

## PUBLIC FINANCIAL MANAGEMENT ASSESSMENT

### I. SUMMARY

1. The Philippines has achieved much over recent years. Sound macro-economic performance has been complemented by marked improvements in a number of qualitative and quantitative measures of governance. The economy expanded by 6.4% on average in 2010–2019, accelerating from 4.5% in 2000–2009<sup>1</sup> and 2.9% in the 1990s.<sup>2</sup> The Philippines has also advanced to 56th position out of 140 countries in the World Economic Forum's Global Competitiveness Index Rankings and has made progress towards achieving the Sustainable Development Goals.<sup>3</sup> Nevertheless, and despite high economic growth rates, progress in reducing poverty has been slow.

2. The government has recognized that improved public financial management (PFM) will be critical in ensuring that the Philippines can achieve its development goals. A transparent and credible PFM system supports informed decision-making, and the effective and efficient provision of public goods and services. Under the Philippine Development Plan (PDP) 2017–2022, the government instituted an aggressive reform agenda to promote effective and honest governance to create an enabling environment for citizens and the private sector. The Good Governance and Anti-Corruption Cabinet Cluster oversaw a comprehensive and integrated governance and anticorruption action plan which, among others, improved PFM systems, increased capacity for results-based budgeting, and provided an improved policy and regulatory environment for private sector development.

3. The 2016 Public Expenditure and Financial Accountability (PEFA) report validates government's efforts to strengthen PFM. It showed that three of seven core areas (transparency, policy-based budgeting, and asset and liability management) are strong and have improved since the 2010 assessment.<sup>4</sup> The government has harmonized Philippine Accounting Standards with International Financial Reporting Standards and Philippine Public Sector Standards of Accounting with the International Public Sector Accounting Standards. A Unified Account Code Structure (UACS) was rolled out and a performance-informed budget process was introduced. As a result, the government has improved its performance relative to international fiscal transparency standards.<sup>5</sup> Moreover, indicators of corruption have also improved. The Philippines continues to improve in Transparency International's Corruption Perception Index, climbing from 134th place out of 178 countries in 2010, to 113th place out of 180 countries in 2019.<sup>6</sup>

4. Areas of weakness identified in the 2014 update to the 2010 PEFA (e.g., budget credibility, predictability, and control in budget execution, and external scrutiny and audit) have been actively addressed. Budget credibility has been enhanced through the adoption of an Outcome-Based Performance-Informed Budget (fiscal year 2015) and efforts to ensure fast and efficient budget execution. In addition, the government has strengthened the budget review process and has

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<sup>1</sup> World Bank. [Philippine Overview](#).

<sup>2</sup> Philippine Statistics Authority. [National Accounts Statistics](#).

<sup>3</sup> The Global Competitiveness Report 2018–2019 provides an overview of the competitiveness performance of 137 economies.

<sup>4</sup> Public Expenditure and Financial Accountability. 2016. [Public Expenditure and Financial Accountability Report](#). Manila. The 2016 PEFA assessment identified three dimensions as the main PFM weaknesses. These included: budget reliability, accounting and reporting, and external scrutiny.

<sup>5</sup> The 2019 Open Budget Index assigned the Philippines a (transparency) score of 76 for transparency, representing a significant and consistent improvement over 2012 when the Philippines received a score of 48. International Budget Partnership. 2020. Open Budget Survey 2019. Washington DC.

<sup>6</sup> Transparency International. 2020. *Corruptions Perception Index: Philippines*. Berlin.

reduced the number and magnitude of special purpose funds by incorporating these lump sums into the agency budgets. To utilize the harmonized financial reporting now available through UACS, the government launched an analytical tool which is capable of loading, organizing, and consolidating UACS-based data during all phases of the budget cycle. A web-based portal has been used to provide interactive tools for business analytics, reporting, ad hoc queries, and dashboards. Transparency has been strengthened through the adoption of the Transparency Seal, which requires all government agencies to disclose key information through their respective websites. As part of this effort, the Open Budget Data project directs government agencies to proactively release datasets, and to generate an ecosystem to support the use and reuse of the datasets by the public. The adoption of a Treasury Single Account (TSA) has increased budget credibility by centralizing the collection of government revenues. This reform has also provided the framework for the ongoing installation of a new treasury management system. This system will organize financial information in a central database to support budget management, commitments management, payments management, receipts management, cash management, accounting, and fiscal reporting. Finally, to improve scrutiny and audit, Congress now reviews and approves the annual budget and the standards governing public audit have been strengthened. As a result of these efforts, budget credibility has improved from 1 indicator with an A/B ranking and 4 indicators with a C/D ranking in 2010, to 2 indicators with A/B rankings and 4 indicators with C/D rankings in 2016. Budget predictability and control dimensions have improved from 10 A/B and 18 C/D rankings to 19 A/B and 9 C/D rankings over the same period. External scrutiny and audit rankings have also improved.

5. The institutional framework for PFM is fragmented. Several agencies are involved in the implementation and oversight of PFM systems and in some cases, they have overlapping mandates. This fragmentation demands close coordination among these agencies, requires a strong system of checks and balances, and dilutes accountability. For example, the Philippines fares relatively well in principles where a single agency is responsible for fiscal reporting and accounting but concerns on data comparability and integrity arise when multiple agencies are involved. Political risks remain high. While recent efforts to increase budget credibility are notable, the Constitution provides the President with a high degree of discretion to re-allocate portions of the budget across the executive branch during execution. At the subnational level, PFM has improved in recent years, but many issues remain to be addressed including inconsistent reporting and disclosure approaches, fragmentation of performance monitoring and financial tracking systems, and significant variations in capacity across different types of local government units (LGUs).

6. The Department of Budget and Management (DBM) has implemented the Public Financial Management Assessment Tools (PFMAT) in 2019. The PFMAT is a self-assessment instrument designed to assist LGUs in evaluating their PFM performance. The tool describes the characteristics of a good PFM system, identifies performance indicators to gauge how the LGU is doing in a particular area of PFM, and identifies the sources of information which will help the LGUs establish their compliance with graduated levels of performance. The results of the PFMAT can be used for different levels of assessment and can be comparable to other standards of performance measurement. Thus, from the completion of each PFM assessment, the LGU will understand its local rating, national rating, and rating against international standards. The PFMAT results for the pilot LGUs may also serve as the baseline data to determine the industry average for future benchmarking as the use of the PFMAT is replicated in all LGUs. The PFMAT framework identifies seven (7) critical dimensions and twenty (20) performance indicators of an open and orderly PFM system. While the initial application of the Tool will gauge the present status of the PFM of the LGUs, the repeated application thereof will provide information on whether its PFM performance is improving or not, and to what extent. The necessary intervention between these

processes is the adoption by the LGU of policy and reform measures to improve its PFM. The selection of indicators was not only based on which indicators are applicable to the three levels of LGUs but also on indicators which are considered as key, and which can be self-assessed using the LGUs' available capacity. The assumption is that the assessments shall be done by the LGUs themselves and verified by internal and external audit.

## II. BACKGROUND

### A. Macro-fiscal Context

7. **Severe impact of coronavirus disease (COVID-19) on economic growth.** Economic growth averaged 6.4% annually between 2010 and 2019 (footnote 1). This translates to per capita income growth of 4.3% annually during this period (footnote 2). However, the Philippine economy was hard hit by the pandemic and contracted by 9.6% in 2020<sup>7</sup> against the original estimate of 6.2% growth.<sup>8</sup> ADB estimates that the national poverty rate could increase from 16.6% in 2018 to 20.7% in 2020. Recovery is expected to be slow and fragile, with a protracted U-shape recovery in 2020–2021.<sup>9</sup> The pace of recovery will depend on restoring consumer and business confidence, which in turn will be primarily influenced by the rate of containment of the virus. Acceleration in public expenditure will support growth. The Philippine economy to grow by 5.6% in 2021 and is expected to further grow by 5.5% in 2022.

8. **National Disbursement Performance.** The national government improved its spending which reached to ₱3,797.7 billion in 2019 as compared to original budget of ₱3,769.7 billion surpassing by ₱28.1 billion or 0.7%. This is also ₱389.3 billion or 11.4% higher than the 2018 level of ₱3,408.4 billion. The strong spending performance in 2019, despite the delay in the budget approval, is driven by substantial expenditures for personnel services, infrastructure and other capital outlays, maintenance and other operating expenses (MOOE), and subsidy to government corporations.

