



# Financial Management Assessment Report

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Project Number: 52173-002

November 2018

Proposed Project Loan

Republic of the Philippines: Local Governance  
Reform Project

Asian Development Bank



## EXECUTIVE SUMMARY

1. The Asian Development Bank (ADB) plans to support the Bureau of Local Government Finance (BLGF), an agency under the Department of Finance (DOF), in the implementation of the Local Governance Reform Project to support the real property tax and administration of the Philippines. This will support local government revenue generation, property administration, and management reforms. The BLGF will be the executing agency (EA) and implement the project through its offices and in collaboration with implementing partners. An inter-agency governing board will be established to provide guidance for the project and oversee its implementation.

2. A financial management assessment (FMA) has been carried out to review the capacity of the BLGF on its financial management (FM) system and procedures. This report provides the observations and recommendations of the FMA.

3. The FMA overall finds the project FM risk, pre-mitigation, to be *substantial*. This results from the following specific FM weaknesses, which have been identified:

- (i) **Budget execution** – The Current Fund obligation rates for maintenance and other operating expenses (MOOE) were moderately low in 2016 and 2017.
- (ii) **Staffing** – Five out of the ten nominated positions in the FM Division are currently not filled.
- (iii) **Accounting and internal control** – BLGF does not have a comprehensive fixed asset register in place.
- (iv) **Internal audit** – BLGF is not subject to internal audit.
- (v) **Financial reporting and information systems** – Financial reporting requires significant time and resources as there are no computerized budgeting and bookkeeping systems.

4. A dedicated Project Management Unit (PMU) will be established within and overseen by BLGF. It will be responsible for day-to-day management of the project as well as implementation oversight. The PMU will be managed by a firm that will have full-time staff, including a financial specialist/accountant who will receive training on ADB procedures and requirements on FM.

5. While the PMU will provide an administrative structure that functions with a number of safeguards against fiduciary risks, the following additional specific mitigation measures are also proposed to address the identified FM weaknesses:

- (i) **Budget execution** – BLGF must closely and regularly monitor MOOE budget execution, and undertake corrective measures, if and when required.
- (ii) **Staffing** – BLGF to follow through with the current hiring process and ensure that the vacant FM positions are filled with adequately qualified and experienced staff.
- (iii) **Accounting and internal control** – BLGF must continue ongoing efforts to properly establish the fixed asset register.
- (iv) **Internal audit** – Department of Budget and Management (DBM) Circular No. 2011-5 mandating all Heads of Departments, Bureaus, Offices and Agencies to

promulgate necessary rules and regulations for internal control systems strengthening. Project team will closely work with BLGF to ensure necessary actions are taken on this. Project team will explore technical assistance (TA) support in providing trainings to relevant staff of the FM Division of BLGF.

- (v) **Financial reporting and information systems** – BLGF should continue the process of obtaining and operationalizing budgeting and bookkeeping systems from the Commission on Audit (CoA).

6. On the basis of the PMU being established and operationalized, and the proposed risk mitigation measures being implemented, the residual project FM risk is considered to be *moderate* and the planned project FM arrangements hence satisfactory.

## 1. INTRODUCTION

7. ADB plans to support the BLGF in the implementation of the Local Governance Reform Project (the Project) to support real property tax and administration which will support local government revenue generation, property administration, and management reforms. The project aims to increase sub-national own-source revenue generation, strengthen social and economic development, and improve governance of local government units (LGUs).

8. This FMA provides a due diligence review of the systemic and procedural capacity of the BLGF on planning and budgeting, accounting, internal control, financial reporting, internal audit, and external audit. On this basis recommendations are made to address identified deficiencies. The FMA also reviews the proposed funds flow arrangements and disbursement procedure of the project.

9. The assessment was conducted in October–November 2018 and follows ADB’s FMA guidelines.<sup>1</sup> The applied FMA questionnaire (FMAQ) was filled-in by the BLGF and reviewed by the assessor, and subsequently revised based on consultations with BLGF officials. The FMA report was drafted by the assessor and selected parts shared with the BLGF for information and verification. All findings and recommendations are based on available documentation and consultations with BLGF officials as well as with relevant stakeholders.

10. The FMA is provided in chapters 2–8 below. Appendices A–E include an organizational chart of BLGF, proposed funds flow, documents reviewed, persons consulted, and the FMAQ.

## 2. BRIEF PROJECT DESCRIPTION

11. The project has a proposed budget of \$31.49 million and will be implemented over 4 years from 2019 to 2023. The BLGF will be the EA and IA and implement the project through its offices and in collaboration with implementing partners, including DOF and the Bureau of Internal Revenue (BIR), DBM, Department of Information and Communications Technology (DICT), Department of Interior and Local Government (DILG), National Economic Development Authority (NEDA), and selected LGUs. An inter-agency governing board chaired by the DOF and comprising officials from BIR, BLGF, DBM, DICT, DILG, and NEDA. Other stakeholders—e.g. the leagues of provinces, cities, and municipalities; non-governmental organizations; and the private sector—will be invited to participate in board meetings as the need arises.

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<sup>1</sup> ADB. 2015. *Financial Management Assessment – Financial Management Technical Guidance Note*. Manila. May 2015.

12. The project aims to strengthen the policy and administrative environment for enhancing local own source revenues from real property taxes by instating reforms in real property valuation and assessment in the Philippines. The project will have four outputs:

- (i) **Institutional development and policy support for property valuation strengthened.** Supporting policy formulation and institutional development of BLGF to implement fair, efficient, and effective property valuation by: (i) establishing and operationalizing the Real Property Valuation Service within BLGF to strengthen property valuation service and support the effectiveness of other BLGF divisions and regions; (ii) providing policy formulation and implementation support for real property taxation; (iii) developing and disseminating operating manuals and procedures aligned with international standards; (iv) rolling out training for national government agencies and BLGF regional offices; and (v) formulating policies and processes to monitor compliance with standards for both government and private real property.
- (ii) **Property valuation database and systems implemented.** Promoting accuracy and timeliness in real property valuation information as well as enhancing transparency and accountability in reporting by: (i) developing and rolling out a Real Property Information System and Electronic Field Appraisal and Assessment Sheet for maintaining property data and computing valuations in line with international standards; (ii) developing and implementing a comprehensive electronic property tax billing and payment system; (iii) rolling out real property tax billing and payment system in selected 4th to 6th class municipalities; (iv) developing and operationalizing an online portal for public access to the schedule of market values (SMV), local tax codes, local investment and incentives code, eco-zone information, and LGU performance in real property tax collection; and (v) developing and implementing institutional mechanisms for data and information exchange among government and private sector stakeholders.
- (iii) **Real property tax of selected LGUs enhanced.** Providing TA to selected LGUs in: (i) updating the SMV and revising assessments and property classifications; (ii) updating tax maps and related tax records; (iii) adopting integrated computerized systems for tax assessment and collection; (iv) coaching and mentoring in preparing tax impact studies; (v) undertaking tax compliance reviews for improved property tax collection; and (vi) enhancing collection practices through taxpayer registration drives and updated registries.
- (iv) **Professionalization of local assessors and capacity of LGUs strengthened.** Strengthening the professionalization of local assessors to enhance LGU capacities by: (i) developing a grade or scale system for local assessors based on core competencies; (ii) developing a supporting course curriculum and performance assessment program with training manuals; (iii) rolling out training for local assessors at the provincial, city, and municipal levels; (iv) developing and implementing an e-learning platform for assessment for appraisers and assessors; and (v) reviewing and harmonizing inconsistent government policies related to property valuation.

13. The estimated project cost of \$31.1 million will be financed by ADB through a \$26,532,604 million regular loan from its concessional ordinary capital resources. The remaining \$4.96 million will be Government of the Philippines (GoP) counterpart funding.<sup>2</sup>

14. A PMU will be established within and overseen by BLGF. It will be responsible for the day-to-day management of the project (including management to ensure compliance with all policy actions, program administration, disbursements, and maintenance of all project records) as well as implementation oversight. A firm will be selected to manage the PMU, which include full-time staff, including a financial specialist/accountant among others.

### 3. COUNTRY FINANCIAL MANAGEMENT ISSUES

15. The World Bank in 2016 carried out an assessment of the public financial management (PFM) system of the GoP based on the Public Expenditure and Financial Accountability (PEFA) framework.<sup>3</sup> It was found that, compared to 2010 when the last assessment was carried out, PFM performance had improved in many areas, and especially with regard to comprehensiveness and transparency, policy-based budgeting, and predictability and control in budget execution. When compared with other countries in the region as well as with other lower middle-income countries, the PFM system of the GoP thus now scores relatively high.

16. The 2016 PEFA assessment indicates that the overall fiduciary risk level associated with the GoP's PFM system is 'moderate'. The best performing PFM pillar is 'policy-based fiscal strategy and budgeting', while the least well-performing is 'external scrutiny and audit'. The 2016 assessment made the following observations on the seven PFM components:

- (i) **Budget reliability** is high for GoP revenues as annual collections compare well with the original estimates. However, budget reliability is relatively low for expenditures as there are significant variations between the annual budgets and actual annual expenditures, both at aggregate and disaggregate levels, and in particularly for capital outlays.
- (ii) **Transparency of public finances** is overall high. Information provided in the budget documentation is comprehensive, financial reports cover all budgetary and extra-budgetary operations, information on service delivery performance is available, and there is full public access to key fiscal information. Also, budget classification has improved significantly with the implementation of the Unified Accounts Code Structure.
- (iii) **Management of assets and liabilities** is relatively good. Public investment management is based on costing and economic analysis of all major investment projects, project selection follows guidelines and implementation is being monitored. Debt management is thorough, although the GoP's medium-term debt management strategy is not published. Also, asset management is not fully effective due to weak monitoring of both financial and non-financial assets. Fixed asset balances reported by departments and agencies are in many cases unreliable because information in ledgers and registers is substantially incomplete.

<sup>2</sup> The government counterpart funding will cover staff counterpart support salary, lot for the valuation training centers, and taxes and duties.

<sup>3</sup> World Bank. 2016. *Republic of the Philippines – PFM Strategy Implementation Support, Public Financial Management and Accountability Assessment*. Report No: 105753-PH. Washington, DC.

- (iv) **Policy-based fiscal strategy and budgeting** performs well. The systems and procedures for preparing macro-economic and fiscal forecasts are robust, and the GoP has a clear fiscal strategy. Medium-term expenditure budgets are developed within explicit ceilings, and there is consistency in the expenditure estimates from year to year. The annual budget preparation process is based on comprehensive guidance and a clear budget calendar, the budget proposal is submitted to Congress well ahead of the fiscal year start, and legislative scrutiny is thorough.
- (v) **Predictability and control in budget execution** are based on an extensive formal structure, but there are weaknesses in implementation which undermine performance. The predictability of resource allocations has improved significantly in recent years at the entity-level as well as overall. Payroll controls are in place and internal controls on non-salary expenditure are deemed relatively effective. However, internal audit has some weaknesses as a quality assurance process is not yet in place, many entities face delays in implementing their annual audit programs and the distribution of reports is limited.
- (vi) **Accounting and reporting** is overall weak, which is reflected by CoA expressing a qualified or adverse opinion in many entity-level audits. The integrity of financial data is low due to the lack of/delay in reconciling bank accounts, significant advances not being liquidated on time, and there being quality, reliability and timeliness issues in financial reporting. The latter is mainly due to the lack of a FM information system and the resulting widespread use of spreadsheets. However, the Philippine Public Sector Accounting Standards (PPSAS) are broadly consistent with international standards.
- (vii) **External scrutiny and audit** is characterized by some challenges. CoA functions independently, its performance is strong, and the Philippine Public Sector Standards on Auditing (PPSSA) is aligned with international standards. However, the scope of audit does not cover revenues, and while audit reports are submitted to Congress, no process is in place for legislative scrutiny, and there is no standing committee charged with audit.

17. Based on the PEFA assessment, the main country-level FM weaknesses thus relate to budget credibility, public asset management, internal audit, financial data integrity, in-year and annual financial reporting, and legislative scrutiny.

18. The 2017 Open Budget Survey (OBS) for the Philippines scored budget transparency 67%,<sup>4</sup> i.e. the GoP provides the public with “substantial budget information.” This compares with 64% in 2015 and 48% in 2012, i.e. there have been tangible improvements over time which are being maintained. The 2017 Open Budget Survey score for *budget oversight* was 62% on the involvement of Congress in the budget formulation and approval process, but 47% on budget execution and audit. CoA’s budget oversight scored 83%. The GoP’s *public participation in the budget process* scored 41%, which is the 3rd highest worldwide.

19. The GoP introduced several reform initiatives to improve and strengthen the PFM system during 2011–2016, which were based on the implementation of the *PFM Reform Roadmap* and the *Good Governance and Anti-Corruption Cluster Plan*.

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<sup>4</sup> International Budget Partnership. 2018. [Philippines, Open Budget Survey 2017](#).

20. DBM in 2016 prepared a Rightsizing Bill, which was approved by Congress in July 2017 as the *Rightsizing the National Government Act*. It aims over a 3-year period to enhance the GoP's institutional capacity by minimizing or eliminating overlaps and duplication of functions between agencies.<sup>5</sup>

21. DBM in May 2017 filed the Budget Reform Bill in Congress, which has since then been subject to committee hearings and a technical working group meeting, but is yet to be passed. The main elements of the Bill are fiscal responsibility arrangements including: (i) explicit fiscal responsibility principles; (ii) a fiscal policy statement; (iii) a medium-term fiscal strategy; (iv) fiscal reporting and inter-generational reporting; (v) establishment of annual cash-based budgets for all entities and a medium-term budget framework; (vi) alignment of budgets with the Philippines Development Plan and government policy priorities; (vii) introduction of a program classification within the Unified Accounts Code Structure; (viii) expanding coverage of the treasury single account; and (ix) strengthening oversight of government bank accounts. The Budget Reform Bill would furthermore commit the GoP to prepare quarterly consolidated financial reports as well as specify procedures for public participation in the budget process.

