations side, the Bureau is responsible for the management of the assets and liabilities of the national government, as well as the fidelity bonding of all accountable government officers and/or personnel. The Bureau also prepares the annual financing program of the national government.

The BTr information system and its role in promoting accountability

Timeliness is of the essence in promoting accountability. Opportunities for graft and corruption usually abound where there is inefficiency and delay. Appropriate information technology can reduce and even eliminate these opportunities because chances for negotiation and bargaining are reduced. Decisions are made faster and are more transparent.

The role of information technology is illustrated in two major features of the BTr information system wherein opportunities for misbehavior have been reduced to zero. These are the electronic auction of T-bills and -bonds, and the Registry of Scripless Securities. When the information technology system of the Bureau was not yet in place, auctions of Treasury bills took two days. The process was laborious and cumbersome as bids were all written down on boards by at least 30 personnel and required computations using simple calculating machines. Bidders were informed of the results of the auctions only a day after the bidding. With the setting up of the Automated Debt Auction Processing System (ADAPS) and the Registry of Scripless Securities (ROSS) in the Bureau, the new auction process minimizes the risk of loss as a result of delays in the submission of bids and facilitates the process of decision making.

At present, the electronic auction of T-bills and -bonds is done primarily through the Automated Debt Auction Processing System. ADAPS was developed with the assistance of the Policy Training and Technical Assistance Facility. Considered to be among the most advanced systems in Asia, ADAPS facilitates the much faster processing of auctions in T-bills and -bonds in the Philippines. Largely because of ADAPS, delays caused by floods, traffic, and *force majeure* in the auction process are eliminated. Most importantly, ADAPS promotes greater transparency in the auction operations as it enables faster decision making in the rejection or acceptance of bids and lessens the opportunities for consultations among bidders. The whole

auction process takes only about five minutes. Through ADAPS, all bids on Treasury bills and bonds are submitted promptly, enabling the Auction Committee to decide whether or not to accept the bids. In another ten minutes, bidders are informed of the results of the auction.

The Registry of Scripless Securities maintains the registry of all securities transactions. As the term implies, it is a system designed to facilitate the scripless trading of government securities. Like ADAPS, ROSS provides greater transparency in all transactions involving government securities and minimizes the risk of loss from accidents and theft.

Conclusion

Fiscal and financial outturns depend on a variety of factors other than the financial accountability systems. However, the accomplishments in the Philippines in recent years owe much to the working system of financial accountability. To conclude with just one concrete example, the typical government agency is usually clogged with pending cases involving discipline and accountability. However, when the current Treasurer of the Philippines assumed office, she was delighted to learn that there was only *one* pending case in the Bureau. This case involved the breaking of the plastic cover of the finger-scanning machine and an amount of ₱1,000. Considering the fact that Treasury operations include the entire national budget of over P565 billion, only one pending case of administrative discipline would seem like a near miracle.

The Philippine experience, specifically the Bureau of the Treasury, has shown that public financial accountability can be achieved through a combination of the following factors:

- strong legal basis, organizational structure, rules, regulations, and procedures;
- regular monitoring and reporting to the public through the media and civil society organizations;

- appropriate information technology system and timely processing of reliable information; and
- strong leadership committed to ensuring public financial accountability—a leadership committed to promoting good governance.

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