9. **Fiscal sustainability.** Prior to the COVID-19 pandemic, prudent fiscal policies have provided fiscal space to the government. Tax reforms raised the tax to gross domestic product (GDP) ratio from 13.0% in 2015 to 14.5% in 2019.<sup>10</sup> The fiscal deficit averaged at 2.5% of GDP only between 2015–2019.<sup>11</sup> The fiscal deficit widened to 7.6% of GDP in the 2020 from 3.4% of GDP in 2019.<sup>12</sup> Sharp slowdown in economic activity cut tax revenues by 11.4% in 2020, while expenditures excluding interest rose by 21.1% on higher spending to address the impact of the COVID-19 pandemic.<sup>13</sup> Finally, government debt rose to 54.6% of GDP from 39.6% in 2019<sup>14</sup>. The fiscal deficit for 2021 was 8.6%.<sup>15</sup> The structural reform momentum and infrastructure push remain strong in the upcoming months. Several landmark reform bills have been signed into law

<sup>7</sup> Philippine Statistics Authority. 2021. *Press Release: National Accounts Update, As of April 08*. Manila

<sup>8</sup> Philippine Statistics Authority. 2021. *Press Release: Q4 2020 National Accounts of the Philippines*. Manila.

<sup>9</sup> Asian Development Bank. 2020. *Report and Recommendation of the President to the Board of Directors: Proposed loan to the Philippines for the COVID-19 Active Response and Expenditure Support Program*. Summary Covid-19 Economic Growth, Employment, and Poverty Impact Assessment (accessible from the list of linked documents in Appendix 2). Manila.

<sup>10</sup> Philippine Bureau of the Treasury. Revenue, Expenditures, and Debt Service Statistics.

<sup>11</sup> Philippine Bureau of the Treasury. Revenue, Expenditures, and Debt Service Statistics; Philippine Statistics Authority. National Accounts Statistics; and J. Cuenca. 2020. Analysis of the President's 2021 Budget. Quezon City: Philippine Institute for Development Studies. *PIDS Discussion Paper Series No. 2020–35*. Quezon City: PIDS.

<sup>12</sup> Philippine Bureau of the Treasury. Debt Service Statistics.

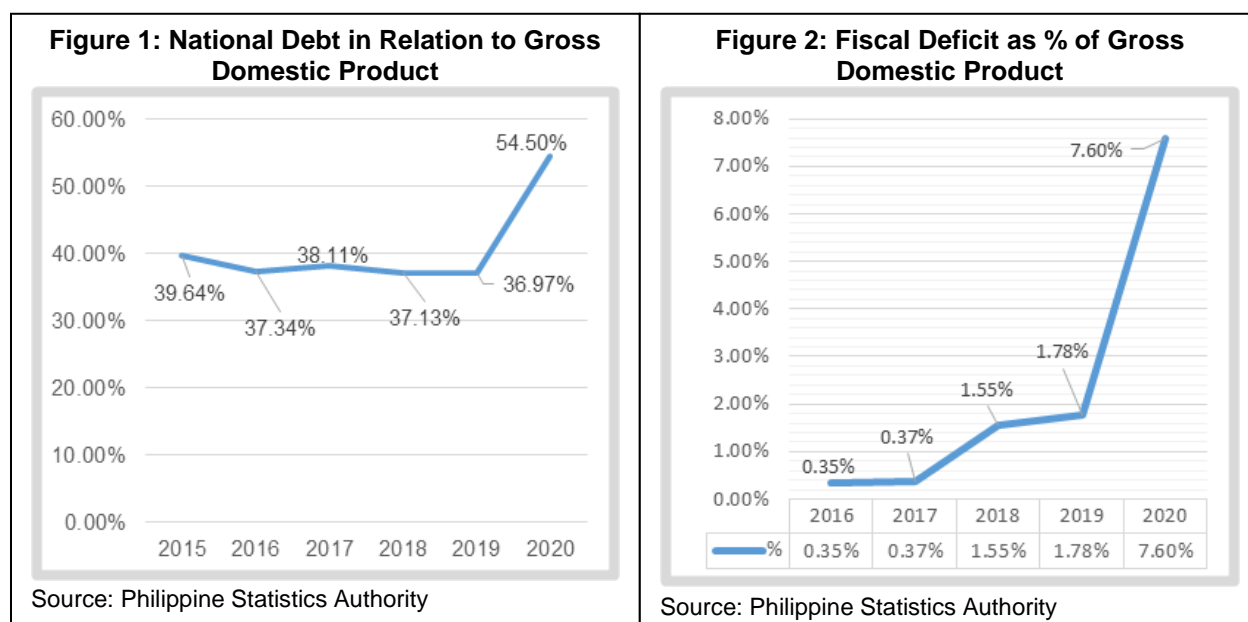
<sup>13</sup> Philippine Bureau of the Treasury. Revenue and Expenditure Statistics.

<sup>14</sup> Philippine Bureau of the Treasury. Debt Service Statistics.

<sup>15</sup> DBM. Budget of Expenditures and Sources of Financing Tables.

recently, including rice tariffication, a national digital ID, the ease of doing business, and BSP charter amendments. The government has also revised the list of priority flagship infrastructure projects based on feasibility and cost-benefit considerations, with the objective of raising infrastructure investment to over 6% of GDP by 2022.<sup>16</sup>

10. The national government's (NG) outstanding debt was recorded ₱9,790.0 billion as of end of December 2020, 9.6% higher or ₱7,731.0 billion than at year-end 2019. Debt as a percentage of GDP had an upward trend and recorded at 54.50% from 36.97% of previous year (Figure 1). Repayments and a stronger peso slightly tempered debt accumulation last December, but the record recession coupled with a jump in borrowings to fight COVID-19 jacked up the share of debt in the Philippine economy to a 14-year high of 54.5 percent in 2020. The end-2020 national government debt-to-gross domestic product (GDP) ratio was the highest since the 58.8% posted in 2006, Bureau of the Treasury data showed. Philippines had to borrow more in 2020 amid a pandemic-induced recession that weakened government revenues from taxes and fees, pushing end-2020 debt to ₱9.79 trillion. While 3.3% lower than the record-high ₱10.13 trillion level in November 2020, the outstanding amount in December last year was 26.7% higher than the ₱7.73 trillion in end-2019. It did not help that GDP shrank by 9.6% in 2020 - the worst post-war recession, amid a prolonged pandemic. The government borrowed more locally to temper foreign exchange risks, leading to outstanding domestic debt accounting for 68.4% of total in 2020, up from 66.3% in 2019. Repayment of the ₱540-billion short-term borrowings from the Bangko Sentral ng Pilipinas (BSP) plus peso further strengthening to 48.021 to \$1 in December resulted in the month-on-month decline, offsetting the government's issuance of \$2.75 billion in US dollar-denominated bonds and a record ₱6.56 billion in "premyo" bonds to small local investors. However, compared to 2019, end-2020 outstanding domestic debt jumped 30.6, while foreign obligations rose 19.1%.



11. **Role of local governance reform in economic recovery.** The government has stepped up local governance reform as part of the national strategies for the COVID-19 economic

<sup>16</sup> IMF 2018. Philippines. Press Release: Staff Report; Article IV consultation with the Philippines. *IMF Country Report*. No. 20/36. Washington, D.C.

recovery.<sup>17</sup> Hence, their capacities to manage local resources and deliver public services are key to reinstating strong growth trajectories. The government identified priority structural reforms under the economic resiliency plan, “Plan for a Healthy and Resilient Philippines”. These include: (i) health—universal health care, health infrastructure, production of pharma-grade medical supplies, research and development; (ii) agriculture—productivity and value-chain enhancements, consolidation of land management, progressive idle land tax; (iii) logistics—rationalization of freight systems, strategic warehousing; (iv) digitalization/streamlining of transactions with government and private sector; (v) investments—economic liberalization bills, modernization of Investment Promotion Agencies; (vi) businesses—ease of credit, regulatory reforms to improve competition, foster innovation, digitalization; (vii) labor reforms, including skills retooling; (viii) digital delivery of social protection, unemployment insurance, financial inclusion; (ix) education including flexible learning systems; (x) public transport, e.g. route rationalization, public utility vehicle modernization; and (xi) disaster, emergency response including health-related disasters.

## **B. Importance of Public Financial Management**

12. The government is implementing major reforms to strengthen its PFM systems. A sound PFM system helps reduce the opportunity for misuse of funds, aids decision-makers in the government as they perform their functions and decide where to allocate funds to achieve the greatest good and provides transparency regarding where and how the public funds are actually being spent. Furthermore, the government has drafted an organic law on public finance titled the Public Financial Accountability Act to further clarify rules and policies on budget formulation, preparation, enactment, and execution. The act will significantly improve linkages between budgeting and planning, improve congressional powers of the purse and oversight of public spending, strengthening accountability and reporting through the Comptroller General, and update transparency and participation requirements for all levels of government.