22. An important reform element is changing the basis of annual appropriations from obligations to cash, which will take with the 2019 budget. This will limit incurring obligations and making payments for goods delivered and services rendered to within the fiscal year (including settlement until the end of a 3-month Extended Payment Period).<sup>6</sup> Another important element is the on-going implementation of the Budget and Treasury Management System,<sup>7</sup> which covers four pilot line departments and is expected eventually to be rolled out to all departments and agencies. Interfaces between with related systems—such as budget preparation, payroll, procurement, fiscal planning, cash management and asset management—are already in place or being prepared.

23. The GoP in 2016 drafted a new PFM reform roadmap with support from the World Bank, but it was not finalized. Seven technical working groups<sup>8</sup> set up in February 2017 to support PFM reform activities have also not been activated.

24. Development partner support for PFM reform has in recent years been supported mainly by the World Bank and Australian Aid. The GoP and development partners earlier used a dedicated Sub-Working Group<sup>9</sup> under the Philippines Development Forum to exchange information and coordinate activities. However, the Sub-Working Group has not met in the past few years, which may be because development partners having less engagement with PFM reform than before, and also as the GoP's PFM Committee (established in 2011 to oversee PFM reform) provides coordination in the PFM area.

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<sup>5</sup> Department of Budget and Management (DBM). 2018. *Annual Report*. p. 15.

<sup>6</sup> DBM. 2018. *Reforming the Philippine Budgeting System towards Economic Growth and Poverty Reduction*, p. 2. For projects with an implementation period of more than one year, departments/agencies must obtain a Multi-Year Obligational Authority YOA) from DBM.

<sup>7</sup> The Budget and Treasury Management System (BTMS) has the following modules: Budget Management, Commitments Management, Payments Management, Receipts Management, Cash Management, Accounting, and Fiscal Reporting. It does not include budget preparation, which will continue to be done through the Budget Preparation Management System with which the BTMS will interface. There will likewise be system interfaces established to several other information systems, including the Debt Management and Financial Analysis System, payroll systems, tax and revenue management systems, systems at banking institutions, and Budget Accountability System (URS).

<sup>8</sup> To take forward reforms in the areas of policy and management, cash management, budget planning and program budgeting, legal and organizational framework, inspection and payments, in-service training, and financial systems.

<sup>9</sup> Under a DBM-ADB convened Working Group on Governance and Anti-Corruption.

## 4. PROJECT FINANCIAL MANAGEMENT SYSTEM

25. This chapter presents the main strengths and weaknesses of BLGF's FM system and procedures. The focus is on those elements that have particular relevance for the program in terms of financial operations and accountability. Also, the proposed funds flow and disbursement arrangements for the planned project are outlined.

### 4.1 Overview

26. This section provides a short narrative description of the country PFM system as applied at the entity-level.

27. Organization and staff capacity. BLGF in its current form was established in 1987 based on an Executive Order.<sup>10</sup> It is an agency attached to DOF and headed by an Executive Director appointed by the President upon the recommendation of DOF's Secretary.

28. BLGF's functions include: (i) providing technical advice and assistance in the formulation and execution of policies, rules, and regulations governing local taxation, real property valuation, and the conduct of financial affairs by LGUs; (ii) assisting in the exercise of administrative and technical supervision over local treasury and assessment offices and their respective operations; (iii) issuing instructions/directives to local treasury and assessment officials on the enforcement of policies, rules and regulations; (iv) providing consultative services and technical assistance to LGUs and the general public on local taxation, real property assessment and other related matters; (v) administering the DOF components of foreign-assisted projects involving LGUs and the Municipal Development Fund; and (vi) representing DOF in inter-agency technical fora on LGUs and local finance issues.

29. BLGF's Central Office (CO) consists of four services—Administrative, Financial and Management; Legal, Local Fiscal Policy, and LGU Operations—with a total of 12 separate divisions (see the organizational chart provided in Appendix A). BLGF has 15 Regional Offices (ROs) over which the CO exercises administrative and technical supervision. BLGF has an Executive Committee which comprises senior management.

30. BLGF has a total staff nomination of 412 *plantilla* positions (115 in the CO and 297 in the ROs) of which 285 are filled and 126 vacant (35 in the CO and 91 in the ROs), i.e. the vacancy rate is 31%. The large number of vacancies appears to go back to BLGF's Rationalization Plan that was approved in 2015, but for which a first recruitment round only started in 2017 (covering 70 positions). BLGF is now in the process of filling another 120 positions. The CO furthermore has 35 Job Order positions.

31. BLGF's FM Division is, together with the Administrative Division and the Information Systems Management Division, part of the Administrative, Financial and Management Service. The FM Division has two units that each have a number of specific functional tasks:

- (i) **Budget Unit** – Preparing budget estimates, including Work and Financial Plans (WFPs), and reviewing budget proposals of ROs; processing and recording advice of allotments; receiving and recording funding warrants released by DBM; preparing annual/quarterly expenditure programs; and releasing quarterly expenditure funds to the different offices and monitoring the offices' expenditures.

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<sup>10</sup> Executive Order No. 127, dated 30 January 1987 ('Reorganizing the Ministry of Finance').

- (ii) **Accounting Unit** – Maintaining basic and subsidiary books of accounts and accounting records; analyzing financial operations and preparing periodic financial reports; determining and certifying availability of funds; and preparing periodic financial reports.

32. The staffing details are shown below:

**Table 1: Staffing of the Financial Management Division**

	Nominated	In Place	Vacant	
			Nos.	%
Chief Administrative Officer	1	1	0	0%
Supervising Administrative Officer	1	0	1	100%
Accountant III	1	0	1	100%
Administrative Officer V	2	1	1 <sup>a</sup>	50%
Administrative Officer IV	1	1	0	0%
Administrative Officer II	2	1	1	50%
Administrative Assistant III	2	1	1	50%
<b>Sum</b>	<b>10</b>	<b>5</b>	<b>5</b>	<b>50%</b>

<sup>a</sup> One of the two Administrative Officers is detailed to another division within Bureau of Local Government Finance.

33. Only 5 out of 10 nominated positions are thus filled, hence the Financial Management Division has a vacancy rate of 50%. This compares with a vacancy rate of 31% for BLGF as a whole and a vacancy rate of 30% for the CO. BLGF's Financial Management Division thus has a disproportionate number of vacancies, which affects adversely its capacity and the workload of the current staff.

34. Only 2 of the 10 nominated positions in the FM Division require a Certified Public Accountant (CPA), and only one of the present staff—the Chief Administrative Officer/Officer-in-Charge (OIC)—is a CPA. The five staff have been employed with the BLGF between 8 and 38 years, i.e. have significant work experience related to BLGF's functions. However, none have prior experience with externally financed projects.

35. BLGF does not have a formal training policy in place, but the staff of the FM Division generally participate in one training event per year, e.g. on PFM legislation and regulations as well as on the enhanced National Government Accounting System (eNGAS). Staff also periodically attend seminars that focus on updates to accounting rules and regulations conducted by COA, Philippine Association for Government Budget Administration Inc., Association of Government Accountants of the Philippines, and Association of Government Internal Auditors Inc.

36. Information management. In addition to manual records and ledgers, the FM Division uses spreadsheets for its financial reporting tasks. BLGF is in the process of acquiring eNGAS<sup>11</sup> and eBudget system from CoA. The process of acquiring and installing the systems has been held up by a lack of available servers, but this issue is now being addressed and BLGF expects that the systems will be introduced in the CO and the ROs in early 2019. Once operational this should

<sup>11</sup> eNGAS is a bookkeeping system used on a post-facto basis, i.e. transaction processing is first done manually, and summaries then recorded in the form of journal entry voucher entries. eNGAS maintains records of obligations, obligated disbursement vouchers, journal vouchers, and reports of collections and deposits. A reporting module on allotments, obligations and account balances of all fund types can be used to prepare financial statements.

reduce the time and resources needed in preparing financial reports. It will also provide an audit trail for financial transactions and enable the tracing of user actions. CoA will get read-only access to eNGAS.

37. BLGF retains accounting records and other documents as required by the General Records Disposition Schedule as prescribed by the 2009 National Archives of the Philippines, General Circular No. 1.<sup>12</sup>

38. Budgeting. The FM Division's Budget Unit is responsible for coordinating the preparation of BLGF's annual budget. The budgeting process covers the following main activities:

- (i) **Budget Call** – DBM's annual National Budget Memorandum (usually sent to departments and agencies approximately before the start of the fiscal year) is cascaded to all CO service/office delivery units and to the ROs.
- (ii) **WFPs** – Each of BLGF's four services develop a WFP, which sets performance targets and identifies the entities/staff responsible for each program, activity, and project (PAP) together with relevant timelines and required resources. On this basis, the CO and ROs prepare indicative budget proposals,<sup>13</sup> Project Procurement Management Plans (PPMPs) and Annual Procurement Plans (APPs).
- (iii) **Consolidated Budget** – The received budget proposals are reviewed for completeness and compliance with DBM circulars and guidelines, and a consolidated draft budget proposal is prepared.
- (iv) **Budget Proposal** – The consolidated budget proposal is presented to BLGF's Executive Committee for review, and revisions made if and as required.
- (v) **Budget Briefing** – A budget briefing is conducted for the DOF Secretary, and revisions made based on recommendations received that are approved by the Executive Director.
- (vi) **Uploading the Budget Proposal** – The approved budget proposal is uploaded to DBM's Online Submission of Budget Proposal. Electronic as well as signed physical copies of the proposed budget are submitted to DBM for review and issuance of the National Expenditure Program (NEP), and a copy is also sent to DOF.
- (vii) **Review NEP** – The NEP is reviewed according to BLGF's planned PAPs and corrections made, if required. The NEP is then distributed to the CO service/office delivery units and ROs for preparation of respective Budget Execution Documents (BEDs) and updating the indicative PPMPs and APPs.
- (viii) **General Appropriations Act (GAA)** – When the GAA is received, copies are distributed to all service/office delivery units of the CO and ROs.

<sup>12</sup> This means that documents are retained for 6 months, 1 year, 2 years, 3 years, 4 years, 5 years, 10 years, 12 years, 15 years, or permanently, depending on the record type.

<sup>13</sup> This involves translating the Work and Financial Plans into Tier 1 and Tier 2 budget proposals. Tier 1 includes funding requirements for implementing on-going PAPs and new initiatives that form part of existing programs. Tier 2 covers new initiatives that cannot be classified under an existing program, proposed programs/projects pending approval by DBM and/or Office of the President, and projects that are capital-intensive.

- (ix) **Registry of Allotments and Obligations** – Registries are prepared for Capital Outlay, Maintenance and Other Operating Expenses, Personal Services and Financial Expenses.
- (x) **Finalize PPMP, APP, and BEDs** – The PPMP and APP is finalized and submitted to the Government Procurement Policy Board before the new fiscal year starts. The BEDs are finalized outlining the financial plans and performance targets for the fiscal year for online submission to DBM for authorization to incur obligations.

39. BLGF has prepared a comprehensive flowchart for the budgeting process, which shows the activities, responsible staff and detailed tasks.

40. Budget execution. The implementation of the budget is monitored by the FM Division's Budget Unit in collaboration with the relevant divisions. In case of implementation delays, the involved divisions discuss with BLGF's management how to address the underlying reasons so as to implement the originally planned activities.

41. BLGF approves budget variations in advance, or before implementation, which is in line with statutory and regulatory requirements on modification of budgets or allotments.<sup>14</sup> This means that modifications of allotments may not include increases to the total amount appropriated for a PAP or, in case of programs with several activities and/or projects, modifications may only be done within each activity/project. All modifications are approved by the appropriate authority within BLGF.

42. The Budget Unit monitors budget utilization rates (i.e. obligations and disbursements) of all divisions on a monthly basis and report these to BLGF's management.<sup>15</sup>

43. The table below shows BLGF's budget execution for 2015, 2016 and 2017 as obligations compared to allotments of MOOE and capital outlays for current funds and continuing funds.

**Table 2: Budget Utilization for 2015–2017<sup>16</sup>**

Philippine peso / %	Current Funds			Continuing Funds		
	Adjusted Allotments	Total Obligations	Obligation Rate	Adjusted Allotments	Total Obligations	Obligation Rate
<b>2015</b>						
MOOE	62,882,000	58,618,000	93%	686,000		0%
CO	15,000,000	15,000,000	100%	5,000,000	4,989,000	100%
<b>Total</b>	<b>77,882,000</b>	<b>73,618,000</b>	<b>95%</b>	<b>5,686,000</b>	<b>4,989,000</b>	<b>88%</b>
<b>2016</b>						
MOOE	70,804,000	59,208,000	84%	2,482,000	2,481,000	100%

<sup>14</sup> DBM's National Budget Circular No. 573, dated 3 January 2018, as well as the General Provisions of the General Appropriations Act.

<sup>15</sup> Several different reports are prepared for this purpose: FAR No. 1 – Statement of Appropriations, Allotments, Obligations, Disbursements and Balances; FAR No. 1-A – Summary of Appropriations, Allotments, Obligations, Disbursements and Balances by Object of Expenditures; FAR No. 2 – Statement of Approved Budget, Utilizations, Disbursements and Balances; and FAR No. 2-A – Summary of Approved Budget, Utilizations, Disbursements and Balances by Object of Expenditures.

<sup>16</sup> Current funds are one-year appropriations, while continuing funds are multi-year appropriations.

Philippine peso / %	Current Funds			Continuing Funds		
	Adjusted Allotments	Total Obligations	Obligation Rate	Adjusted Allotments	Total Obligations	Obligation Rate
CO	18,379,000	16,519,000	90%			
<b>Total</b>	<b>89,183,000</b>	<b>75,727,000</b>	<b>85%</b>	<b>2,482,000</b>	<b>2,481,000</b>	<b>100%</b>
<b>2017</b>						
MOOE	83,318,000	71,518,000	86%	12,058,000	2,058,000	100%
CO	23,807,000	23,370,000	98%	2,655,000	2,655,000	100%
<b>Total</b>	<b>107,125,000</b>	<b>94,888,000</b>	<b>89%</b>	<b>14,713,000</b>	<b>14,713,000</b>	<b>100%</b>

CO = capital outlays, MOOE = maintenance and other operating expenses.

