

Philippine Public Financial Management **REFORM ROADMAP:**

Towards Improved

Accountability and Transparency

2011 to 2015



**Government Integrated
Financial Management
Information System (GIFMIS)
Committee**

Table of Contents

The Vision.....	3
Mission and Goals	3
Institutional Context	4
The PFM Reform Program.....	7
Statement of Reform Objectives.....	7
Conceptual Framework	7
Budget Reporting and Performance Management Project.....	10
Treasury Cash Management Operations Project.....	12
Management of Contingent Liabilities Project.....	14
GIFMIS Conceptual Development and Design	14

The Vision

Honest and effective governance—truly transparent, disciplined and serving the interest of the country and its people — is our vision for the Philippine Public Financial Management (PFM) System.

A sound public financial management system helps government decision makers—both oversight agencies and spending agencies—in performing their functions do their jobs effectively, efficiently and economically. It helps them to channel funds to where they are intended and will do the greatest good and sends off signals when deviations occur. Most importantly, it helps to inform citizens where public funds are actually being spent.

Mission and Goals

The Commission on Audit (COA), the Department of Budget and Management (DBM) and the Department of Finance (DOF) including the Bureau of the Treasury (BTr) are collectively committed to promote fiscal responsibility and good governance through transparency and accountability in financial transactions in the Philippine government. At the core of this mission is the need to put in place a government integrated financial management information system that will provide reliable and accurate information to support operational budgeting, cash programming and management, timely financial reports and effective enforcement of financial accountability rules and procedures.

The group's mission is in support of the Philippine governance reform agenda. As stated in the draft Philippine Development Plan (PDP) for 2011 to 2016, the overall goal for reforming governance is as follows:

“Effective and honest governance will be promoted and practiced through four key strategies: (1) ensure effective, efficient, transparent, accountable and economical delivery of public service; (2) curb corruption; (3) strengthen the rule of law; and, (4) enhance citizens’ access to information and participation in governance.”

In January 2010, a Memorandum of Agreement among COA, DBM and DOF led to the establishment of an interagency steering committee called the GIFMIS Committee to oversee, coordinate and develop the integration and harmonization of the government's financial management information systems.

Systems Integration. From the outset, the group agreed to focus efforts on the review and reengineering of existing operational budgeting, cash management, and accounting and auditing rules and procedures with the end-in-view of developing timely, more effective and

responsive ways of managing, monitoring and reporting on the financial performance of the Philippine government.

Transparency and Good Governance. Having been brewing since 2008, PFM reform gained high-level attention under the new administration and was considered to be a necessary condition for honest and good governance which President Benigno Simeon C. Aquino and his cabinet strongly espoused. Most of the short-term measures that were identified by the GIFMIS Committee were adopted and applied by policy makers in the preparation and enactment of the 2011 Reform Budget, thereby also obtaining concurrence from legislators. Recent developments bode well for the more challenging tasks for the medium and long-term tasks of integrating the systems for the oversight agencies - COA, DBM and DOF – and implementing agencies and putting in place the infrastructure for a modern GIFMIS.

GIFMIS Development. GIFMIS is defined as a customized and integrated application or automation of financial operations of the national government particularly financial planning and budgeting, treasury, and accounting functions. This eventually will generate reliable and accurate reports in a timely manner for the use of government decision makers and the scrutiny of the public.

Ongoing Budget Policy Reforms. The GIFMIS Committee noted weak enforcement of certain spending policies. Examples of this were the realignment of unreleased appropriations, unfocused spending of congressional allocations, and the preponderance of highly discretionary lump-sum funds and unprogrammed appropriations. Most of these problems were addressed in the enactment of the 2011 Reform Budget but their full enforcement requires an information system capable of supporting more robust public reporting on actual budget execution and financial management.

Institutional Context

Efforts to strengthen financial management systems in the Philippines have been driven by agency-level silo-type initiatives to address the agency's needs. The New Government Accounting System (NGAS) along with its computerization through the eNGAS and eBudget System for example, has been the focus of COA's efforts. The system is able to generate financial reports but data gaps have been noted, especially in terms of reporting on budget appropriations, allotments and obligations and producing in-year budget utilization reports. The DBM on the other hand, has been working on measures to make the budget more policy and performance-based but budget execution has been becoming increasingly complex and unpredictable. Meanwhile, the Bureau of the Treasury is confronted with challenges arising from the unpredictable budget releases, chronically falling revenues, government exposure to contingent liabilities and difficulty in monitoring and controlling line agencies' banking transactions.