13. The framework of the PFM Roadmap 2017–2022 will strengthen the foundation of the PFM system by focusing on three components: (i) shift to annual cash appropriations; (ii) automation reform initially through the Budget and Management System (BTMS); and (iii) creation of an Office of the Comptroller General (OCG). The key reforms target improvements in costing, cash management, planning and budgeting, and procurement.

14. Current key reforms are being undertaken to implement the “PFM Reform Roadmap 2017–2022.” The Cash Budgeting System (CBS) was adopted in the preparation of the 2019 Proposed National Budget to speed up budget utilization, promote faster delivery of government services, and foster discipline among agencies through better planning and management of their programs and projects, including early procurement. The BTMS is being developed to pave the way for an Integrated Financial Management Information System (IFMIS) to simplify, harmonize, and improve the country’s financial management processes and related information systems. The DBM rolled out the Budget Utilization Module of the BTMS to four pilot National Government Agencies (NGAs). Subsequently, DBM officially launched the BTMS in 2019 and it is being rolled out to the rest of NGAs in preparation for the mandatory adoption of the System by 1 July 2019. The e-Learning course modules for the BTMS were developed, in collaboration with the United States Agency for International Development (USAID), to provide another training avenue to assist and guide NGAs on the key processes of the BTMS. The PFM Competency Program was

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<sup>17</sup> Inter-Agency Task Force. 2020. *We Recover As One*. Manila. Under the Republic Act 11494, known as Bayanihan to Recover as One Act, the government has allocated ₱1.5 billion (\$31 million) for the Local Government Support Fund to support LGUs for COVID-19 relief efforts.

also developed by the DBM and the Bureau of the Treasury (BTr) to enhance the competency of PFM practitioners.

15. In addition, the government continued to set accounting standards and rules. Guidelines for converting from the Philippine Government Chart of Accounts, under the New Government Accounting System, to the revised chart of accounts for LGUs and government corporations were prescribed. Also, guidelines were prescribed for the preparation of financial statements and other financial reports and implementation of the Philippine Financial Reporting Standards by Government Corporations Classified as Government Business Enterprises, as well as the adoption of Philippine Public Sector Accounting Standards (PPSAS) by Non-Government Business Enterprises. An additional six PPSAS, and updates on PPSAS prescribed through COA Resolution No. 2014-003 were adopted effective 1 January 2017.<sup>18</sup> Updates were made to the professional standards framework emphasizing the independence of supreme audit institutions, the importance of transparency and accountability, and revisions on financial, compliance, and performance audit guidelines. The Revised Framework was based on a study of applicable laws, the International Standards of Supreme Audit Institutions (ISSAI) and the International Organization of Supreme Audit Institutions (INTOSAI) Framework of Professional Standards. Revisions made by INTOSAI concerned the fundamental concepts and principles of the three types of audit: financial, compliance, and performance were adopted.

16. In 2018, the use of the Internal Auditing Standards for the Philippine Public Sector (IASPPS) and Internal Control Standards for the Philippine Public Sector (ICSPPS) were prescribed.<sup>19</sup> The Citizen Participatory Audit (CPA) was adopted and institutionalized. Concurrently, Commission on Audit (COA) adopted the INTOSAI Supreme Audit Institution (SAI) Performance Measurement Framework (PMF) to measure the Commission's performance.<sup>20</sup>

17. Over the past several years, the government introduced several measures to reform procurement. The implementation of early procurement policy, and the revision of the Implementing Rules and Regulations (IRR) of Republic Act (RA) 9184 covering maximization of bulk-buying powers of the Procurement Service will result in substantial cost savings. In addition, the government adopted the Agency Procurement Compliance and Performance Indicators (APCPI) to assess the procurement practices of the agencies and modernized the Philippine Government Electronic Procurement System (PhilGEPs). The government has also instituted reforms that allow for more transparency in government operations and over the use of public funds. Transparency has been strengthened through the adoption of the Transparency Seal, which requires all government agencies to disclose key information through their respective websites. The DBM Regional Office, in coordination with the Association of Local Budget Officers in Central Visayas, Inc., conducted a two-day Public Financial Management (PFM) Forum for local chief executives (LCEs) in September 2019. The forum apprised the LCEs, Sanggunian members, and members of the Local Finance Committee from the province of Cebu, Negros, Bohol, and Siquijor on recent procurement and budgeting issuances. The DBM, upon the invitation of agencies such Department of Health and the Bureau of Fisheries and Aquatic Resources, conducted briefings on the Annual Cash Budgeting System to promote appreciation and understanding of the budget reform in last quarter of 2019.

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<sup>18</sup> COA Resolution No. 2017-006 dated 26 April 2017.

<sup>19</sup> COA Circular 2018-003 dated 21 November 2018.

<sup>20</sup> COA Resolution No. 2017-023 dated 21 December 2017.

### III. OVERVIEW OF THE CURRENT SYSTEM

#### A. Roles and Responsibilities<sup>21</sup>

18. The Principals include the Chairman of the Commission on Audit (COA), the Secretary of the Department of Budget and Management (DBM), and the Secretary of the Department of Finance (DOF). These individuals are mandated to promote fiscal responsibility and good governance through greater transparency and accountability in the management of government funds. Plans call for the development of a modern computerized integrated financial management system, and the review and re-engineering of existing operational budgeting, cash management, and accounting auditing rules and procedures. These changes are designed to provide timely, more effective, and responsive ways of managing, monitoring, and reporting the financial performance of the government to its citizens.

19. The PFM Committee, formerly the Government Integrated Financial Management Information System (GIFMIS) Committee, is composed of authorized alternates or representatives of the Principals who hold senior management level positions. They have the authority to make immediate decisions during critical meetings, or on other pressing concerns, and serve as focal persons for cooperation. The committee oversees, coordinates, and develops the integration and harmonization of the government's financial management information systems. These systems cover all financial transactions of government in a phased and systematic manner. They apply uniformly to all government oversight and implementing agencies in order to generate reliable and accurate reports in a timely manner. Through Executive Order No. 55, the committee is tasked not only to undertake development of GIFMIS but also to implement the PFM Reform Roadmap and operationalize the TSA system. All outputs of the committee are recommendatory in nature, and all milestone activities are reported to the principals.

20. Project Implementation Units are responsible for the implementation of the key projects within the PFM reform agenda.<sup>22</sup> International development partners are assisting the government in its PFM reform efforts. The Government of Australia is working with the Philippine Government through the Philippines–Australia Public Financial Management Program to implement the Philippines PFM Reform Roadmap. Other development partners include ADB, International Monetary Fund (IMF), the World Bank, and the European Union.

#### B. Basic Laws and Regulations

21. Executive Order No. 55 was signed by President Benigno S. Aquino on 6 September 2011 directing the integration and automation of government financial management systems. The financial management systems of the three key oversight services (COA, DBM, and DOF) shall be automated to the extent necessary and feasible and fully integrated to serve as the backbone of the financial reporting system of the government. Key regulations issued to guide the reforms can be found in Annex 2.

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<sup>21</sup> The responsibilities of the Principals and the PFM Committee are indicated in the Memorandum of Agreement between COA and DBM and in Executive Order No. 55.

<sup>22</sup> COA is responsible for developing GIFMIS and accounting and auditing reforms. The Bureau of the Treasury is responsible for improving cash management operations and liability management. DBM is responsible for budget reporting and performance standards as well as capacity development.

#### IV. ASSESSMENT OF PFM

##### A. Summary of 2016 PEFA findings

22. The PEFA evaluates the government's PFM system in terms of how well it achieves positive budget outcomes of aggregate fiscal discipline, strategic allocation of resources, and efficient service delivery. The 2016 Philippines PEFA Assessment indicated that three of seven core areas (transparency, policy-based budgeting, and asset and liability management) have improved since the 2010 assessment and are now strong. While predictability and control in budget execution remained even, budget credibility and external scrutiny are considered weak.

23. Budget reliability. Budget reliability was evaluated as poor for both revenue and expenditure outturns. Large variances were noted in 2012 and 2014 which in turn affected fiscal discipline. These variances contribute to a lack of credibility and increase the risk of shortfalls in funding priority government expenditures. Improvements in budget outcomes will be especially important with government's plan to increase social service expenditures as called for in the PDP 2017–2022.

24. Transparency of public finances. This area performed very well although additional improvement in the timeliness in the collection and reporting of data on financial assets are needed.