Source: Statement of Appropriation, Allotment, Obligation, Disbursement and Balances for 2015–2017.

44. The current funds MOOE obligation rate in 2016 was very low due to the: (i) extended implementation of the three information systems under the modernization project; (ii) deferment in the contracting of IT personnel for regional offices pending the completion of the abovementioned systems; and (iii) failure of the procurement service to deliver the procured units of IT equipment due to unavailability of stocks. The current funds MOOE obligation rate in 2017 was slightly higher, although not yet fully satisfactory. However, the total obligation rates for current funds CO as well as continuing funds are high.

45. As part of the GoP's PFM reforms, the budget approach shifts from a multi-year obligation-based budget to an annual cash-based budget on 1 January 2019. This will, among other things, change the basis for measuring budgetary performance and thus put more emphasis on accelerating the delivery of PAPs. Hence, going forward there will be added focus on planning and budgeting as well as on execution and implementation, so as to ensure a direct link between the cash-based budget and actual outputs.

46. Accountability measures. BLGF's staff must follow the provisions of the 1989 'Code of Conduct and Ethical Standards for Public Officials and Employees', Republic Act No. 6713, which aims to promote a high standard of ethics in public service and hold public officials and employees accountable for the discharge of their duties. Similarly, the 'Anti-Graft and Corrupt Practices Act', Republic Act No. 3019 (1960), applies to BLGF's staff.

47. In administering disciplinary and non-disciplinary cases that involve staff, BLGF is required to follow the 2017 'Rules on Administrative Cases in the Civil Service' as prescribed by the Civil Service Commission.

48. Development partner support. During 2005–2014, BLGF implemented the second Land Administration and Management Project, which provided TA and was supported by the Australian Government and the World Bank. The project aim was to increase land tenure security and improve land administration services through implementation of institutional and legal reforms, realization of an accelerated land titling program, and establishment of a fair and uniform property valuation system. The project involved DOF through BLGF and the National Tax Research Center, the Department of Environment and Natural Resources and participating LGUs.

## **4.2 Strengths**

49. The following strengths of BLGF's FM arrangements have been identified, including taking into account the general functioning of the FM system of the GoP:

- (i) The existing staff of the FM Division are well-qualified and have many years of work experience from BLGF.
- (ii) BLGF has in place a Manual of Operations that describes the work processes carried out in each division, and it is in the process of developing a Quality Manual that will include the main FM and procurement procedures.
- (iii) CoA's external audit activities appear to be well-executed, cover a number of relevant control functions, and are based on appropriate auditing standards that are aligned with international standards.

50. These elements are thus considered relevant for ADB to rely on for project implementation as they are well-developed and competently applied.

### **4.3 Weaknesses**

51. The following weaknesses of BLGF's FM arrangements have been identified:

- (i) The FM Division currently has five vacant positions, which adversely affects the capacity of the entity and increases the workload of the existing staff.
- (ii) BLGF is still in the process of preparing a fully comprehensive fixed asset register, and the Property, Plant and Equipment (PPE) accounts remain unreliable.
- (iii) BLGF is not subject to internal audit by the Internal Audit Service (IAS) of the DOF, which means that its internal control systems and procedures are not being reviewed by the IAS.
- (iv) The budgeting and accounting procedures of the FM Division are at present still manual supplemented by spreadsheets, which makes financial reporting more time-consuming as well as prone to the risk of errors.

52. ADB cannot rely on these elements for project implementation, and they should hence be improved or the associated risks mitigated.

### **4.4 Personnel, Accounting and Internal Control, Internal Audit and External Audit**

53. This section reviews specific elements of BLGF's FM systems and procedures.

54. **Personnel** – It is expected that one new accounting staff will be appointed to the PMU to manage the FM-related tasks of the project. It is yet to be decided whether this will be a project employment (i.e. only of the duration of the project, for example in the form of 'job order' position) or a permanent position (i.e. a regular BLGF staff).

55. The appointment of a new accounting staff should be done based on terms of reference prepared for the PMU. The required academic/professional qualifications should be CPA and with a minimum of 5 years relevant work experience and, preferably, previous experience with foreign-funded projects.

56. To the extent that the new PMU staff does not have previous experience with ADB projects, guidance and training on ADB procedures and requirements (as per the Loan

Disbursement Handbook) should be provided, preferably prior to project start.

57. **Accounting and internal control** – The accounting procedures applied by BLGF’s FM Division are based on the Government Accounting Manual (GAM) for National Government Agencies (NGAs).<sup>17</sup> The accounting policies in the GAM are in accordance with the PPSAS. The basis of accounting is accrual. Annex K of the GAM includes guidance on the policies and procedures relevant for foreign-assisted projects. The prescribed Chart of Accounts includes account codes applicable to foreign-assisted funds.

58. The accounting tasks of the FM Division include maintaining the books of accounts (general ledger and subsidiary ledgers), controlling utilization of notice of cash allocations and certifying availability of funds for payment, processing disbursement vouchers, undertaking bank account reconciliations, preparing and submitting financial reports to BLGF’s other divisions and management as well as oversight agencies (CoA and DBM), and follow-up on CoA’s audit observations and recommendations, including coordinating replies and follow-up actions in relation to the regional offices.

59. BLGF’s accounting and internal control system has so far been based on manual procedures supported by spreadsheets. Functional responsibilities —authorization to execute a transaction, recording a transaction, taking custody of assets involved in a transaction, and reconciliation of bank accounts and subsidiary ledgers —are undertaken, as required, by different entities and staff.<sup>18</sup> The functions of ordering, receiving, accounting for, and paying for goods and services are likewise appropriately segregated. The Accounting Unit reviews the general ledger and subsidiary ledgers on a monthly basis. Discrepancies are verified and reconciled, and adjustments are recorded in the books of accounts.

60. The invoice-processing procedures follow the established requirements, and documentary requirements are attached and validated as to the accuracy and completeness of supporting documents prior to the processing of disbursement vouchers. This includes the Inspection and Acceptance Report prepared by the Administrative Division. All invoices are stamped ‘PAID’, dated, reviewed and approved, recorded/entered into the bookkeeping system, and marked for account code when submitted by the Cashier (Administrative Division) to the Accounting Unit for recording and submission to CoA.

61. Cash collection and handling has adequate controls and include the issuance of an ‘official receipt’ to the payor and deposit of cash collected within the same day or the following day at the latest. It is noted that cash collected is minimal and that a ₱75,000 threshold for cash held is enforced. The Accounting Unit conducts monthly reconciliation of bank accounts against book balances, and adjusted entries are submitted to the FM Division’s OIC for approval. As per the GAM (Volume II), a number of registers are being maintained related to cash.<sup>19</sup> CoA’s Resident

<sup>17</sup> Volume I – Accounting Policies, Guidelines and Procedures, and Illustrative Accounting Entries (general provisions, basic standards and policies, specific guidelines and procedures for each standard, and illustrative entries for typical transactions of NGAs); Volume II – Accounting Books, Registries, Records, Forms and Reports (various formats of books of accounts, registries, records, forms and reports, and the instructions on their use); and, Volume III – The Revised Chart of Accounts (List and Description of Accounts per CoA Circular No. 2013-002 dated 30 January 2013, amendments per CoA Circular No. 2014-003 dated 15 April 2014, and additional/modified accounts).

<sup>18</sup> Authorization to execute a transaction is approved by the Signing Officer (Executive Director, Deputy Executive Director, or Service Director (AFMS) depending on the relevant threshold), recording of a transaction is done by the Financial Management Division’s Bookkeeper, custody of assets involved in a transaction is the responsibility of the Administrative Division’s Property Officer, and reconciliation of bank accounts and subsidiary ledgers is undertaken by the Financial Management Division’s Bookkeeper.

<sup>19</sup> Cash Receipts Journal, Cash Disbursements Journal, Cash Receipts Register, Cash Receipts Record, Registry of Allotments and Notice of Cash Allocation, Cash in Bank Register, Cash Disbursement Record, Report of Cash

Auditor carries out unannounced physical count to verify cash on hand and its reconciliation with the cash book. All accountable forms (including unused cheques and petty cash as well as official receipts) are kept by the Cashier in the safety vault.

62. Payroll preparation includes controls of changes (additions/deductions/modifications), which are authorized by the Administrative Division.

63. As prescribed for all GoP entities, BLGF has in place a Manual of Operations, which describe the specific work processes carried out in each division. The Manual is currently being updated. BLGF is furthermore in the process of developing a Quality Manual, which will describe its quality management system as well as policies and procedures in this regard. The manual will include flowcharts for some of BLGF's main processes on budgeting, bookkeeping and procurement.

64. BLGF aims to base its fixed asset management on the policies and procedures set forth in the GAM (Volume I, Chapter 10). This implies assigning asset numbers and issuance of Property Acknowledgement Receipts to support the issue of assets/property to end-users. However, BLGF does not currently have a fully comprehensive fixed asset register in place. The FM Division is in the process of establishing a Property, Plant and Equipment Ledger Card (PPELC), which is to be in accordance with the Property Cards maintained by the Property Section of the Administrative Division. As also briefly outlined below, CoA has during the annual audits found that BLGF's PPE accounts are not reliable.

65. BLGF has currently only motor service vehicles covered by insurance policies under the Government Service Insurance System. The insurance of other assets, as required under Republic Act No. 656 and CoA Circular No. 92-390 dated 17 November 1992, awaits that the fixed asset register becomes properly established. BLGF takes prompt steps to ensure that broken/lost assets are located/repaired.

66. The estimated useful life for different categories of fixed assets is prescribed by CoA. BLGF's procedures in disposal of assets are based on CoA's regulations. The Administrative Division's Property Section prepares a list of inventories and undertakes inspection of unserviceable assets which are validated by CoA prior to the disposal of the same.

67. The Quality Manual currently being prepared will include a section on property facility management with an activity flowchart. The procedure covers request for service, purchase request, request for estimate, preparation of purchase order/job order, conduct of repair/service, inspection of work, and transmittal of documents to the Accounting Unit for payment processing. The aim is to ensure that facility, equipment and vehicle maintenance services are provided on time and are met according to the service requirements.

68. CoA's 2015 Consolidated Annual Audit Report (CAAR) included the following main observations related to BLGF's FM:

- (i) The carrying amount of the 'Inventory' account was unreliable;<sup>20</sup> and,

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Disbursements, Cash Disbursements Register, Report on Paid Petty Cash Vouchers, Petty Cash Fund Record, and Petty Cash Fund Register.

<sup>20</sup> This was due to: (i) non-recording of the issuance of supplies and materials as well as failure to maintain and update Supplies Ledger Cards (SLCs) in Region VIII; and (ii) costing of inventories not in accordance with the Philippine Application Guidance 2 of Philippine Public Sector Accounting Standards 12 and non-maintenance of SLCs in Region VII.

- (ii) The carrying amount of the PPE accounts was unreliable.<sup>21</sup>
69. CoA's 2016 CAAR included the following main observations related to BLGF's FM:
- (i) Overstated 'Due from NGAs' account and understated 'Computer Software' and 'Construction in Progress—Buildings and Other Structures' accounts;<sup>22</sup>
  - (ii) Unreliable reported balance of PPE accounts;<sup>23</sup>
  - (iii) 'Office Supplies Inventory' account unreliable;<sup>24</sup>
  - (iv) Error in transaction recordings resulting in an abnormal 'Due from NGAs' account balance that affected the accuracy of the financial statement (Region IV-B); 5) 'Semi-Expendable Communication Equipment' and 'Semi-Expendable Machinery and Equipment Expenses—Communication Equipment' overstated and understated, respectively, due to non-recognition of issuances to end-users (Central Office); and
  - (v) Properties already transferred and various unserviceable properties remained recorded in the books, thereby overstating the 'Other Assets' and 'Accumulated Surplus' accounts.
70. CoA's 2017 CAAR included the following main observations related to BLGF's FM:
- (i) Various accounting errors and deficiencies in keeping the accounts resulted in misstatements of reported accounts in the financial statements;<sup>25</sup> and
  - (ii) Disbursement vouchers, monthly trial balances and quarterly financial statements with supporting schedules were not submitted within the prescribed period, which thus prevented timely examination of transactions and communication of the

<sup>21</sup> This was due to: (i) physical count not conducted in the Central Office (CO) and Regions I, VIII and IX; (ii) failure by the CO to derecognize 'Furniture and Fixtures' donated to government agencies; (iii) non-recognition of land donated by the Regional Development Council in Region II and Property, Plant and Equipment (PPE) in Region IX; (iv) non-maintenance of PPE Ledger Cards (PEELC) and Property Cards (PCs) in Regions V, VIII and XII; and (v) misclassification of PPE in Region IV.

<sup>22</sup> This was in the CO and Region V and was due to unrecorded deliveries from Procurement Service and unliquidated funds transferred to the Department of Public Works and Highways.

<sup>23</sup> This was due to: (i) annual physical count of PPE not undertaken or delayed, reconciliation between accounting and property records not done; (ii) inclusion of PPEs below capitalization threshold; (iii) properties donated to various entities not derecognized; (iv) properties received from various entities not recognized in the books for lack of pertinent documents; (v) Land and Office Building recognized without proof of ownership; (vi) non-maintenance of PEELC and PCs; (vii) inclusion of unserviceable properties; and (viii) misclassified 'Other Machineries and Equipment and Other PPE' accounts to 'Communication Equipment' account.

<sup>24</sup> This was in Regions IV-A and VIII and related to: (i) non-maintenance of SLCs and Stock Cards to monitor acquisitions and issuances of supplies; (ii) non-preparation of the Report on Supplies and Materials Issued for issuances; and (iii) physical inventory not done, hence difficult to reconcile accounting and property records.