Genesis of the PFM Reform Roadmap

The work started in earnest in May 2009 when representatives of COA, DBM and DOF met at the PFM Reform Workshop in Tagaytay City. The discussions took off from diagnostic studies on the Philippines PFM system, the most recent of which was the Public Expenditure and Financial Accountability (PEFA) Report of 2007 by the World Bank. The idea of integration was discussed at this workshop when it dawned on the workshop participants composed of senior officials from the three agencies and a few line agency representatives that the three oversight agencies could not function effectively without a common system for recording, reporting and analysis of budget processes and financial management. An informal group of individuals from COA, DBM, BTr, and some line departments decided to pursue informally some of the issues that came out of the workshop.

This group assumed a formal identity when the COA, DBM and DOF-BTr signed a Memorandum of Agreement on Cooperation to Foster Development and Implementation of Government Integrated Financial Management Information System (GIFMIS) on January 21, 2010. Through this MOA, the GIFMIS Committee, chaired by COA Commissioner Juanito G. Espino, Jr. delved deeper into the specific processes under the budget, accounting and auditing systems to try to remedy gaps and deficiencies—so important in a fragmented system that exists in the Philippines—and to pave the way for a modern GIFMIS. A second workshop in Tagaytay City was held in February 2010 to further develop the ideas from the first workshop and really get down to the business of PFM coordination. The group defined the reform goals and key strategies for their PFM reform roadmap but consensus on the policy implications of such strategies came later.

The finalization of the PFM Reform Roadmap was temporarily restrained with the coming of the new administration in July 2010 and the preoccupation with the budget preparation work for 2011. In the meantime, the GIFMIS Committee benefited from technical assistance provided by World Bank experts who came on separate missions to help government in the elaboration of the issues and to look at available solutions. Mr. Jim Brumby, PFM expert, came in March 2010 and Mr. Cem Dener, GIFMIS expert, came in June 2010. The Committee continued its collaborative work to fine-tune the PFM Reform Roadmap but formal adoption by the new administration had yet to be obtained.

The GIFMIS Committee was reenergized when Finance Secretary Cesar V. Purisima and Budget Secretary Florencio B. Abad formally gave their affirmation of commitment to the PFM reform initiative in October and November 2010. These were in response to a letter-request from COA Chairman Reynaldo A. Villar seeking alignment of the Roadmap with the thrusts of the new administration. These developments ushered in the final stage of fine-tuning the PFM Reform Roadmap and development of concrete implementation plans.

In the third Tagaytay workshop on January 13-14, 2011, COA, DBM and DOF high-level officers came prepared with carefully considered inputs for the roadmap from prior internal consultations. Perhaps inspired by the qualities of honest and transparent governance that the new administration demonstrated, the group was able to arrive at a consensus on some key aspects of the Roadmap. With measures to liberalize and simplify data sharing, treasury accounts, budget execution, and accounting, the operationalization of the GIFMIS within the term of President Aquino is greatly enhanced. Hence the GIFMIS Committee intends to present its PFM Reform Roadmap to the President.

These can be addressed with the integration of financial management information systems to produce real-time and accurate information on the status of finances and cash balances of the government. A shared database can facilitate reporting and analysis of financial status, risks and policy deviations to support the functions of the oversight agencies. At the implementing agency level, this can support the analysis of the financial performance of agencies and programs, the quality of their financial management stewardship and the level of financial risks that they are exposed to. The GIFMIS Committee is considering some options for government-wide integration and real-time data access that would involve the least operating cost and maximum sustainability at the level of the oversight and implementing agencies.

The GIFMIS Committee realizes that this desired transformation involves a lot of work not only for developing the GIFMIS infrastructure but more importantly for reviewing and amending other key aspects of the PFM environment, including their legal bases, if necessary. Its main responsibility is to devise and implement a five-year plan that would involve the reform of policies and procedures for fund releases, opening and managing of agency bank accounts, accounting and recording of budget appropriations and releases, enforcement of financial accountability policies and rules, among others. It created technical working groups and sub-committees (with a clearly designated lead unit and person) to develop project proposals with sequenced action plans and strategies to address these aspects of PFM reform. Even as this is an inter-agency effort, there is strong support in the individual oversight agencies and this is manifested in the work of the internal committees reporting directly to their respective senior management teams. An Executive Order has been drafted for the President to consider so that these structures are given formal recognition and sustained through to implementation of the action plans. Annex A presents the composition and inter-agency structure of the PFM Reform Roadmap.

The PFM Reform Program

Statement of Reform Objectives

The PFM reform program seeks to clarify, simplify, improve and harmonize the financial management processes and information systems of the public sector and, as necessary, reengineer and integrate the relevant systems in the COA, DBM, DOF and implementing agencies. The desired result is that the national government is able to perform its functions of maintaining fiscal discipline, fund allocation efficiency and operational efficiency for effective delivery of public services.