25. Policy-based fiscal strategy and budgeting. This core area performed well due to focused efforts to improve the budget formulation process. The shift to an outcome-based, performance-informed budget helped tighten the alignment of spending with desired socio-economic outcomes and measurable outputs.

26. Predictability and control of budget execution. This area exhibited a mixed performance. However, the weaknesses are more notable as they undermine performance in other key areas. The government has an extensive formal structure for internal control and internal audit, but actual practice has suffered from delays and incomplete application. COA's reports are often qualified with adverse opinions and disclaimers. Some of the issues raised included compliance with internal controls and the integrity of financial information presented. While procurement processes rated well, a large portion did not follow a competitive process. Other areas in need of strengthening include improved internal audit effectiveness through better resourcing and an independent reporting mechanism, inclusion of accounts for foreign-funded projects in the TSA system, and an effective regular process for capturing aging and arrears in both revenues and expenditures to mitigate risk to fiscal discipline.

27. Accounting and reporting. This area did not rate well. A lack of data integrity, a delay in the timely submission of reports, and the lack of electronic reporting mechanisms have resulted in qualified audit opinions for most departmental annual accounts. There is a strong need for a comprehensive accounting system to assure budget outcomes. Improvements are expected from the electronic New Government Accounting Systems which will provide computerized accounting solutions. The system has been rolled out to a number of agencies and is going through further development and updating. Eventually, COA should be able to issue a whole of government audit opinion. In the meantime, the annual financial accountability framework needs to be strengthened.

28. External scrutiny and audit. The 2016 PEFA noted this core area as incomplete. While a strong external audit performance was noted, a full revenue audit is not completed despite the requirement for Congress to review and approve the annual budget.



## **B. Assessment of Public Procurement**

29. Revised Implementing Rules and Regulations (IRR) have been promulgated pursuant to Section 75 of Republic Act No. (R.A.) 9184, otherwise known as the “Government Procurement Reform Act”. The IRR prescribe the necessary rules and regulations for the modernization, standardization, and regulation of the procurement activities of the government.<sup>23</sup> The IRR created the Government Procurement Policy Board (GPPB), a policy and monitoring body with the mandate to handle all procurement matters affecting the national interest. Standard bidding documents have been provided and generic procurement manuals make it easier for everyone to understand and to participate in the procurement process. In 2012, the GPPB adopted the Agency Procurement Compliance and Performance Indicators (APCPI) system to standardize procurement monitoring, assessment, and evaluation. The system identified the strengths and weaknesses of procurement agencies and formulated a reasonable action plan. Based on the results of the focus group discussions conducted by the GPPB-Technical Support Group, the major causes of delays in procurement were identified as: (i) poor planning; (ii) a low number of bidders; (iii) the limited capacity of the Bids and Awards Committee and its secretariat and technical support staff; (iv) varying interpretations of the rules; (v) leadership issues; (vi) the approval and review process; and (vii) incompetence of procurement personnel.<sup>24</sup>

30. The 2012 Country Procurement Assessment Report Action Plan included 64 measures to be implemented between 2012 and 2016. The government has implemented some of the measures as agreed in the 2008 and 2012 Country Procurement Assessment Reports. These measures include, among others: (i) the upgrade of the Philippine Government Electronic Procurement System into a full e-procurement system; (ii) the establishment of the Government Open Data portal ([data.gov.ph](http://data.gov.ph)) to provide easy access to information about contracted projects; and (iii) the localization of procurement reform through manuals for LGUs and civil society organizations. The promotion of e-procurement through the Philippine Government Electronic Procurement System has also vastly improved transparency and efficiency. Procurement costs have gone down because of savings in advertising expenses. In 2015, the GPPB issued a circular to remind procuring entities to submit the procurement monitoring report for every semester.

## **C. Assessment of Accounting and Audit**

31. In the Philippines, both audit and accounting functions are vested upon a supreme audit institution, COA. The Constitution mandates that the COA “keep the general accounts of the government” which represents an exceptional set-up as COA is required to both audit and perform a limited accounting function. With this mandate, COA has also continued to set accounting standards and rules.

32. All companies must submit their financial statements accompanied by an auditor’s report issued by an independent certified public accountant (CPA). The Professional Regulation Commission (PRC) is the government agency responsible for regulating the accounting profession in the country and the PRBOA is responsible for the licensure examination as well as for CPAs to observe the rules implemented in the Philippine Accountancy Law of 2004. The auditor is appointed by the board of directors of the corporation and the Securities and Exchange Commission (SEC) requires external auditors to be rotated every five years. The Philippine

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<sup>23</sup> The Revised IRR were approved by the Government Procurement Policy Board through its Resolution 03-2009, dated 22 July 2009, and published in the Official Gazette on 3 August 2009. They became effective 30 days after its publication on 2 September 2009.

<sup>24</sup> DBM. 2014. *2014 Annual Report*. Manila.

Financial Standards (PFRS) is the most authoritative accounting standards in the country. This applies to all entities with public accountability. SRC Rule 68 sets out the applicable framework for the following type of entities: (i) Large and publicly accountable entities - The PFRS; (ii) SMEs PFRS for SMEs; and (iii) Micro-enterprises - PFRS for SMEs or other accounting standards issued after 2004.

33. In 2016, COA prescribed the guidelines for the conversion from the Philippine Government Chart of Accounts under the New Government Accounting System to the revised chart of accounts for LGUs and government corporations.<sup>25</sup> In 2017, it also prescribed the guidelines on the preparation of financial statements and other financial reports and implementation of the Philippine Financial Reporting Standards by Government Corporations Classified as Government Business Enterprises and PPSAS by Non-Government Business Enterprises.<sup>26</sup> An additional six PPSASs and updates on PPSAS prescribed through COA Resolution No. 2014-003 were adopted effective 1 January 2017. Updates were made to its professional standards framework emphasizing the independence of supreme audit institutions, the importance of transparency and accountability, and revisions to the financial, compliance and performance audit guidelines.<sup>27</sup> The Revised Framework was based on a study of applicable laws, the ISSAI and the INTOSAI Framework of Professional Standards. The revised framework includes ISSA 10, ISSA 11 and ISSA 12, and ISSAI 21.<sup>28</sup> Revisions were made by INTOSAI covering the fundamental concepts and principles of the three types of audit (financial, compliance, and performance). In 2018, the use of the IASPPS and Internal Control Standards for the Philippine Public Sector (ICSPPS) were prescribed. IASPPS provides guidance essential for the professional practice of internal auditing to improve the effectiveness of governance, risk management, and control processes in all agencies of the government. On the other hand, the ICSPPS provides guidelines on a basic framework and is integrated with the essential management processes of planning, executing and monitoring. In 2018, the CPA was adopted and institutionalized by COA.<sup>29</sup> CPA is a strategy for reform to uphold the people's right to a clean government and the prudent utilization of public resources. The premise is that public accountability can prosper only with a vigilant and involved citizenry. In order to ensure that its services are at par with the international audit community, COA adopted the INTOSAI SAI PMF to measure the Commission's performance. The SAI PMF is an international framework for self, peer, or external assessment of a SAI's performance against the ISSAIs and other established international good practices.

34. COA prescribed the use of the Government Accounting Manual through COA Circular Number 2015-007. The manual was issued in accordance with pertinent accounting and budgeting rules and regulations. The Chart of Accounts for National Government Agencies has been revised to provide new accounts for the adoption of Philippine Public Sector Accounting Standards (PPSAS) through COA Circular Number 2013-002. The Revised Chart of Accounts was incorporated in the Government Accounting Manual. The revised chart of accounts for LGUs and for Government-Owned and Controlled Corporations (GOCCs) was prescribed in 2015.<sup>30</sup> Finally, COA issued Circular Number 2015-001 on 29 January 2015 directing government

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<sup>25</sup> COA Circular 2016-004 and 2016-006 dated 30 September 2016 and 29 December 2016, respectively.

<sup>26</sup> COA Circular 2017-004 dated 13 December 2017.

<sup>27</sup> Revised Framework of Professional Standards adopted through COA Resolution 2016-007 on 3 May 2016.

<sup>28</sup> ISSAI 10, or The Mexico Declaration on SAI Independence, establishes eight core principles for SAI independence approved by INTOSAI members at the XIXth Congress in 2007. ISSAI 11 provides guidelines and good practices related to SAI Independence. ISSAI 12 defines the value and benefits of Supreme Audit. ISSAI 21 provides principles of transparency and accountability.

<sup>29</sup> COA Resolution No. 2018-006 dated 01 February 2018.