<sup>25</sup> (i) Errors affecting Assets Account: Misclassified semi-expendable items, Donated/transferred/sold properties not derecognized, unrecorded PPEs received from various agencies, land and building recorded without proof of ownership, depreciation not provided on building, and goods not yet delivered/rendered/completed and accepted recognized upon; (ii) Errors affecting Liabilities Account: recognized obligation for goods/services not yet delivered/rendered/completed and accepted; and (iii) errors affecting net assets/equity account: Donated/transferred/sold properties not derecognized, unrecorded PPEs received from various agencies, land and building recorded without proof of ownership, depreciation not provided on building, recognized obligation for goods/services not yet delivered/rendered/completed and accepted, and misclassified traveling.

results to BLGF's management.<sup>26</sup>

71. CoA rendered a qualified opinion on the fairness of presentation of BLGF's financial statements for 2015, 2016, and 2017.

72. The PMU will be required (based on existing regulations) to set up and maintain separate accounts and records for all expenditures incurred by the project as well as prepare separate financial statements for the project. The basis of accounting will be accrual, and reports to BLGF and to ADB will likewise be prepared on that basis. The reporting currency for BLGF will be Philippine Peso (₱), and the reporting currency to ADB will be US dollar (\$). BLGF's manuals will also apply to the project when being implemented. It may also be relevant to consider preparing specific implementation guidance for the administration of the project (in terms of FM, procurement, and contract management).

73. **Internal audit** – BLGF does not have an internal audit function. An IAS exists within the DOF which, according to DBM regulation<sup>27</sup> as well as DOF's IAS Charter,<sup>28</sup> has a scope that includes attached bureaus, offices and agencies, including regional/field offices. The IAS in the DOF thus functionally covers the BLGF. However, DOF's IAS could thus undertake internal audit of BLGF, but this has not happened so far. It is not clear why that is the case.<sup>29</sup>

74. The GoP has in place detailed requirements for the qualification and experience of internal auditors<sup>30</sup> as well as regarding the standards for conducting internal audit,<sup>31</sup> but it is not clear to which extent these are being followed. However, based on the available information, it would appear that the IAS refers directly to the Secretary (on functional matters, although administratively to a designated Undersecretary). Also, the risk-based audit plan of the IAS is approved by the Secretary, which is in line with the Philippine Government Internal Audit Manual.

75. **External audit** – CoA is the constitutional body charged with external audit of all government accounts, and thus carries out the annual audit of BLGF. As in other GoP entities, CoA has a Resident Auditor placed within BLGF (a three-person audit team).

76. CoA undertakes its external audit activities in accordance with the PPSSA—adopted through CoA Resolutions No. 2013-007 dated 29 January 2013, 2014-011 dated 7 May 2014, and 2016-010 dated 10 May 2016—which is aligned with international auditing standards. CoA's Resident Auditor receives copies of all financial documents and will have access to the eNGAS (once operationalized).

77. As noted above, CoA rendered a qualified opinion on the fairness of the presentation of BLGF's financial statements for 2015, 2016 and 2017.<sup>32</sup> The status of BLGF's implementation of CoA's audit recommendations for the past 3 years is shown below.

<sup>26</sup> 2016 figures in the consolidated 2017 financial statement not restated to reflect prior year errors and adjustments, inadequacies/non-maintenance of inventory records, unreconciled PPE balances, inadequacies/non-maintenance of property records, and overstatement due to non-derecognition of unserviceable properties.

<sup>27</sup> DBM's Circular Letter No. 05 dated 14 April 2008.

<sup>28</sup> Department of Finance (DOF)'s Department Order No. 002 dated 20 December 2017.

<sup>29</sup> BLGF was not able to engage DOF's IAS for the purpose of this financial management assessment.

<sup>30</sup> The Civil Service Commission's Memorandum Circular No. 12, dated 22 June 2006, outlines the education, experience and training requirements for the Chief Internal Auditor, Supervising Internal Auditor, Internal Auditor III, Internal Auditor II and Internal Auditor I.

<sup>31</sup> The President's Administrative Order No. 70, dated 14 April 2003, prescribes the 'International Standards for the Professional Practice of Internal Auditing' of the Institute of Internal Auditors as the GoP's standards.

<sup>32</sup> CoA has rendered a qualified opinion on the fairness of the *presentation of BLGF's financial statements since 2009*.

**Table 3: Bureau of Local Government and Finance’s implementation of prior years’ audit recommendations**

	Fully Implemented	Partially Implemented	Not Implemented	Total
2014 recommendations implemented by end-2015	15	13	4	32
	47%	41%	13%	100%
2015 recommendations implemented by end-2016	17	6	3	26
	65%	23%	12%	100%
2016 recommendations implemented by end-2017	14	13	1	28
	50%	46%	4%	100%

Source: Commission on Audit’s Consolidated Annual Audit Reports on Bureau of Local Government and Finance for 2015, 2016, and 2017.

78. BLGF has each year fully and partially implemented the majority of CoA’s audit recommendations on the CAAR for the previous year.

79. CoA in the 2017 AAR made a total of 11 recommendations. Based on the documentation available,<sup>33</sup> it appears that all outstanding 2015 recommendations as well as all but one of the outstanding 2016 recommendations have been addressed by BLGF during January–August 2018.

#### **4.5 Financial Reporting Systems, including Use of Information Technology**

80. The Accounting Unit of the FM Division prepares and submits entity-level financial statements—trial balances, quarterly financial statements, and annual financial statements—as required by CoA. Financial reports prepared by the Budget Unit include monthly Budget and Financial Accountability Reports submitted to DBM as well as Budget Utilization Reports and Performance Monitoring Reports submitted to DOF. The reports submitted to the oversight agencies are categorized financial statement data without supporting descriptions, explanations, and comparative budget data.

81. The Accounting Unit and Budget Unit currently prepare and generate financial reports using spreadsheets. This is pending BLGF’s adoption of CoA’s eNGAS, which will be used to record financial transactions, and the eBudget system. Although the two systems are integrated for budget and accounting functions, they do not link financial information with physical data. The FM Division’s staff have already undergone eNGAS and eBudget training.

82. Due to the largely manual procedures currently being applied supplemented by spreadsheets, and also due to the vacancies in the FM Division, the preparation and submission of financial report is generally delayed 2–4 weeks.

83. BLGF will use the entity-level financial reporting system also for project financial reporting, with some adjustments and using spreadsheets, if required.

<sup>33</sup> BLGF. 2018. *Fiscal Year 2017 Agency Action Plan and Status of Implementation*. 30 August 2018.

#### **4.6 Funds Flow Mechanism and Disbursement Arrangements**

84. The proposed funds flow arrangement for the project is shown in Appendix B below.

85. The loan proceeds will be disbursed in accordance with ADB's *Loan Disbursement Handbook* (2017, as amended from time to time), and detailed arrangements agreed upon between the GoP and the ADB. ADB funds will be managed by the PMU using the advance fund and statement of expenditure (SOE) procedures of disbursement as well as the direct payment procedure for selected categories. Online training for project staff on disbursement policies and procedure is available. Project staff are encouraged to avail of this training to help ensure efficient disbursement and fiduciary control.

86. For the incremental administration costs part of the ADB loan, BLGF will (through the PMU) establish an advance fund account in US dollars at a commercial bank to be proposed by DoF. The account will be established, managed, and liquidated in accordance with ADB's *Loan Disbursement Handbook*,<sup>34</sup> and detailed arrangements agreed by the GoP and ADB. The advance account will be used exclusively for ADB's share of eligible expenditures. BLGF will be accountable and responsible for proper use of advances to the advance account.

87. Based on the FMA, BLGF has some FM weaknesses and the related overall fiduciary risk (pre-mitigation) is hence deemed to be *substantial*. For the SOE procedure, which will be used for reimbursement of eligible expenses and liquidation of advances to the advance account, it is therefore proposed that a ceiling in the equivalent of maximum \$50,000 per individual payment be applied. Supporting documents and records for expenditures claimed under the SOE procedure must be maintained by the PMU/BLGF and made readily available for review by ADB's disbursement and review missions, upon ADB's request for submission of supporting documents on a sampling basis, and for independent audit.

88. For efficiency reasons, the minimum value per withdrawal application is stipulated in the *Loan Disbursement Handbook* (2017, as amended from time to time).

89. The loan will use the direct payment procedure for service contracts and other high-value payments. These payments will thus be made directly by ADB, based on the payment requests of the PMU/BLGF (in the form of withdrawal applications along with the necessary supporting documents) submitted to the ADB.

90. Counterpart funding of the government will be in-kind. It will include salary/honorarium of counterpart support staff, applicable taxes and duties, and lot for the construction of the three valuation training centers to be constructed in Luzon, Visayas, and Mindanao.

91. The disbursement procedures as well as related accounting and auditing arrangements are detailed in Chapter V of the Project Administration Manual.

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<sup>34</sup> ADB's *Loan Disbursement Handbook* describes which supporting documents should be submitted to ADB and which should be retained by the government for liquidation and replenishment of an advance fund account. The bank charges incurred in operating the advance fund account can be financed from the loan proceeds. (<http://www.adb.org/sites/default/files/institutional-document/33606/adb-loan-disbursement-handbook.pdf>)

## 5. RISK DESCRIPTION AND RATING – INCLUDING THE FINANCIAL MANAGEMENT AND INTERNAL CONTROL RISK ASSESSMENT

92. As outlined above, there are some weaknesses and shortcomings in the GoP's FM system and as applied by BLGF. The resulting fiduciary risks are summarized below.<sup>35</sup>

**Table 4: Financial Management Risks**

Risk Type	Risk Description	Risk Assessment (without mitigation) <sup>a</sup>	Management Plan / Mitigation Measures
<b>Inherent Risk<sup>b</sup></b>			
Country-level risks	The country-level PFM system has some weaknesses in terms of budget credibility, public asset management, financial data integrity, in-year and annual financial reporting, and legislative scrutiny.	Moderate	Development partners to continue providing support for PFM reform to the GoP, including helping to formulate a new PFM roadmap that will focus on implementing the Budget Reform Bill, supporting the move to cash-based appropriations, and helping to roll out the BTMS in pilot departments.
Agency-specific risks	BLGF's financial management has some weaknesses and is not in all areas fully in line with required procedures, for example as regards the number of FM positions filled, internal audit function, fixed asset management, and IT support of the budgeting and accounting functions.	Substantial	ADB to support BLGF in its efforts to further develop and improve its FM system and procedures, including as part of the implementation of the planned project.
<i>Overall Inherent Risk</i>		<i>Moderate-Substantial</i>	
<b>Control Risk<sup>c</sup></b>			
Planning and budgeting	- [no issues observed]	-	-
Funds flow	- [no issues observed]	-	-
Budget Execution	The Current Fund obligation rates for MOOE were somewhat low in 2016 and 2017, and thus need to be improved going forward.	Moderate	BLGF must closely and regularly monitor MOOE budget execution, and undertake corrective measures, if and when required.

<sup>35</sup> ADB does not apply a definition for fiduciary risk. The assessment is intended to determine the degree to which the system will be able to manage fiduciary risks related to financial management and procurement so as to provide reasonable assurance that program funds will be used for the intended purposes. This is one of three aspects applied by some donors as the definition of fiduciary risk. The two other aspects usually applied are whether funds are properly accounted for and the achievement of value-for-money (i.e. efficiency and effectiveness of operations).

Risk Type	Risk Description	Risk Assessment (without mitigation) <sup>a</sup>	Management Plan / Mitigation Measures
Staffing	50% of the positions in the Financial Management Division are currently vacant, risking a compromise in either timeliness or quality of financial management, monitoring and reporting.	High	BLGF to follow through with the currently on-going hiring process and ensure that the vacant positions are filled with adequately qualified and experienced staff.
Accounting and internal control	BLGF does not have a comprehensive fixed asset register in place which can result in poorly informed or outdated information on the disposition and value of existing assets.	High	BLGF to continue the efforts of to establish a PPELC for each class of PPE.
Internal audit	BLGF is not subject to internal audit which may result in errors or financial mismanagement going undetected.	Substantial	BLGF should clarify with DOF to which extent it could be included in the work program of the IAS so as to undergo regular internal audit.
Financial reporting	Preparing financial reports is time-consuming and resource intensive due to the lack of computerized budgeting and bookkeeping systems.	Moderate	BLGF to continue the process of obtaining and operationalizing budgeting and bookkeeping systems from CoA.
Information systems			
External audit	- [no issues observed]	-	-
<i>Overall Control Risk</i>		<i>Substantial</i>	-
<b>Overall Risk</b>		<b>Substantial</b>	-

ADB = Asian Development Bank, BLGF = Bureau of Local Government Finance, BTMS = Budget and Treasury Management System, CoA = Commission on Audit, FM = financial management, GoP = Government of the Philippines, IAS = Internal Audit Service, MOOE = maintenance and other operating expenses, PFM = public financial management, PPE = Property, Plant and Equipment, PPELC = Property, Plant and Equipment Ledger Card.

<sup>a</sup> Low, moderate, substantial, high.

<sup>b</sup> Inherent risk is the susceptibility of the program financial management system to factors present in its operating environment, such as country- or sector-level rules and regulations, and the agency's working environment (assuming absence of any checks or internal controls).

<sup>c</sup> Control risk is the risk that the program's accounting and internal control framework are inadequate to ensure program funds are used economically and efficiently and for the purpose intended, and that the use of funds is properly reported.

Source: Asian Development Bank.

93. The table shows that the overall fiduciary risk for the project pre-mitigation is considered to be *substantial*. This is a result of a *moderate* risk rating for the country system, *substantial* rating for the agency-specific risks, and combined *moderate-substantial* control risk rating for the project FM elements. When proposed mitigation measures are taken into account, the overall fiduciary risk is considered to be *moderate*.

## 6. PROPOSED TIME-BOUND ACTION PLAN

94. This section outlines the activities that are recommended to be undertaken in order to address the identified FM weaknesses and related fiduciary risks.