<sup>30</sup> Government Corporations consist of GOCCs, Government Financial Institutions, Government Instrumentalities with Corporate Powers/Government Corporate Entities, their subsidiaries, and water districts.

agencies to revert cash balances of all dormant accounts, and unnecessary special and trust funds to the General Fund.

35. **Unified Account Code Structure.**<sup>31</sup> A harmonized budget classification and UACS has been formulated by DBM and COA.<sup>32</sup> The system was rolled out for the 2014 budget preparation process and was further enhanced in November 2014.<sup>33</sup> UACS was adopted for accounting and reporting in 2015 and will improve financial reporting. Oversight and implementing agencies will share a common set of financial data and information for budgeting, procurement, cash management and treasury, and accounting and auditing. This provides timely access to information which will, in turn, support improved analysis and decision making.

36. **Government Integrated Financial Management Information System reforms.** GIFMIS is a major reform output of the PFM Reform Roadmap, which seeks to strengthen fiscal discipline, transparency, and accountability for improved public service delivery. It aims to harmonize and improve PFM business processes and rules toward making reliable financial information and analysis available to executives, managers, and staff in the line and oversight agencies. The PFM Committee approved the GIFMIS design in April 2013 which provides the basis for the government to procure a commercial off-the-shelf solution. The PFM agencies implemented the prerequisites for GIFMIS—*TSA, UACS, Revised Chart of Accounts, Performance-Informed Budgeting framework, and improved business processes* towards a “go live” pilot of GIFMIS in October 2015. However, the government decided in January 2015 to abandon the procurement process and proceed with a more incremental solution focused initially only on oversight agencies. The modified solution (the Budget and Treasury Management System) will go live in early 2017.

#### D. Assessment of Reporting and Transparency

37. The COA is mandated by the Philippine Constitution to submit to the President and the Congress, within the time fixed by law, an annual report covering the financial condition and operation of the government. The scope of this report also includes the government’s subdivisions, agencies, and instrumentalities, including GOCCs and non-governmental entities subject to its audit. The report provides recommendations to improve the efficiency and effectiveness of these entities. The Annual Financial Report (AFR) is prepared based on numerous reports submitted by the agencies to COA and DBM.

38. The Philippines bests other Southeast Asian countries in Budget Transparency. In the 2019 Open Budget Survey (OBS), the Philippines ranked first among the other Southeast Asian countries in budget transparency. The country received an Open Budget Index score of 76, climbing nine notches in its global ranking from 19th to 10th place. A transparency score of 61 and above implies the comprehensive, timely and online publication of all eight key budget documents, specifically the Pre-Budget Statement, Executive’s Budget Proposal, Enacted Budget, Citizens’ Budget, In-Year Reports, Mid-Year Review, Year-end Report, and the ` Report.

39. With the adoption of the annual cash-based appropriations starting FY 2019, the Budget and Financial Accountability Reports (BFAR) forms and contents were updated, taking into

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<sup>31</sup> The UACS is a government-wide harmonized budgetary, treasury, and accounting code classification framework jointly developed by the DBM, the COA, the DOF, and the Bureau of the Treasury to facilitate reporting of all financial transactions of agencies including revenue reporting.

<sup>32</sup> As a coding framework for financial transactions, the UACS ensures that all processes, from budgeting and cash management to accounting and audit will follow a single classification system or common language. The new codes will make it easier to collect, aggregate, consolidate, and report financial transactions across government.

<sup>33</sup> COA-DBM-DOF Joint Circular No. 2014-1 dated 7 November 2014.

account the one-year availability of funds for the government's programs/activities/projects.<sup>34</sup> The purpose of the update was to ensure that the information they generate is adequate to enable the DBM and the COA, as oversight agencies, to effectively report, monitor, and/or evaluate agency performance as basis for sound policy decisions.

40. The 2014 AFR for the national government featured the first financial statements which are based on the PPSAS which were adopted pursuant to COA Resolution No. 2014-003 (1 January 2014). The PPSAS are aligned with the prevailing International Public Sector Accounting standards and provide quality accounting reports set uniformity to allow comparability with other public sector entities around the world.

41. **Online Financial Reporting.** In 2015, COA has developed online web-based application systems, the Annual Financial Reporting System (AFRS) and the Budget and Financial Accountability Reporting System (BFARS). These systems facilitate the efficient submission of the AFRs and BFARS of national government agencies.<sup>35</sup> The development of these two application systems is part of COA's efforts to use automation to provide timely and relevant financial and budgetary information to its clientele: the Office of the President, the Congress, oversight agencies, and the public. The use of these systems promotes transparency in the utilization and management of government funds. The main purpose of the systems is to ensure prompt submission of the reports to facilitate faster and more efficient consolidation of financial statements and reports, and the preparation of constitutionally-required reports. Using AFRS and BFARS, data is gathered directly from the source and manual interventions are minimized, eliminating user error in the consolidation process. Thus, reporting will be more efficient, reliable, and timely.<sup>36</sup>

42. **Transparency.** The government has instituted reforms that allows for more transparency in government operations and over the use of public funds. The following initiatives were introduced to promote greater fiscal transparency and provide citizens with greater access to information on PFM.

43. **Transparency Seal.** First introduced in 2011, the transparency seal requires all government agencies to disclose key information through their respective websites, such as their functions, budgets and financial reports, status of major programs and projects, procurement activities, and contact information (footnote 11). In addition, since 2010, the government has been introducing reforms that support meaningful devolution by strengthening the ability of LGUs to manage public funds, enforce greater transparency and citizen's participation, and deliver services. These include the LGU PFM reform program, which seeks to improve the PFM capacity of LGUs along good governance and financial stewardship standards, as well as the Seal of Good Local Governance, the Mandatory Disclosure Policy, and the Performance Challenge Fund.

44. **Improved Budget Reporting.** The DBM, together with the Development Budget Coordination Committee (DBCC), has been pursuing initiatives to improve fiscal transparency in the Philippines in line with global benchmarks (footnote 11). DBM has produced technical notes on the proposed 2015 national budget which provide substantial narrative discussions and key details of the proposed fiscal program and expenditure priorities. Moreover, DBM presented new or additional information in the 2015 Budget of Expenditures and Sources of Financing.

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<sup>34</sup> COA-DBM Joint Circular No. 2019-1 dated 1 January 2019. National Budget Circular No. 542 dated 29 August 2012.

<sup>35</sup> COA Circular 2015-005 dated 16 July 2015.

<sup>36</sup> The effectiveness of these systems can be determined only after the 2015 AFR has been prepared.

In particular, DBM provided medium-term fiscal parameters which show important details of the financing program including projections for infrastructure spending over a 3–year horizon. In addition, DBM provided multi-year projections of tax and nontax revenues up to 2017, consistent with international standards, and disclosed the tax incentives granted to private investors registered with different investment promotion agencies. Through these initiatives, the Philippines improved its performance relative to international fiscal transparency standards. The Open Budget Survey of the International Budget Partnership reported in 2015 that the Philippines published all eight essential budget documents.<sup>37</sup> This is a significant improvement from the Philippines' performance in the 2012 at which time the country only published four of the eight essential budget documents. As a result, the 2019 Open Budget Index assigned the Philippines a score of 76 out of 100 for transparency, representing a significant improvement over 2012 when the Philippines received a score of 48.

45. **The People's Budget.** DBM published the 2014 People's Budget in Filipino and Bisaya to reach more audiences. DBM also produced **audio-visual presentations and quick-glance editions, developed briefs** on key budget reforms and issues, and intensified its social media engagement activities. DBM has further improved the content and design of the flagship People's Budget 2015 and the 2015 People's Proposed Budget (formerly the Proposed Budget in Brief) after surveying stakeholders to solicit their feedback and inputs on the publications.

46. ***Open Budget Data.*** The Open Data Philippines initiative, launched on 16 January 2014, sought to proactively release public sector datasets and generate an ecosystem for the use and reuse of the datasets by the public. Through the website, the government supplies datasets in open and machine-readable formats. The Open Data Philippines Task Force has launched a website ([data.gov.ph](http://data.gov.ph)) and has completed a number of other initiatives.<sup>38</sup> For example, an open government data provision was adopted in the 2015. The General Appropriations Act requires agencies to adopt a policy of openness regarding their datasets. This means that their datasets must be in open and machine-readable formats and released with open licenses. Open data provisions were also adopted in the proposed Freedom of Information bill. These provisions are akin to the one adopted in the 2015 General Appropriations Act albeit with additional details such as the frequency of updating and the “release to one, release to all” provision. Finally, specialized portals were launched, including: (i) [openreconstruction.gov.ph](http://openreconstruction.gov.ph) which is a budget tracking system for the government's Build Back Better program; (ii) [openbub.gov.ph](http://openbub.gov.ph) which provides a transparency, monitoring, and evaluation portal for the Bottom-Up Budgeting program; and (iii) the Extractive Industries Transparency Initiative Contracts Dashboard<sup>39</sup> which catalogues around 40 mining and oil and gas contracts.