### 6.1 Project Action Plan

95. It is proposed that the Action Plan includes and addresses the following entity-specific FM aspects:

**Table 5: Financial Management Action Plan**

	<b>Risk Description</b>	<b>Risk</b>	<b>Action Item</b>	<b>Period</b>	<b>Responsibility</b>
1	<u>Budget execution</u> : The Current Fund obligation rates for MOOE were somewhat low in 2016 and 2017, and thus need to be improved going forward.	Moderate	Closely and regularly monitor MOOE budget execution, and undertake corrective measures, if and as required.	2019–2022	BLGF's Financial Management Division (Budget Unit)
2	<u>Staffing</u> : 50% of the positions in the Financial Management Division are currently vacant.	High	Follow through with the currently ongoing hiring process and ensure that vacant positions are filled with adequately qualified and experienced staff.	2020–2021	BLGF's Administrative, Financial and Management Service
3	<u>Accounting and internal control</u> : BLGF does not have a comprehensive fixed asset register in place.	High	Continue on-going efforts to establish a PPELC for each class of PPE.	2020–2021	BLGF's Administrative Division (Property Section) and Financial Management Division (Budget Unit)
4	<u>Internal audit</u> : BLGF is not subject to internal audit.	Substantial	The Bureau, once the project is approved, may seek authority, approval and/or clearance if an Internal Audit unit can be set up at the Bureau level.  Project team will closely work with BLGF to ensure necessary actions are taken on this. Project team will explore TA support in providing trainings to relevant staff of the Financial Management Division of BLGF	2020–2021	BLGF's Office of the Executive Director

	<b>Risk Description</b>	<b>Risk</b>	<b>Action Item</b>	<b>Period</b>	<b>Responsibility</b>
5	<u>Financial reporting and Information system:</u> Preparing financial reports is time-consuming and resource intensive due to the lack of computerized budgeting and bookkeeping systems.	Moderate	Continue the process of obtaining and operationalizing budgeting and bookkeeping systems.	202-0	BLGF's Administrative, Financial and Management Service CoA

BLGF = Bureau of Local Government Finance, CoA = Commission on Audit, DOF = Department of Finance, MOOE = maintenance and other operating expenses, PPE = Property, Plant and Equipment, PPELC = Property, Plant and Equipment Ledger Card.

Source: Asian Development Bank.

96. The FM action plan should be discussed and agreed between ADB and BLGF prior to loan negotiations. It would be meaningful if the final and agreed plan would thereafter be considered a rolling plan, i.e. that it will be regularly reviewed for progress and updated as and when required, including if new issues have been identified that require improvement.

## **7. SUGGESTED FINANCIAL MANAGEMENT COVENANTS**

97. The following is proposed as FM covenants for the project:

- (i) The borrower shall make available, or cause to be made available, promptly as needed the funds, facilities, services and other resources required, in addition to the proceeds of the loan, for the carrying out of the project, and for the operation and maintenance of project facilities.
- (ii) The borrower shall cause the EA to:
  - a. maintain separate accounts and records for the project;
  - b. prepare annual financial statements for the project and the loan in accordance with accounting principles and financial reporting standards acceptable to ADB for each fiscal year until the Loan Closing Date;
  - c. have such financial statements audited annually by independent auditors whose qualifications, experience and terms of reference are acceptable to ADB, in accordance with international standards for auditing or the national equivalent acceptable to ADB;
  - d. as part of each such audit, have the auditors prepare a report, which includes the auditors' opinions on the financial statements, use of the loan proceeds and compliance with the financial covenants of the Loan Agreement, and a Management Letter, which sets out the deficiencies in the internal control of the project that were identified in the course of the audit, if any; and
  - e. furnish to ADB, no later than 6 months after the end of each related fiscal year, copies of such audited financial statements, Audit Report and

Management Letter, all in the English language, and such other information concerning these documents and the audit thereof as ADB shall from time to time reasonably request.

- (iii) ADB shall disclose the annual audited financial statements for the project and the opinion of the auditors on the financial statements within 14 days of the date of ADB's confirmation of their acceptability by posting them on ADB's website.
- (iv) The borrower shall enable ADB, upon ADB's request, to discuss the financial reports for the project, the financial statements for the project, and the borrower's financial affairs where they relate to the project with the auditors appointed and shall authorize and require any representative of such auditors to participate in any such discussions requested by ADB. This is provided that such discussions shall be conducted only in the presence of authorized officer of the borrower, unless the borrower shall otherwise agree.
- (v) The borrower shall enable ADB's representatives to inspect the project and any relevant records and documents.

98. The detailed financial reporting and external audit arrangements will be set out in the Project Administration Manual.

## **8. CONCLUSION**

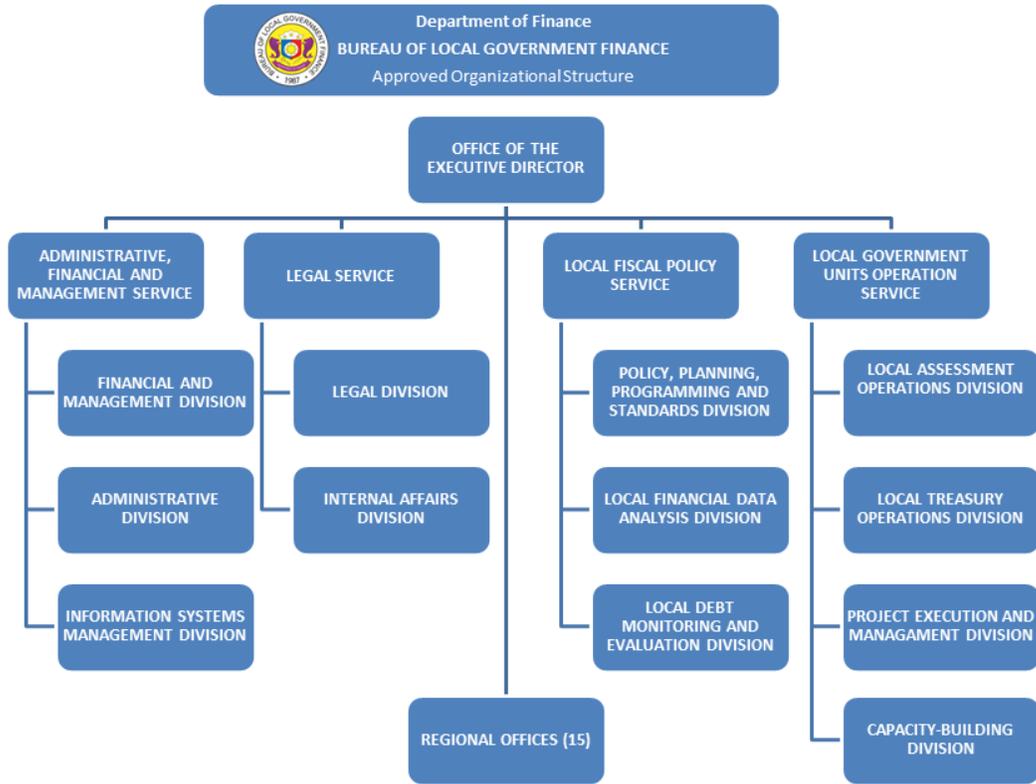
99. The GoP's PFM system in earlier years underwent some significant and noteworthy developments, which were supported by development partners based on the comprehensive PFM Reform Roadmap. In the last couple years PFM reform has been less formalized, but some important progress took place none the less. However, at the country-level the PFM system does still have some weaknesses regarding several specific PFM elements and procedures, including budget credibility, public asset management, financial data integrity, in-year and annual financial reporting, and legislative scrutiny. Some FM weaknesses for BLGF have also been observed, including that half of the nominated positions in the Financial Management Division are vacant, that BLGF is yet to prepare a fully comprehensive fixed asset register and hence that the PPE accounts are unreliable, that no internal audit is carried out for or on BLGF, and that budgeting and accounting procedures are manually based with computerized systems yet to be installed and operationalized.

100. These country-level and entity-specific shortcomings affect BLGF's FM procedures, but some strengths of BLGF's FM set-up have also been identified, including that the FM Division's existing staff are well-qualified and have many years of work experience, BLGF has in place a Manual of Operations and is in the process of developing a Quality Manual, and that CoA's external audit function is well-executed.

101. Provided that the PMU is established and operationalized, and that the proposed mitigation measures to address specific identified FM risks are implemented as planned and on a timely basis, the planned project FM arrangements are considered satisfactory.

## ORGANIZATIONAL CHART

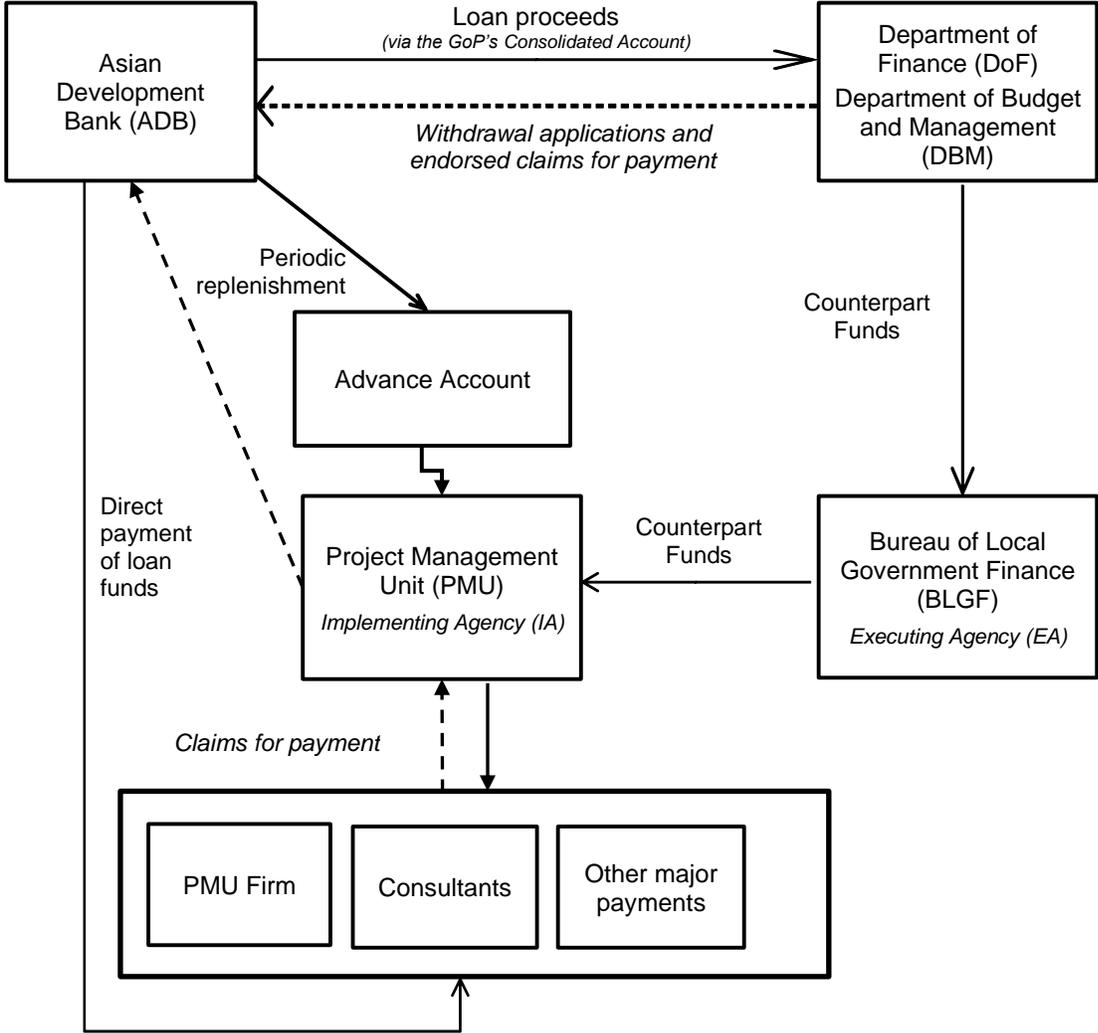
### Bureau of Local Government Finance (BLGF)



Source: <http://blgf.gov.ph/organizational-chart/>.



FUNDS FLOW



Legend:

- Fund flow
- Requests and claims

- DOF = Department of Finance
- BIR = Bureau of Internal Revenue
- LGU = Local Government Unit
- PMU = Project Management Unit



## DOCUMENTS REVIEWED

1. CoA. 2016. *Consolidated Annual Audit Report on the Bureau of Local Government Finance for the Year Ended December 31, 2015*. 3 June.
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3. CoA. 2018. *Consolidated Annual Audit Report on the Bureau of Local Government Finance for the Year Ended December 31, 2017*. 28 June.
4. DBM. 2018. *Annual Report* <https://www.dbm.gov.ph/wp-content/uploads/Reports/2017-Annual-Report.pdf>. (accessed on 16 November 2018).
5. DBM. 2018. *Reforming the Philippine Budgeting System towards Economic Growth and Poverty Reduction*. [https://www.dbm.gov.ph/images/pdf/EDITED-FOR-UPLOADING-Primer-on-Reforming-the-Philippine-Budget\\_04052018-2.pdf](https://www.dbm.gov.ph/images/pdf/EDITED-FOR-UPLOADING-Primer-on-Reforming-the-Philippine-Budget_04052018-2.pdf). (accessed on 11 November 2018).
6. International Budget Partnership. 2018. *Open Budget Survey 2017 – Philippines, Country Summary*.
7. BLGF. 2018. *FY2017 Agency Action Plan and Status of Implementation*. 30 August.
8. World Bank. 2016. *Republic of the Philippines – PFM Strategy Implementation Support, Public Financial Management and Accountability Assessment*. Report No: 105753-PH, June.



### LIST OF PERSONS CONSULTED

<b>ADB</b>	<ol style="list-style-type: none"> <li>1. <b>Mr. Robert A. Boothe</b> – Senior Public Sector Management Specialist, SERD</li> <li>2. <b>Ms. Jenelyn Mendez-Santos</b> – Project Analyst, SERD</li> </ol>
<b>Bureau of Local Government Finance (BLGF)</b>	<ol style="list-style-type: none"> <li>3. <b>Ms. Armi M. Advincula</b> – Director II, Administrative, Financial and Management Service</li> <li>4. <b>Mr. Jose Arnold M. Tan</b> – OIC Deputy Executive Director for Operations / Director for Local Fiscal Policy Service</li> <li>5. <b>Ms. Anabelle C. Garrido</b> – Chief, Project Execution &amp; Management Division</li> <li>6. <b>Ms. Erwin C. Domingo</b> – OIC Chief, Financial Management Division</li> <li>7. <b>Ms. Melcy M. Baluyan</b> – OIC Chief, Administrative Division</li> <li>8. <b>Ms. Elenita A. Lorenzo</b> – Administrative Officer V / Supply Officer III, Administrative Division</li> <li>9. <b>Mr. Arturo C. Valdemoro, Jr.</b> – Administrative Officer IV, Financial Management Division</li> <li>10. <b>Mr. Ben B. San Esteban</b> – Financial Analyst II</li> </ol>
<b>CoA</b>	<ol style="list-style-type: none"> <li>11. <b>Ms. Erlinda T. Otadoy</b> – Resident Auditor</li> </ol>
<b>World Bank</b>	<ol style="list-style-type: none"> <li>12. <b>Mr. Lewis Hawke</b> – Lead Public Sector Specialist</li> </ol>



### FINANCIAL MANAGEMENT ASSESSMENT QUESTIONNAIRE

Topic	Response
<b>1. Executing Agency / Implementing Agency</b>	
1.1 What is the entity's legal status / registration?	The BLGF was established with the EO No. 127, s. 1987 ("Reorganizing the Ministry of Finance"). Prior to this, local government finance was tasked to an organizational unit within the Provincial and Municipal Finance Division of the DOF.
1.2 How much equity (shareholding) is owned by the government?	n/a
1.3 Obtain the list of beneficial owners of major blocks of shares (non-governmental portion), if any.	n/a
1.4 Has the entity implemented an externally financed project in the past? If yes, please provide details.	Yes. The 2nd Land Administration and Management Project which was implemented during 2005–2014 with TA from the Australian Agency for International Development and funding support from the World Bank.
1.5 Briefly describe the statutory reporting requirements for the entity.	The main reporting requirements relate to the DBM, in terms of budget utilization, and the COA, on terms of financial reports.
1.6 Describe the regulatory or supervisory agency of the entity.	BLGF is an agency under the DOF.
1.7 What is the governing body for the project? Is the governing body for the project independent?	An inter-agency governing board will be set up. It will be chaired by the DOF and comprising officials from BLGF, DBM, Department of the Interior and Local Government, and NEDA.
1.8 Obtain current organizational structure and describe key management personnel. Is the organizational structure and governance appropriate for the needs of the project?	The organizational chart of BLGF is included in Appendix A. BLGF has a staff nomination ( <i>plantilla</i> ) of 412 (115 in the Central Office and 297 in the Regional Offices) of which 285 positions are filled and 126 positions are vacant (35 in the Central Office and 91 in the Regional Offices). Hence 31% of BLGF's positions are currently vacant. The Central Office furthermore has 35 Job Order positions. BLGF is in the process of filling 120 <i>plantilla</i> positions.
1.9 Does the entity have a Code of Ethics in place?	BLGF's staff must abide by the provisions of the 'Code of Conduct and Ethical Standards for Public Officials and Employees', Republic Act No. 6713. Also, in administering disciplinary and non-disciplinary cases involving personnel actions, the BLGF shall adhere to the 2017 'Rules on Administrative Cases in the Civil Service' as prescribed by the CSC.

Topic	Response
1.10 Describe (if any) any historical issues reports of ethics violations involving the entity and management. How were they addressed?	None, according to BLGF.
<b>2. Funds Flow Arrangements</b>	
2.1 Describe the (proposed) project funds flow arrangements in detail, including a funds flow diagram and explanation of the flow of funds from ADB, government and other financiers, to the government, EA, IA, suppliers, contractors, ultimate beneficiaries, etc. as applicable.	Two disbursement procedures are proposed: 1) <i>Advance fund procedure</i> with ADB depositing advances from the loan account into an advance account, held at a commercial bank and managed by the PMU, to be used exclusively for eligible project expenditures; and, 2) <i>Direct payment procedure</i> with ADB, at the PMU's request, paying designated beneficiaries (suppliers, contractors, consultants) directly. The proposed funds flow arrangement is shown in <u>Appendix B</u> .
2.2 Are the (proposed) arrangements to transfer the proceeds of the loan (from the government / Finance Ministry) to the entity and to the end-recipients satisfactory?	Yes.
2.3 Are the disbursement methods appropriate?	Yes.
2.4 What have been the major problems in the past involving the receipt, accounting and/or administration of funds by the entity?	None, according to BLGF.
2.5 In which bank will the Imprest Account (if applicable) be established?	This is yet to be established.
2.6 Is the bank in which the imprest account is established capable of – <ul style="list-style-type: none"> <li>• Executing foreign and local currency transactions?</li> <li>• Issuing and administering letters of credit?</li> <li>• Handling a large volume of transaction?</li> <li>• Issuing detailed monthly bank statements promptly?</li> </ul>	Yes, it would be.
2.7 Is the ceiling for disbursements from the imprest account and SOE appropriate/required?	Yes, given the identified FM weaknesses of the BLGF's PFM system and procedures.
2.8 Does the (proposed) PIU have experience in the management of disbursements from ADB?	The PMU is yet to be set up and staff engaged.
2.9 Does the PIU have adequate administrative and accounting capacity to manage the imprest fund and SOE procedures in accordance with ADB's LDH? Identify any concern or uncertainty about the PIU's administrative and accounting capability which would support the establishment of a ceiling on the use of the SOE procedure.	The PMU is yet to be set up and staff engaged.

Topic	Response
2.10 Is the entity exposed to foreign exchange risk? If yes, describe the entity's policy and arrangements for managing foreign exchange risk.	No.
2.11 How are the counterpart funds accessed?	This is yet to be established.
2.12 How are payments made from the counterpart funds?	This is yet to be established.
2.13 If project funds will flow to communities or non-governmental organizations, does the PIU have the necessary reporting and monitoring arrangements and features built into its systems to track the use of project proceeds by such entities?	N/A
2.14 Are the beneficiaries required to contribute to project costs? If beneficiaries have an option to contribute in kind (in the form of labor or material), are proper guidelines and arrangements formulated to record and value the labor or material contributions at appraisal and during implementation?	This is yet to be established.
<b>3. Staffing</b>	
3.1 What is the current and/or proposed organizational structure of the accounting department? Attach an organization chart.	<p>The Financial Management Division in the Central Office has a staff nomination (<i>plantilla</i>) of 10 positions:</p> <ul style="list-style-type: none"> <li>1 Chief Administrative Officer</li> <li>1 Supervising Administrative Officer</li> <li>1 Accountant III</li> <li>2 Administrative Officer V</li> <li>1 Administrative Officer IV</li> <li>2 Administrative Officer II</li> <li>2 Administrative Assistant III</li> </ul> <p>Of these, six positions are currently filled:</p> <ul style="list-style-type: none"> <li>1 Chief Administrative Officer</li> <li>2 Administrative Officer V</li> <li>1 Administrative Officer IV</li> <li>1 Administrative Officer II</li> <li>1 Administrative Assistant III</li> </ul> <p>However, one of the filled positions (Administrative Officer) is detailed to another division within BLGF.</p> <p>All four unfilled positions are part of BLGF presently on-going hiring process.</p>
3.2 Will existing staff be assigned to the project, or will new staff be recruited?	It is expected that at least one new staff will be recruited for the project (BLGF has mentioned that up to four new staff may be required,

Topic	Response
	although this appears, given the expected tasks, beyond what would really be needed).
3.3 Describe the existing or proposed project accounting staff, including job title, responsibilities, educational background and professional experience. Attach job descriptions and CVs of key existing accounting staff.	Of the five current staff in the Financial Management Division, one is OIC, two function as Budget Officers, one is designated as Accountant and one is Bookkeeper. Two of the ten positions in the Financial Management Division designated for a CPA. Of the current five staff in the Financial Management Division, only one is a CPA (the Chief Administrative Officer/OIC). The five staff of the Financial Management Division have been employed with the BLGF between 8 years and 38 years.
3.4 Is the project finance and accounting function staffed adequately?	The staff nomination (10) is adequate, but the current staffing on five is not sufficient given the workload.
3.5 Are the project finance and accounting staff adequately qualified and experienced?	The Financial Management Division's existing staff is adequately qualified and experienced (se also # 3.3 above). The additional project staff should be a CPA with minimum 5 years of relevant work experience.
3.6 Are the project finance and accounting staff trained in ADB procedures, including the disbursement guidelines (i.e., LDH)?	Not yet.
3.7 What is the duration of the contract with the project finance and accounting staff?	The Financial Management Division's existing staff are regular / permanent. The same would apply to the new project staff, unless engaged only for the duration of the project (e.g. in the form of 'job order' position).
3.8 Identify any key positions of project finance and accounting staff not contracted or filled yet, and the estimated date of appointment.	The Financial Management Division currently has four vacancies as well as one staff who is designated to another BLGF entity. At least one dedicated staff will need to be engaged for project-related tasks.
3.9 For new staff, describe the proposed project finance and accounting staff, including job title, responsibilities, educational background and professional experience. Attach job descriptions.	The additional project staff should be a CPA with minimum five years of relevant work experience.
3.10 Does the project have written position descriptions that clearly define duties, responsibilities, lines of supervision, and limits of authority for all of the officers, managers, and staff?	Yes, all BLGF staff have an accomplished Position Description Form (DBM-CSC Form No. 1), which is updated as and when required, and a Personal Data Sheet.
3.11 What is the turnover rate for finance and accounting personnel (including terminations, resignations, transfers, etc.)?	Very low. The following staffing changes have taken place in recent years: <ul style="list-style-type: none"> <li>• <b>2015</b> – The Chief Administrative Officer was designated as Acting Regional Director</li> </ul>

Topic	Response
	<p>of BLGF Region III, San Fernando City, Pampanga. The position has since then been filed by and OIC.</p> <ul style="list-style-type: none"> <li>• <b>2017</b> – The Supervising Administrative Officer was promoted as Chief of the Local Debt Management Division, BLGF CO.</li> <li>• <b>2017</b> – The Accountant III was transferred to the Public-Private Partnership (PPP) Center of NEDA.</li> </ul>
3.12 What is training policy for the finance and accounting staff?	Staff undertake one training per year.
3.13 Describe the list of training programs attended by finance and accounting staff in the last 3 years.	<p>The following training has been carried out:</p> <ul style="list-style-type: none"> <li>- Laws and rules for GoP financial management.</li> <li>- eNGAS.</li> </ul> <p>Staff also periodically attend seminars that focus on updates to accounting rules and regulations conducted by COA, Philippine Association for Government Budget Administration Inc., Association of Government Accountants of the Philippines, and Association of Government Internal Auditors Inc.</p>
<b>4. Accounting Policies and Procedures</b>	
4.1 Does the entity have an accounting system that allows for the proper recording of project financial transactions, including the allocation of expenditures in accordance with the respective components, categories, and sources of funds (in particular, the legal agreements with ADB)? Will the project use the entity accounting system? If not, what accounting system will be used for the project?	BLGF, like all GoP entities, follows the GAM for National Government Agencies. The GAM contains accounting policies in accordance with the PPSAS as well as guidelines and procedures for recording and reporting financial transactions, including preparation of financial statements. Volume I (Annex K) of the GAM has illustrative entries to serve as guidance on the accounting policies and procedures pertaining to foreign-assisted project funds.
4.2 Are controls in place concerning the preparation and approval of transactions, ensuring that all transactions are correctly made and adequately explained?	Yes. The Service Director (Administration, Finance and Management Service) can approve transaction up to ₱500,000; the Deputy Executive Director up to ₱750,000; and the Executive Director above ₱750,000.
4.3 Is the chart of accounts adequate to properly account for and report on project activities and disbursement categories? Obtain a copy of the chart of accounts.	Yes. The Chart of Accounts is included in Volume III of the GAM.
4.4 Are cost allocations to the various funding sources made accurately and in accordance with established agreements?	Yes. This involves development and approval of Work and Financial Plans based on programs, activities and projects from which Project Procurement Management Plans and APPs are prepared.