## **E. Anti-corruption efforts**

47. In December 2014, the Integrity Management Program (IMP) was established as the national corruption prevention program of the government. This program covers six dimensions or management systems that are linked together to enhance both individual and systems integrity. They are: (i) Service Delivery; (ii) Institutional Leadership; (iii) Human Resource Management and Development; (iv) Financial, Procurement and Asset Management; (v) Internal Reporting and Investigation; and (vi) Corruption Risk Management. The IMP's objectives include reducing vulnerabilities to corruption at the department and agency level, ensuring integrity is practiced in

<sup>37</sup> [Open Budget Survey 2015](#).

<sup>38</sup> Open Data Philippines Task Force comprised of the Office of the Presidential Spokesperson, DBM, and the Presidential Communications Development and Strategic Planning Office.

<sup>39</sup> [Extractive Industries Transparency Initiative Contracts Dashboard](#)

the public sector, and improving the public's trust and confidence in government.<sup>40</sup> An Integrity Management Committee was created in each department and agency to oversee and ensure the effective implementation of the IMP, as well as all integrity management initiatives and measures. Operational Guidelines were issued in April 2015 to provide a do-it-yourself manual to guide agencies in implementing the IMP.

48. The national anti-corruption resolution, signed by key government officials, was presented to the President during the 3rd State Conference of the United Nations Convention against Corruption in December 2015. The resolution was handed over by the Ombudsman who also relayed a progress report on the creation of the 5-year anti-corruption framework. The resolution called on all the relevant government agencies, concerned private sector groups, and civil society organizations to continue their active participation and engagement on various consultation efforts relative to progress on the United Nations Convention against Corruption compliance and anti-corruption initiatives of the government.

49. The updated Good Governance and Anti-Corruption Cluster Plan (2013–2016) included improved anti-corruption measures as one of four priority outcomes. Sub-outcomes were greater accountability of public servants and intensified efforts to prevent smuggling and tax evasion. A website was developed to serve as a repository of project reports, cluster updates, and other publications and related documents.

50. As a result of the government's anti-corruption efforts, the Philippines placed 111th out of 180 countries in Transparency International's 2017 Corruption Perception Index. This represents a marked improvement from 2014 when the Philippines was ranked in 94th place. Further, the Political and Economic Risk Consultancy Ltd. noted the Philippines improved to 10th place (2016) from 12th place (2015) among the 16 economies covered by its annual review of corruption in Asia and the Pacific. The World Bank's 2017 "Ease of Doing Business" rankings place the Philippines at 99 out of 190 economies.

## **F. Subnational Public Financial Management**

51. Local PFM has improved in recent years, but many issues remain to be addressed. There is significant variation in the form and content of local public finance reporting, weakening vertical linkages between planning and budgeting at municipal, provincial, and regional levels. Transparency and public disclosures have improved since the introduction of a "Full Disclosure" policy in 2012, but variations across LGUs make it difficult to reliably compare performance, or for central government to obtain a comprehensive picture of local spending. There is a significant body of rulings, issuances, and guidelines from central agencies to support good financial management at local levels; however, the lack of organization and sheer volume of these documents constrain their usefulness. Inefficiencies in budget and cash management practices affect budget execution, leading to consistent underspending and unanticipated surpluses, which have doubled as a share of GDP between 2012 and 2016. The government has begun to address these issues with a more systematic approach to capacity building. Standardized manuals on core public finance functions like budgeting, planning, and cash management have been developed and circulated to LGUs. The government has begun to professionalize local public finance functions with the introduction of the Standardized Examination and Assessment for Local Treasurers.

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<sup>40</sup> Executive Order No. 176 issued by the Office of the President on 1 December 2014 institutionalizing the Integrity Management Program as the National Corruption Prevention Program in all government departments, bureaus, offices, agencies, including GOCCs and government financial institutions.

## G. Remaining Constraints and Issues

52. **Improved public financial management** is central to the Philippines' achieving its development goals. This requires, amongst other things, a transparent and credible PFM system to manage public resources to support informed decision-making, and the effective and efficient provision of public goods and services. PFM reforms need to be sustained and those in progress need to be completed. To institutionalize these reforms, the proposed Public Financial Accountability Act will need to be approved.

53. **The institutional framework is fragmented.** Several agencies are involved in the implementation and oversight of PFM systems and in some cases, they have overlapping mandates. This fragmentation demands close coordination among these agencies and requires a strong system of checks and balances. Technical coordination on macro-fiscal policies is ensured through the DBCC which includes the DBM, National Economic and Development Authority (NEDA), DOF, Bangko Sentral ng Pilipinas (BSP) and the Office of the President (OP). However, some constitutional and autonomous bodies like the COA and the Civil Service Commission function independently on matters relating to policies under their jurisdiction. This requires multiple levels of accountability. In fact, the IMF Fiscal Transparency Evaluation report, issued in June 2015, noted that fiscal reporting itself was fragmented.<sup>41</sup>

54. For example, the Philippines fares relatively well in principles where a single agency is mandated with responsibility for fiscal reporting and accounting, and where reporting policies are clear. The AFRs prepared by COA and the monthly cash operations reports by the Bureau of the Treasury (BTr) for in-year reporting represent two such outputs. However, where multiple agencies are involved in fiscal reporting, and coordination is incomplete; concerns on data comparability and integrity arise. Reconciling information on fiscal forecasts, budgets, outcomes, and statistics is a particular challenge in Philippines, as four different entities (DBM, BTr, COA, and NEDA) are involved in these roles.

55. **The political economy.** Political engagement in the budget process occurs through a review and approval process that involves both chambers of Congress, the Executive, and the President. Under the Constitution, the President can also exercise a high degree of discretion to reallocate portions of the budget across the executive branch during execution. As part of the efforts to improve operational efficiency and to better enforce agency accountability, the government has continued to disaggregate lump sum funds and flesh out program and project details. For 2016, only three lump sum funds remain: the Contingent Fund, the Calamity or the National Disaster Risk Reduction and Management Fund, and the Allocations Fund to LGUs. In short, it is not possible to foresee the specific utilization of these funds prior to agency requests.<sup>42</sup>

56. Budget execution is a concern, together with underspending and slower disbursement. Public expenditure management is characterized by a generally low efficiency of spending. The President signed Administrative Order Number 46 (March 2015) marked an early attempt to improve the ability of government agencies to execute the budget and implement programs. It directed all heads of departments and agencies to implement measures to facilitate budget execution for fiscal year 2015. The obligation-based budgeting is regarded as one root cause of relatively low budget execution in the Philippines as the implementing agencies can disburse budgets appropriated for the fiscal year, even after the end of the fiscal year. Under the obligation-based budgeting, annual budgets of agencies are based on annual commitments, i.e., projected

<sup>41</sup> IMF Fiscal Transparency Evaluation Report issued in June 2015.

<sup>42</sup> DBM. [Fiscal Risk Statement 2015–2016](#).

contract awards within a fiscal year. This implies that actual implementation can be delivered even after the end of the fiscal year, and inspection, payment, and verification can be done within and beyond the end of the fiscal year. To address this issue, in 2019, the government introduced the cash-based budgeting system (CBS) wherein annual budgets are based on annual cash payments for contractual obligations in a fiscal year, and the payments for contractual obligations delivered until the end of the fiscal year may be settled until the end of the extended payment period, i.e., a 3-month period following the fiscal year. The CBS incentivized government agencies to be more disciplined and more proactive in terms of budget planning, costing, and timeliness of procurement and implementation.

## V. GOVERNMENT'S STRATEGY

### A. Philippine Development Plan

57. The PDP 2017–2022 is the government's blueprint. The PDP 2017–2022 aspires to upgrade the Philippines economy into an upper middle-income country by 2022. The plan adopts three major pillars: (i) enhancing the social fabric; (ii) reducing inequality; and (iii) increasing growth potential, as well as cross-cutting strategies to support economic development. Under the first pillar "Enhancing the social fabric", the government is committed to ensuring people-centered, clean, and efficient governance. Five subsector outcomes are identified: (i) corruption reduced; (ii) better service delivery achieved; (iii) administrative governance enhanced; (iv) citizens engaged and empowered; and (v) civil service strengthened. Specifically, to achieve these outcomes, the government is set out to implement regulatory reforms, improve productivity of the public sector, enhance administrative governance, strengthen results-based performance management, PFM, and accountability system.