Topic	Response
4.5 Are the General Ledger and subsidiary ledgers reconciled monthly? Are actions taken to resolve reconciliation differences?	Yes, the Bookkeeper monthly updates and reconciles the General Ledger and subsidiary ledgers. Yes, action is taken in case there are differences.
4.6 Describe the EA's policy for retention of accounting records including supporting documents (e.g., ADB's policy requires that all documents should be retained for at least 1 year after ADB receives the audited project financial statements for the final accounting period of implementation, or 2 years after the loan closing date, whichever is later). Are all accounting and supporting documents retained in a defined system that allows authorized users easy access?	BLGF follows General Circular No. 1, dated 20 January 2009, of the National Archives of the Philippines, which in the General Records Disposition Schedule sets out the timelines as regards retention of documents. BLGF so far retains all accounting records and supporting documents. BLGF plans to digitize its accounting records and supporting documents.
4.7 Describe any previous audit findings that have not been addressed.	As of end-2017, a total of 28 recommendations by COA remain to be addressed. Of these, five pertained to the 2015 CAAR and 23 to the 2016 CAAR. According to BLGF's 'Fiscal Year 2017 Agency Action Plan and Status of Implementation', dated 30 August 2018, all outstanding 2015 recommendations have been addressed as have all but one of the outstanding 2016 recommendations. Of these 14 recommendations were fully implemented and 13 were partially implemented.
<b>Segregation of Duties</b>	
4.8 Are the following functional responsibilities performed by different units or persons: (i) authorization to execute a transaction; (ii) recording of the transaction; (iii) custody of assets involved in the transaction; (iv) reconciliation of bank accounts and subsidiary ledgers?	Yes: (i) Signing Officer. (ii) Bookkeeper (Financial Management Division). (iii) Property Officer (Administrative Division). (iv) Bookkeeper (Financial Management Division).
4.9 Are the functions of ordering, receiving, accounting for, and paying for goods and services appropriately segregated?	Yes: (i) Ordering – End-user / Bids and Awards Committee (BAC). (ii) Receiving – BLGF Property Inspector and CoA Representative / Administrative Officer V (Supply Officer III) and Administrative Officer III (Supply Officer II) (iii) Accounting – Accounting Unit. (iv) Payment – Accounting Unit.
<b>Budgeting System</b>	
4.10 Do budgets include physical and financial targets?	Yes. BLGF's Major Final Output with specific targets is stated in the NEP, and the Organizational Outcomes / Performance

Topic	Response
	Indicators are stated in the NEP as well as in the General Appropriations Act (GAA).
4.11 Are budgets prepared for all significant activities in sufficient detail to allow meaningful monitoring of subsequent performance?	Yes. Budgeting is undertaken based on the instructions provided by DBM.
4.12 Are actual expenditures compared to the budget with reasonable frequency? Are explanations required for significant variations against the budget?	<p>Yes. Program Performance and Budget Execution Reviews (PPBER):</p> <ul style="list-style-type: none"> <li>• FAR No. 1 – Statement of Appropriations, Allotments, Obligations, Disbursements and Balances (SAAODB).</li> <li>• FAR No. 1-A – Summary of Appropriations, Allotments, Obligations, Disbursements and Balances by Object of Expenditures (SAAODBOE).</li> <li>• FAR No. 2 – Statement of Approved Budget, Utilizations, Disbursements and Balances (SABUDB).</li> <li>• FAR No. 2-A – Summary of Approved Budget, Utilizations, Disbursements and Balances by Object of Expenditures (SABUDBBOE).</li> </ul>
4.13 Are approvals for variations from the budget required (i) in advance, or (ii) after the fact?	<p>In advance by the Executive Director if the variation is within the same allotment class, otherwise the variation must first be approved by DBM.</p> <p>BLGF adheres to the statutory and regulatory guidelines on variation of budget or allotments (as per DBM's National Budget Circular No. 573, dated 3 January 2018 (including Section 4.8 (Modification of Allotments Issued) and Section 4.9 (Use of Savings to Augment Deficient Appropriations for P/A/Ps) as well as the General Provisions of the GAA).</p>
4.14 Is there a ceiling, up to which variations from the budget may be incurred without obtaining prior approval?	Regardless of amount.
4.15 Who is responsible for preparation, approval and oversight/monitoring of budgets?	The Financial Management Division (Budget Officer) prepares the draft budget, which is approved by the Executive Director. Monitoring is undertaken by the Financial Management Division (Budget Officer).
4.16 Describe the budget process. Are procedures in place to plan project activities, collect information from the units in charge of the different components, and prepare the budgets?	<p>The budgeting process covers the following main activities:</p> <ul style="list-style-type: none"> <li>• Budget Call</li> <li>• Work and Financial Plans (WFPs)</li> <li>• Consolidated Budget</li> <li>• Budget Proposal</li> <li>• Budget Briefing</li> <li>• Uploading the Budget Proposal</li> <li>• Review National Expenditure Plan (NEP)</li> </ul>

Topic	Response
	<ul style="list-style-type: none"> <li>• GAA</li> <li>• Registry of Allotments and Obligations</li> <li>• Finalize Project Procurement Management Plans, APP, and Budget Execution Documents.</li> </ul>
<p>4.17 Are the project plans and budgets of project activities realistic, based on valid assumptions, and developed by knowledgeable individuals?</p> <p>Is there evidence of significant mid-year revisions, inadequate fund releases against allocations, or inability of the EA to absorb/spend released funds?</p> <p>Is there evidence that government counterpart funding is not made available adequately or on a timely basis in prior projects?</p> <p>What is the extent of over- or under-budgeting of major heads over the last 3 years? Is there a consistent trend either way?</p>	<p>Yes.</p> <p>Yes, revisions to the APP are made if there are variations from the originally proposed activities (e.g. due to policy reforms or other operational and external influences).</p> <p>No.</p> <p>The obligation rate for <u>Current Funds</u> during 2015–2017 varied between 84% and 93% for MOOE and between 90% and 100% for Capital Outlays. For <u>Continuing Funds</u>, the combined MOOE-Capital Outlays obligation rate was 88% in 2015, 100% in 2016 and 100% in 2017. There is no consistent trend.</p>
<b>Payments</b>	
<p>4.18 Do invoice-processing procedures require:            (i) Copies of purchase orders and receiving reports to be obtained directly from issuing departments?            (ii) Comparison of invoice quantities, prices and terms, with those indicated on the purchase order and with records of goods actually received?            (iii) Comparison of invoice quantities with those indicated on the receiving reports?            (iv) Checking the accuracy of calculations?            (v) Checking authenticity of invoices and supporting documents?</p>	<p>Yes. The documentary requirement includes the Inspection and Acceptance Report which is prepared by the Administrative Division.</p>
<p>4.19 Are all invoices stamped PAID, dated, reviewed and approved, recorded/entered into the system correctly, and clearly marked for account code assignment?</p>	<p>Yes.</p>
<p>4.20 Do controls exist for the preparation of the payroll? Are changes (additions/deductions/modifications) to the payroll properly authorized?</p>	<p>Yes. Changes to the payroll are authorized by the Administrative Division.</p>
<b>Policies and Procedures</b>	
<p>4.21 What is the basis of accounting (e.g., cash, accrual) followed (i) by the entity? (ii) By the project?</p>	<p>Accrual basis for the entity as well as projects.</p>
<p>4.22 What accounting standards are followed (International Financial Reporting Standards,</p>	<p>BLGF applies the accounting standard established in the GAM which is in accordance</p>

Topic	Response
International Public Sector Accounting Standards – cash or accrual, or National Accounting Standards (specify) or other?	with the PPSAS. The PPSAS are broadly consistent with the International Public Sector Accounting Standards.
4.23 Does the project have adequate policies and procedures manual(s) to guide activities and ensure staff accountability?	<p>BLGF is in the process of preparing a <u>Quality Manual</u>, which will describe the quality management system. This will demonstrate conformance with the requirements contained in ISO 9001:2015 and compliance with relevant statutory and regulatory requirements. BLGF expects that the ISO certification will be in place before end-2018.</p> <p>BLGF has in place a <u>Manual of Operations</u>, which describe the specific work processes carried out in each division. The Manual is currently being updated.</p> <p>These manuals will also apply to the project. BLGF may also issue specific guidelines for the project, if deemed necessary.</p>
4.24 Is the accounting policy and procedure manual updated regularly and for the project activities?	Accounting policies and procedures are in accordance with the policies set by COA.
4.25 Do procedures exist to ensure that only authorized persons can alter or establish a new accounting policy or procedure to be used by the entity?	COA has the primary responsibility of promulgating accounting and auditing rules/regulations for the GoP public sector.
4.26 Are there written policies and procedures covering all routine financial management and related administrative activities?	See # 4.23 above.
4.27 Do policies and procedures clearly define conflict of interest and related party transactions (real and apparent) and provide safeguards to protect the organization from them?	Yes. The Anti-Graft and Corrupt Practices Act, Republic Act No. 3019 (1960), applies to BLGF staff. It defines and declares unlawful various corrupt practices by officials, prohibits taking advantage of being related to officials, and requires officials to file a Statement of Assets and Liabilities and Net-worth when taking office, leaving office and annually, and establishes that officials who have unexplained wealth may be dismissed.
4.28 Are manuals distributed to appropriate personnel?	Yes.
4.29 Describe how compliance with policies and procedures are verified and monitored.	<p>Financial compliance is being monitored by COA. There is a pre-auditing and post-auditing of financial transactions on a monthly, quarterly and annual basis.</p> <p>Once the Quality Manual is in place, BLGF will also carry out a monthly internal quality audit to assess if procedures are being followed as required.</p>

Topic	Response
<b>Cash and Bank</b>	
4.30 Indicate names and positions of authorized signatories for bank accounts. Include those persons who have custody over bank passwords, USB keys, or equivalent for online transactions.	Executive Director, Deputy Executive Director, Service Director (Administration, Finance and Management Service) and Cashier (Administrative Division).
4.31 Does the organization maintain an adequate and up-to-date cashbook recording receipts and payments?	Yes. This includes—as per Volume II of the GAM—the Cash Receipts Journal, Cash Disbursements Journal, Cash Receipts Register, Cash Receipts Record, Registry of Allotments and Notice of Cash Allocation, Cash In Bank Register, Cash Disbursement Record, Report of Cash Disbursements, Cash Disbursements Register, Report on Paid Petty Cash Vouchers, Petty Cash Fund Record, and Petty Cash Fund Register.
4.32 Describe the collection process and cash handling procedures. Do controls exist for the collection, timely deposit and recording of receipts at each collection location?	This includes issuing an Official Receipt to the payor which is recorded in the Cash Receipts Records. Cash collected is deposited by the Cashier within the day of receipt or the following day at the latest. Every deposit is recorded upon collection. It is noted that cash collected is minimal (e.g. for fees paid for bidding documents as well as training funds).
4.33 Are bank accounts reconciled on a monthly basis? Or more often? Is cash on hand physically verified, and reconciled with the cash books? With what frequency is this done?	Yes, on a monthly basis.  Yes, on a daily basis by the Cashier. COA also carries out unannounced physical counts.
4.34 Are all reconciling items approved and recorded?	Yes.
4.35 Are all unusual items on the bank reconciliation reviewed and approved by a responsible official?	Yes. The designated Accountant undertakes the bank reconciliation. All adjusted entries are submitted to the Financial Management Division's OIC for review and approval. COA checks the Bank Reconciliation Statements.
4.36 Are there any persistent/non-moving reconciling items?	No.
4.37 Are there appropriate controls in safekeeping of unused cheques, USB keys and passwords, official receipts and invoices?	Yes, all accountable forms (cheques and official receipts) are kept in the vault.
4.38 Are any large cash balances maintained at the head office or field offices? If so, for what purpose?	No, petty cash fund only. The maximum amount of cash held is ₱75,000, which is kept in the Cashier's vault.
4.39 For online transactions, how many persons possess USB keys (or equivalent), and	Online transactions include disbursements (Land Bank of the Philippines), remittances (Government Service Insurance System) and

Topic	Response
passwords? Describe the security rules on password and access controls.	budget submissions (Online Submission of Budget Proposals). Two staff are required for cash transactions, three for accounting transactions, and three for budget transactions.
<b>Safeguard over Assets</b>	
4.40 What policies and procedures are in place to adequately safeguard or protect assets from fraud, waste and abuse?	The GAM, Volume I, outlines the applicable accounting standards, policies, procedures and guidelines for Property, Plant and Equipment (Chapter 10) and for investment property (Chapter 9). This includes assigning property numbers and issuance of Property Acknowledgement Receipt to support the issue of property to end-users.
4.41 Does the entity maintain a Fixed Assets Register? Is the register updated monthly? Does the register record ownership of assets, any assets under lien or encumbered, or have been pledged?	The Financial Management Division is in the process of establishing a full and comprehensive Property, Plant and Equipment Ledger Card, which will be in accordance with the Property Cards maintained by the Property Section of the Administrative Division on the basis of Inspection and Acceptance Reports and other supporting documents.
4.42 Are subsidiary records of fixed assets, inventories and stocks kept up to date and reconciled with control accounts?	This is currently being updated (see # 4.41 above).
4.43 Are there periodic physical inventories of fixed assets, inventories and stocks? Are fixed assets, inventories and stocks appropriately labeled?	BLGF is currently updating its registers (see # 4.41 above).
4.44 Are the physical inventory of fixed assets and stocks reconciled with the respective fixed assets and stock registers, and discrepancies analyzed and resolved?	See # 4.41 above.
4.45 Describe the policies and procedures in disposal of assets. Is the disposal of each asset appropriately approved and recorded? Are steps immediately taken to locate lost, or repair broken assets?	COA rules. The Administrative Division's Property Section prepares a list of inventories and undertakes inspection of unserviceable assets which are validated by COA prior to the disposal of the same. BLGF takes prompt steps to ensure that broken/lost assets are located/repaired.
4.46 Are assets sufficiently covered by insurance policies?	No. Service vehicles only. COA has noted in its CAARs that " <i>All properties of the BLGF, except motor vehicles, were not covered by property insurance as required under Republic Act No. 656 and COA Circular No. 92-390 dated 17 November 1992.</i> " COA has thus recommended, and BLGF's Management agreed, that all insurable properties should be insured as required under the Property Insurance Law. However, a major hindrance in this regard is the lack of a