58. **PFM Reform Roadmap.** The PFM roadmap is a comprehensive reform agenda, overseen by a PFM Committee, which seeks to clarify, simplify, improve, and harmonize the financial management processes and information systems of the public sector. The desired result is that the national government will be able to maintain fiscal discipline, allocate funds efficiently, and effectively deliver public services. Specific PFM reforms and initiatives are presented in Part II-C and Part IV of this document.

59. **LGU PFM Reform.** A PFM Reform roadmap for the LGUs (LGU PFM Reform Roadmap) has been developed under a European Union-funded project and provides the platform for instituting PFM reforms at the LGU level. The road map is complemented by an implementation strategy that details the activities and timeframe to strengthen LGU revenue generation and expenditure management. In February 2015, the LGU PFM Reform Roadmap and Implementation Strategy was adopted, and a PFM Assessment Tool (PFMAT) was launched.<sup>43</sup> PFMAT is a diagnostic tool which establishes the indicators that will help identify the strengths and weaknesses in LGU PFM systems and recommend appropriate improvement measures.

### B. Recent initiatives

60. **Budget Cycle Analytics (BCA) Business Intelligence Solution.** The DBM, with technical assistance from the Philippines-Australia Public Financial Management Program, has developed a BCA Business Intelligence Solution. This solution will equip budget analysts with an analytical tool which supports enhanced performance analysis and decision making. The BCA is capable of loading, organizing, and consolidating UACS-based data during the preparation,

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<sup>43</sup> DBM-DILG-DOF-NEDA Joint Memorandum Circular No. 2015-1 dated 24 February 2015.



legislation, execution, and accountability phases of the budget cycle. It will provide a web-based portal with graphic and interactive tools to support business analytics, reporting, ad hoc queries, and dashboards. BCA will provide in-year and multi-year financial and physical performance analysis based on multiple dimensions (e.g., fiscal year, date, UACS segments and hierarchy, budget cycle transactions, etc.). The BCA went live on 20 January 2016.

61. **Budget and Treasury Management System (BTMS).** The BTMS Project, launched in December 2015, looks to develop, operate, and maintain a new system that will link the financial processes of the DBM and the DOF-BTr. The BTMS will help collect and organize financial information in a central database to support budget management, commitments management, payments management, receipts management, cash management, accounting, and fiscal reporting. The project, which will be implemented over 27 months, went live in June 2017.

62. **Two-tier Budgeting.** Aside from budget execution measures, the government also continues to develop ways to improve budget preparation. DBM is implementing a Two-Tier Budgeting Approach which will introduce separate reviews for ongoing and approved programs vis-à-vis new or expanded ones to give a better focus on each type of program. In 2016, budget preparation targeted a lower number and magnitude of special purpose funds by incorporating these lump sums into the agency budgets (e.g., provisions for new positions, pensions, and gratuities).

63. **Revised Framework of Professional Standards.** COA first issued the Framework of Professional Standards through COA Resolution 2013-006 on 29 January 2013. The framework provided an overview of all the standards and guidelines for public sector auditing, assurance engagements and other related services, and harmonized current standards in the Philippines with international standards on auditing. COA subsequently updated its professional standards framework to emphasize the independence of supreme audit institutions, the importance of transparency and accountability, and to revise financial, compliance, and performance audit guidelines. COA adopted the Revised Framework of Professional Standards through Resolution Number 2016-007 on 3 May 2016. The framework was based on a study of applicable laws, the International Standards of Supreme Audit Institutions (ISSAI) and the International Organization of Supreme Audit Institutions (INTOSAI) Framework of Professional Standards. The revised framework includes ISSA 10, ISSA 11 and ISSA 12, ISSAI 21.<sup>44</sup> COA also adopted revisions made by INTOSAI regarding the fundamental concepts and principles of the three types of audit: financial, compliance, and performance.

64. **Cash Based Budgeting.** The DBM has implemented Cash Based Budgeting after President has signed Executive Order (EO) No. 91, entitled “Adopting the Cash Budgeting System Beginning Fiscal Year 2019, and for Other Purposes”. Said EO becomes effective upon publication in the Official Gazette. The Cash Budgeting System (CBS) will promote the faster implementation of government programs by ensuring that funding requirements for priority programs and projects are sufficient, maximized by agencies, and, even more importantly, delivered on time, that will largely benefit the Filipino people. Unlike the previous obligation-based budgeting system where the implementation period for projects is open, this system promotes discipline, focus, and better operational planning among agencies as it funds only the programs and projects that can be implemented and completed within the fiscal year and provides for a

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<sup>44</sup> ISSAI 10, or The Mexico Declaration on SAI Independence, establishes eight core principles for SAI independence approved by INTOSAI members at the XIXth Congress in 2007. ISSAI11 provides guidelines and good practices related to SAI Independence. ISSAI 12 defines the value and benefits of Supreme Audit. ISSAI 21 provides principles of transparency and accountability.

fixed implementation and payment period that must be strictly observed. This ensures the prudent use of resources, prevents wastage and corruption, and ultimately improves the quality and efficiency of public services. Under the CBS, all appropriations shall be made available for obligation and disbursement only until the end of each fiscal year. Moreover, obligations incurred by the national government within each fiscal year should be implemented within the same fiscal year. In cash-based budgeting, cash needs to be expended in a year's time with a grace period of three months at most. This will not adversely affect the government's infrastructure program. In fact, projects will be implemented faster because implementing agencies are now under pressure to make sure projects are delivered in a year's time.

65. **Implementation of the Mandanas ruling.** Under Executive Order 138, the President stated the national government's commitment to the "policy of decentralization" enshrined in the Constitution and relevant laws that aim to develop LGU capability to deliver social services and critical facilities to their constituents, boost productivity, employment and economic growth as well as enhance LGU competence, accountability and transparency. "The functions, services, and facilities which shall be fully devolved from NG to the LGUs no later than end of FY 2024, shall include those indicate under Section 17 of RA No. 7160 and other existing laws which subsequently devolved functions of the NG to LGUs," Addressing inequality in financial resources among local government units (LGUs), improving the capacity of LGUs, and enhancing transparency and accountability are key to improving decentralization as the country starts implementing the Mandanas Ruling in 2022, increasing the share of national government tax revenue transferred to local governments.

## HISTORICAL PERSPECTIVE AND PAST EFFORTS TO STRENGTHEN PFM

1. In January 2010, a memorandum of agreement (MOA) was entered into by and between the key oversight agencies, namely: the Commission on Audit (COA); the Department of Budget and Management (DBM), and the Department of Finance–Bureau of the Treasury (DOF-BTr). This MOA was used to establish an inter-agency committee, also termed as Government Integrated Financial Management Information System (GIFMIS) Committee, to clarify, simplify, improve, and harmonize the financial management processes and information system of the public sector. In addition, and as necessary, the GIFMIS Committee would amend and integrate the relevant financial information management systems in the COA, DBM, DOF-BTr, and other implementing agencies to eventually foster the development of a GIFMIS. The GIFMIS Committee would be responsible for securing the steadfast engagement of all key stakeholders, converging existing financial management processes and information system programs and initiatives, and focusing on sustainable solutions and ensuring government ownership of the GIFMIS implementation plan.
2. In September 2011, the government’s mandate was formalized (Executive Order Number 55) to complete the integration and automation of government financial management systems. The GIFMIS Committee, which would now be called the public financial management (PFM) Committee, was tasked with undertaking the development of GIFMIS and also with implementing the PFM Reform Roadmap and launching a Treasury Single Account.
3. The Philippines–Australia Public Financial Management Program, a joint initiative of the Governments of Australia and the Philippines, was created to support the government’s efforts to implement its *Philippine PFM Reform Roadmap: Towards Improved Accountability and Transparency, 2011–2015*. This comprehensive PFM reform agenda aimed to clarify, simplify, improve, and harmonize the financial management processes and information systems. Under this and other programs, a number of key reforms were completed and are detailed below.
4. **New Government Accounting system.** In 2002, COA rolled out a new government accounting system (NGAS) that aimed to simplify government accounting, in conformity with international standards, and to generate periodic and relevant financial statements. With the implementation of the NGAS, a modified accrual basis of accounting was introduced. All government agencies are required to prepare a balance sheet, income and expenditure statement, and a cash flow statement. Central offices of government departments consolidate the department-wide financial statements.
5. **Accounting and Auditing Standards.** Twenty-five Philippine Public Sector Standards of Accounting (PPSSA) have been harmonized with the International Public Sector Accounting Standard. In 2013, 24 Philippine Public-Sector Standards on Auditing were adopted through COA Resolution No. 2013-007. International Financial Reporting Standards (IFRS) were adopted in 2014 through COA Resolution 2014-003.
6. The Philippine Government Internal Audit Manual (PGIAM) was issued to serve as a generic guide for internal auditors in government to understand the nature and scope of the internal audit function in the public sector, including the institutional arrangements, protocols, and processes for the conduct of internal audit. DBM enhanced the capabilities of internal audit staff by providing training on PGIAM and issuing the National Guidelines on Internal Control Systems.

7. **Revision of Chart of Accounts.** In 2013, the chart of accounts of the national government was revised to provide new accounts for the adoption of PPSSA through COA Circular No. 2013-002.<sup>1</sup>

8. The revised Chart of accounts is now incorporated in the new government accounting manual.

9. **Treasury Single Account (TSA).** Treasury Circular Number 03-2013 was issued to implement the memorandum of agreement for authorized banks and authorized government depository banks to collect and remit national internal revenue taxes, customs duties, and other national collections into the TSA. The DOF-BTr operates the TSA which is maintained at the Bangko Sentral ng Pilipinas. The TSA is consistent with and supports the government's policy of requiring greater financial management and control over its cash resources and allows for the unification of government bank accounts.

10. **Capacity building.** The participation of civil society organizations (CSO) in the national budget process has been developed and formalized under Budget Partnership Agreements (BPAs) covering a large number of departments, agencies, and Government-Owned and Controlled Corporations (GOCC). In addition, COA has piloted citizen participatory audit activities through CSOs in four spending departments. In 2013, a total of 77 BPAs was signed with CSOs covering six national government agencies and two GOCCs. Aside from department central offices, the regional offices of the Department of Labor and Employment and Department of Social Welfare and Development signed BPAs with CSOs from their respective regions. In crafting the 2014 Budget, two national government agencies and two GOCCs signed BPAs with CSOs.

11. **Unified Account Code Structure (UACS).** A harmonized UACS, formulated by DBM and COA, was rolled out to support the 2014 budget preparation process, and is being adopted to support accounting and reporting during 2015.

12. **Performance-Informed Budgeting (PIB).** This approach strengthens linkages between planning, budgeting, and outcomes. PIB also simplifies budget presentation and enhances transparency and accountability in the allocation of limited resources.<sup>2</sup>

13. **Budget Priorities Framework (BPF).** To fully support the performance-informed budgeting system, the Government of the Philippines adopted the Budget Priorities Framework (BPF) through National Budget Memorandum Number 118. The BPF set the budget priorities for FY 2014 in line with the five priority areas of President Benigno Aquino's Social Contract with the Filipino People.

14. **Government Integrated Financial Management Information System.** The PFM agencies implemented the pre-requisites for GIFMIS, including the TSA, UACS, Revised Chart of Accounts, PIB framework, and improved business processes.

15. **Management of contingent liabilities.** A list of contingent liabilities has been prepared to facilitate central monitoring and management of guaranteed loans. The GOCC debt report templates have been completed and the development of GOCC Monitoring System (GMS) is underway. A database buildup for the GMS is ongoing for selected priority GOCCs and the social security institutions.

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<sup>1</sup> COA Circular 2013-002.

<sup>2</sup> National Budget Memorandum No. 117 dated 1 March 2013.

16. **Cash-based budgeting system (CBS).** Under the CBS, annual budgets are based on annual cash payments for contractual obligations in a fiscal year, and the payments for contractual obligations delivered until the end of the fiscal year may be settled until the end of the extended payment period (EPP), i.e., a 3-month period following the fiscal year. The CBS introduced in Fiscal Year 2019 incentivized government agencies to be more disciplined and more proactive in terms of budget planning, costing, and timeliness of procurement and implementation.

**KEY REGULATIONS ISSUED TO GUIDE THE REFORMS**

- (i) COA Circular No. 2013-02 dated 30 January 2013 – Prescribing the Adoption of the Revised Chart of Accounts for National Government Agencies.
- (ii) COA Circular No. 2014-003 dated 15 April 2014 – Conversion from the Philippine Government Chart of Accounts under the New Government Accounting System per Commission on Audit Circular No. 2004-008 dated 20 September 2004, as amended, to the Revised Chart of Accounts for National Government Agencies under Commission on Audit Circular No. 2013-002 dated 30 January 2013, additional accounts/revised description/title of accounts and relevant Accounting Policies and Guidelines in the implementation thereof.
- (iii) COA Circular No. 2015-02 dated 9 March 2015 – Prescribing Supplementary Guidelines on the Preparation of Financial Statements and other financial reports, the transitional provisions of the implementation of the Philippine Public Sector Accounting Standards and the coding structure.
- (iv) COA Circular No. 2015-05 dated 16 July 2015 – Availability of Web-based Annual Financial Reporting System and Budget and Financial Accountability Reporting System.
- (v) COA Circular No. 2015-07 dated 22 October 2015 – Prescribing the Government Accounting Manual for the Use of All National Government Agencies.
- (vi) COA Circular No. 2015-009 dated 1 December 2015 – Prescribing the Revised Chart of Accounts for Local Government Units.
- (vii) COA Circular No. 2015-010 dated 1 December 2015 - Adoption of the Revised Chart of Accounts for Government Corporations which consist of Government-Owned or Controlled Corporations, Government Financial Institutions, Government Instrumentalities with Corporate Powers (GJCPs)/ Government Corporate Entities, and their Subsidiaries, and Water Districts.
- (viii) COA Resolution No. 2013-007 dated 29 January 2013 – Adoption of Philippine Public-Sector Standards on Auditing.
- (ix) COA Resolution No. 2014-003 dated 24 January 2014 – Adoption of the Philippine Public-Sector Accounting Standards.
- (x) COA-DBM Joint Circular No. 2013-1 dated 15 March 2013 – prescribing the Revised Guidelines on the Submission of Quarterly Accountability Reports on Appropriations, Allotments, Obligations and Disbursements.
- (xi) COA-DBM Joint Circular No 2014-I dated 2 July 2014 – Guidelines Prescribing the Use of Modified Formats of the Budget and Financial Accountability Reports.
- (xii) COA-DBM-DOF Joint Circular No. 2013-1 dated 6 August 2013 - prescribing the Unified Accounts Code Structure.
- (xiii) COA-DBM-DOF Joint Circular No. 2014-1 dated 7 November 2014 – Enhancement of the Unified Accounts Code Structure per COA-DBM-DOF Joint Circular No. 2013-1.

- (xiv) Executive Order No. 171 dated September 5, 2014 – Creating an Inter-Agency Committee to Oversee the Review, Implementation and Monitoring of the United Nations Convention against Corruption.
- (xv) Executive Order No. 176 dated 1 December 2014 – Institutionalizing the Integrity Management Programs as the National Corruption Prevention Program in all Government Departments, Bureaus, Offices, Agencies, including Government-Owned and Controlled Corporations, Government Financial Institutions, State Universities and Colleges and Local Government Units through the Establishment of Integrity Management Systems.
- (xvi) OP Administrative Order No. 46 dated 30 March 2015 – Directing All Heads of Departments and Agencies to Implement Measures to facilitate Budget Execution for Fiscal Year 2015.
- (xvii) OP Memorandum Circular No. 76 dated 15 April 2015 – Urging All Government Departments, Bureaus, Offices, Agencies, including Government-Owned and Controlled Corporations, Government Financial Institutions, State Universities and Colleges and Local Government Units to implement the Integrity Management Program through the establishment of Integrity Management Systems and Adopt the Integrity Management Program Handbook for the purpose.
- (xviii) DBM Circular Letter No. 2011-3 dated 19 May 2011 – Prescribing the Philippine Government Internal Audit Manual.
- (xix) DBM National Budget Memorandum No. 117 dated 1 March 2013 – Adoption of the Performance-Informed Budget Structure for the National Expenditure Program/General Appropriation Act.
- (xx) DBM-DILG-DOF-NEDA Joint Memorandum Circular No. 2015-1 dated 14 February 2015 – Adoption of the Local Government Units Public Financial Management Reform Roadmap and Implementation Strategy.
- (xxi) Bureau of the Treasury Circular No. 03-2013 dated 11 December 2013 – Implementing Guidelines of the Memorandum of Agreement for Authorized Agent Banks/Authorized Depository Banks in the Collection and Remittance of National Internal Revenue Taxes/Customs Duties/Other National Collections under the Treasury Single Account.
- (xxii) Executive Order No. 91 dated 9 September 2019 – Adopting the Cash Budgeting System Beginning Fiscal Year 2019, And for Other Purposes.