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	comprehensive Property, Plant and Equipment Ledger Card and Property Cards.
4.47 Describe the policies and procedures in identifying and maintaining fully depreciated assets from active assets.	The estimated useful life of assets is prescribed by COA.
<b>Other Offices and Implementing Entities</b>	
4.48 Describe any other regional offices or executing entities participating in implementation.	The involvement of BLGF's Regional Offices as well as LGUs in the implementation of the project is planned to take place at a later stage when systems, policies, guidelines, and instruments to be developed under the project are rolled out. There will be capacity building programs for Regional Offices and LGUs. It is expected that the financial management in this regard will be managed by the PMU to be established, including for example disbursements directly to contractors/suppliers.
4.49 Describe the staff, their roles and responsibilities in performing accounting and financial management functions of such offices as they relate to the project.	N/A
4.50 Has the project established segregation of duties, controls and procedures for flow of funds and financial information, accountability, and reporting and audits in relation to the other offices or entities?	N/A
4.51 Does information among the different offices/ implementing agencies flow in an accurate and timely fashion? In particular, do the offices other than the head office use the same accounting and reporting system?	N/A
4.52 Are periodic reconciliations performed among the different offices/implementing agencies? Describe the project reporting and auditing arrangements between these offices and the main executing/implementing agencies.	N/A
4.53 If any sub-accounts (under the Imprest Account) will be maintained, describe the results of the assessment of the financial management capacity of the administrator of such sub-accounts.	N/A
<b>Contract Management and Accounting</b>	
4.54 Does the agency maintain contract-wise accounting records to indicate gross value of contract, and any amendments, variations and escalations, payments made, and undisbursed balances? Are the records consistent with physical outputs/deliverables of the contract?	<p>Contract copyholders within BLGF are:</p> <ul style="list-style-type: none"> <li>• End-users.</li> <li>• Financial Management Division.</li> <li>• Bids and Awards Committee Secretariat, which is the main custodian of contracts.</li> </ul> <p>Variation orders are maintained by the end-users. The Financial Management Division</p>

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	maintains a subsidiary ledger for every contract entered into by BLGF.
4.55 If contract records are maintained, does the agency reconcile them regularly with the contractor?	Yes. End-users are primarily responsible for reconciling records with service providers / contractors. The end-user issues certificate of accomplishment before the Financial Management Division can make payments.
<b>Other</b>	
4.56 Describe project arrangements for reporting fraud, corruption, waste and misuse of project resources. Has the project advised employees, beneficiaries and other recipients to whom to report if they suspect fraud, waste or misuse of project resources or property?	BLGF is subject to the standards set out in the Anti-Graft and Corrupt Practices Act, Republic Act No. 3019 (1960). This would similarly to the project when being implemented. Staff can report to BLGF's Administrative Division or Legal Division as well as to the Ombudsman, or call 8888 (Citizens' Complaint Hotline / President's Hotline).
<b>5. Internal Audit</b>	
5.1 Is there an internal audit (IA) department in the entity?	In accordance with DBM's Circular Letter No. 05, dated 14 April 2008, DOF has set up an IAS that covers the department, bureaus, offices, and agencies, including regional/field offices. The IAS in the DOF thus covers the BLGF.
5.2 What are the qualifications and experience of the IA staff?	<p>According to CSC's Memorandum Circular No. 12, dated 22 June 2006, IAS positions must have the following background:</p> <p><b>Chief Internal Auditor</b></p> <ul style="list-style-type: none"> <li>- Education: Master's Degree</li> <li>- Experience: 4 years in positions involving management and supervision</li> <li>- Training: 24 hours of training in management and supervision</li> </ul> <p><b>Supervising Internal Auditor</b></p> <ul style="list-style-type: none"> <li>- Education: Bachelor's degree relevant to the job</li> <li>- Experience: 3 years of relevant experience</li> <li>- Training: 16 hours of relevant training</li> </ul> <p><b>Internal Auditor III</b></p> <ul style="list-style-type: none"> <li>- Education: Bachelor's degree relevant to the job</li> <li>- Experience: 2 years of relevant experience</li> <li>- Training: 8 hours of relevant training</li> </ul> <p><b>Internal Auditor II</b></p> <ul style="list-style-type: none"> <li>- Education: Bachelor's degree relevant to the job</li> <li>- Experience: 1 year of relevant experience</li> <li>- Training: 4 hours of relevant training</li> </ul> <p><b>Internal Auditor I</b></p>

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	<ul style="list-style-type: none"> <li>- Education: Bachelor's degree relevant to the job</li> <li>- Experience: None required</li> <li>- Training: None required</li> </ul> <p>However, information from DOF on actual qualifications and experience of IAS staff is not available.</p>
5.3 To whom does the head of the internal audit report?	According to DOF's organizational chart, the IAS refers directly to the Secretary. This would also be in line with the Philippine Government Internal Audit Manual. According to DOF's Department Order No. 002, dated 20 December 2017, the IAS reports functionally to the Secretary and administratively to the designated Undersecretary (the latter covers budgeting and management accounting, human resource administration, internal communication and information flows, and administration of internal audit activities' policies and procedures).
5.4 Will the internal audit department include the project in its annual work program?	BLGF has not so far been subject to internal audit.
5.5 Are actions taken on the internal audit findings?	N/A
5.6 What is the scope of the internal audit program? How was it developed?	Information from DOF on the internal audit program is not available.
5.7 Is the IA department independent?	The IAS would appear to be independent given that it, according to DOF's organizational chart, refers to the Secretary.
5.8 Do they perform pre-audit of transactions?	Information from DOF on this is not available.
5.9 Who approves the internal audit program?	<p>As per the Philippine Government Internal Audit Manual, the audit plan and audit work program should be reviewed and approved by the Head of the IAS prior to the commencement of audit.</p> <p>According to DOF's Department Order No. 002, dated 20 December 2017, the risk-based audit plan is approved by the Secretary.</p>
5.10 What standards guide the internal audit program?	<p>The President's Administrative Order No. 70, dated 14 April 2003, prescribes the 'International Standards for the Professional Practice of Internal Auditing' of the Institute of Internal Auditors as the standards for conducting internal audit in the GoP.</p> <p>However, information from DOF on the actually applied standards is not available.</p>
5.11 How are audit deficiencies tracked?	Information from DOF on this is not available.
5.12 How long have the internal audit staff members been with the organization?	Information from DOF on this is not available.

Topic	Response
5.13 Does any of the internal audit staff have an IT background?	Information from DOF on this is not available.
5.14 How frequently does the internal auditor meet with the audit committee without the presence of management?	Information from DOF on this is not available.
5.15 Has the internal auditor identified / reported any issue with reference to availability and completeness of records?	Information from DOF on this is not available.
5.16 Does the internal auditor have sufficient knowledge and understanding of ADB's guidelines and procedures, including the disbursement guidelines and procedures (i.e., LDH)?	Information from DOF on this is not available.
<b>6. External Audit – entity level</b>	
6.1 Is the entity financial statement audited regularly by an independent auditor? Who is the auditor?	BLGF is audited by COA which has in place a Resident Auditor (three-person team) based within BLGF.
6.2 Are there any delays in audit of the entity? When are the audit reports issued?	<p>No. CAARs are annual as follows:</p> <ul style="list-style-type: none"> <li>• 2015 CAAR – issued on 3 June 2016.</li> <li>• 2016 CAAR – issued on 30 June 2017.</li> <li>• 2017 CAAR – issued on 28 June 2018.</li> </ul> <p>The 2016 and 2017 GAAs included a performance indicator for COA of submitting all AARs in a timely manner and with a 30 June target date. The 2018 GAA did not include such a performance indicator and instead refers to completion of audit reports “<i>within the deadline set by the Commission</i>”. The deadlines do not appear to be publicly available, hence it remains to be seen when the 2018 CAAR will be available.</p>
6.3 Is the audit of the entity conducted in accordance with the International Standards on Auditing, or the International Standards for Supreme Audit Institutions, or national auditing standards?	Yes. The Philippine Public Sector Standards on Auditing—adopted through CoA Resolutions No. 2013-007 29 January 2013, 2014-011 dated 7 May 2014, and 2016-010 dated 10 May 2016—is aligned with international auditing standards.
6.4 Were there any major accountability issues noted in the audit report for the past three years?	The audit opinion expressed by COA on the fairness of presentation of BLGF's financial statements has been 'qualified' for the past 10 years.
6.5 Does the external auditor meet with the audit committee without the presence of management?	COA conducts an Exit Conference with the auditee. [GoP entities do not have audit committees].
6.6 Has the entity engaged the external audit firm for any non-audit engagements (e.g., consulting)? If yes, what is the total value of non-audit engagements, relative to the value of audit services?	No.

Topic	Response
6.7 Has the external auditor expressed any issues on the availability of complete records and supporting documents?	No, not on the availability per se, but rather on the <i>timely availability</i> of records and documents.
6.8 Does the external auditor have sufficient knowledge and understanding of ADB's guidelines and procedures, including the disbursement guidelines and procedures (i.e., LDH)?	As an institution, COA has sufficient knowledge and understanding of ADB's guidelines and procedures. However, the Resident Auditor at BLGF is not familiar with ADB's guidelines and procedures. Hence training could be provided to the Resident Auditor and other COA staff, if/as needed.
6.9 Are there any material issues noted during the review of the audited entity financial statements that were not reported in the external audit report?	No.
<b>External Audit – project level</b>	
6.10 Will the entity auditor audit the project accounts or will another auditor be appointed to audit the project financial statements?	COA will audit the project financial statements.
6.11 Are there any recommendations made by the auditors in prior project audit reports or management letters that have not yet been implemented?	N/A
6.12 Is the project subject to any kind of audit from an independent governmental entity (e.g. the supreme audit institution) in addition to the external audit?	Yes, COA.
6.13 Has the project prepared acceptable terms of reference for an annual project audit? Have these been agreed and discussed with the EA and the auditor?	The terms of reference for the project audit will be developed as part of ADB's project documentation.
6.14 Has the project auditor identified any issues with the availability and completeness of records and supporting documents?	N/A
6.15 Does the external auditor have sufficient knowledge and understanding of ADB's guidelines and procedures, including the disbursement guidelines and procedures (i.e., LDH)?	See # 6.8 above.
6.16 Are there any recommendations made by the auditors in prior audit reports or management letters that have not yet been implemented?	N/A
6.17 <i>[For second or subsequent projects]</i> Were past audit reports complete, and did they fully address the obligations under the loan agreements? Were there any material issues noted during the review of the audited project financial statements and related audit report that have remained unaddressed?	N/A

Topic	Response
<b>7. Reporting and Monitoring</b>	
7.1 Are financial statements and reports prepared for the entity?	Yes.
7.2 Are financial statements and reports prepared for the implementing unit(s)?	Yes.
7.3 What is the frequency of preparation of financial statements and reports? Are the reports prepared in a timely fashion so as to be useful to management for decision making?	<p>The Financial Management Division prepares and submits the following financial reports:</p> <ul style="list-style-type: none"> <li>• Trial balance – Submitted on or before the 10th day of the following month.</li> <li>• Quarterly Financial Statements – Submitted on or before the 10th day of the month following the quarter.</li> <li>• Annual Financial Statements – Submitted on or before 14 February of the succeeding year.</li> </ul> <p>The reports are typically prepared with 2–4 weeks delay due to lack of staff as well as because disbursements are sometimes not released to the suppliers/contractors.</p>
7.4 Does the entity reporting system need to be adapted for project reporting?	No, the same reporting system will be used.
7.5 Has the project established financial management reporting responsibilities that specify the types of reports to be prepared, the report content, and purpose of the reports?	This will be done based on existing statutory and regulatory requirements as well as per the needs of the project.
7.6 Are financial management reports used by management?	Yes.
7.7 Do the financial reports compare actual expenditures with budgeted and programmed allocations?	Yes.
7.8 How are financial reports prepared? Are financial reports prepared directly by the automated accounting system or are they prepared by spreadsheets or some other means?	The Financial Management Division currently uses spreadsheets to prepare and generate financial reports. This is pending the adoption of COA's eNGAS (as well as the e-Budget system). It is expected that eNGAS will be implemented during 2019.
7.9 Does the financial system have the capacity to link the financial information with the project's physical progress? If separate systems are used to gather and compile physical data, what controls are in place to reduce the risk that the physical data may not synchronize with the financial data?	N/A
7.10 Does the entity have experience in implementing projects of any other donors, co-financiers, or development partners?	See # 1.4 above.
<b>8. Information Systems</b>	

Topic	Response
8.1 Is the financial accounting and reporting system computerized?	See # 7.8 above.
8.2 If computerized, is the software off-the-shelf, or customized?	n/a
8.3 Is the computerized software standalone, or integrated and used by all departments in the headquarters and field units using modules?	The eNGAS and eBudget systems are integrated for budget and accounting functions.
8.4 How are the project financial data integrated with the entity financial data? Is it done through a module in the enterprise financial system with automatic data transfer, or does it entail manual entry?	The same reporting system will be used. However, as per existing regulations, foreign-funded projects must maintain separate books of accounts and prepare separate financial statements.
8.5 Is the computerized software used for directly generating periodic financial statements, or does it require manual intervention and use of Excel or similar spreadsheet software?	n/a
8.6 Can the system automatically produce the necessary project financial reports?	Yes, once set-up and operationalized. However, as per existing regulations, foreign-funded projects must maintain separate books of accounts and prepare separate financial statements.
8.7 Is the staff adequately trained to maintain the computerized system?	N/A
8.8 Do the management, organization and processes and systems safeguard the confidentiality, integrity and availability of the data?	Yes.
8.9 Are there back-up procedures in place?	Yes.
8.10 Describe the backup procedures – online storage, offsite storage, offshore storage, fire, earthquake and calamity protection for backups.	The Financial Management Division stores files on a memory stick on an occasional basis. Files are likewise stored with e-mails. BLGF plans to create two off-site storage centers for electronic data (one in Mindanao and one in the Visayas).

APP = Annual Procurement Plans, BLGF = Bureau of Local Government Finance, CAAR = Consolidated Annual Audit Report, COA = Commission on Audit, CPA = Certified Public Accountant, CSC = Civil Service Commission, DBM = Department of Budget and Management, DOF = Department of Finance, eNGAS = Enhanced National Government Accounting System, EO = Executive Order, GAA = General Appropriations Act, GAM = Government Accounting Manual, GOP = Government of the Philippines, IAS = Internal Audit Service, LDH = Loan Disbursement Handbook, LGU = Local Government Units, MOOE = Maintenance and Other Operating Expenses, N/A = not applicable, NEDA = National Economic and Development Authority, NEP = National Expenditure Program, OIC = Officer-In-Charge, PIU = project implementing unit, PMU = Project Management Unit, PPSAS = Philippine Public Sector Accounting Standards, SOE = statement of expenditure, TA = technical assistance.