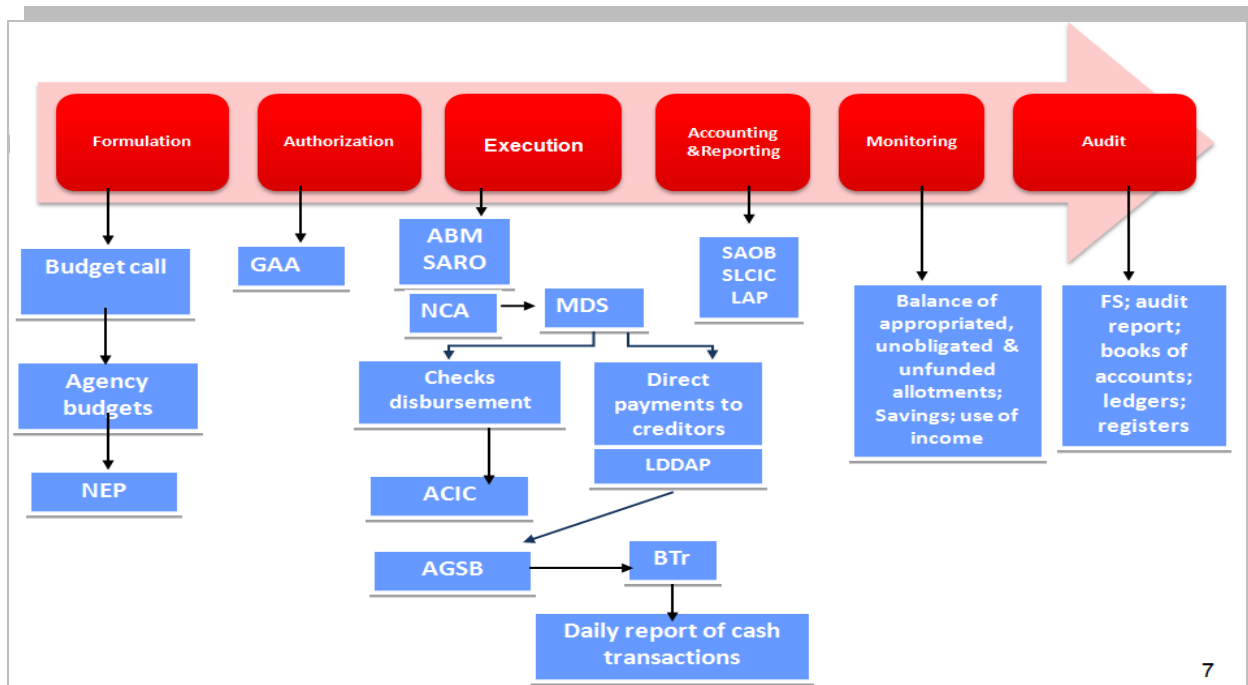
By 2015, it is envisioned that the core GIFMIS and a Treasury Single Account will be functioning to provide decision makers with the following benefits:

1. Real-time on-line monitoring and control of obligations and their direct links to cash disbursements for more effective financial control and accountability;
2. Consolidated financial management reporting requirements, using harmonized classification of budgetary, treasury and accounting accounts with standardized definitions for fiscal terminologies, as follows:
 - a. Budgetary accounts – appropriations, allotments, obligations and expenditures
 - b. Treasury accounts – cash flow statement of the National Treasury
 - c. General ledger accounts – assets, liabilities, equity, income and expenses
3. A single treasury account that provides BTr a more effective way of cash management, a more economical system for cash disbursements, and enables it to reconcile bank balances and remove revenue and expenditure floats;
4. A predictable and streamlined allotment and cash release programs throughout the year to support the operations of implementing agencies based on reliable cash forecasting and programming by DBM and the BTr;
5. Regular in-year reports on the status of budget execution, and timely year-end audit reports of agency financial and physical operations which will be used in the budget preparation process, the Congressional debate on agency budgets and performance, and the public's participation in the budget process; and,
6. Systematic recording and reporting of all liabilities of government entities including guaranteed and contingent liabilities to enable national government to manage its financial exposure.

Conceptual Framework

The financial transactions of the government can be characterized as a linear flow of activities from budget formulation, authorization, execution, accounting and reporting of expenditures, and monitoring and audit. Each main activity generates information and reports that are illustrated in the graph below:

Figure 1: PFM Process, Activity and Document flow



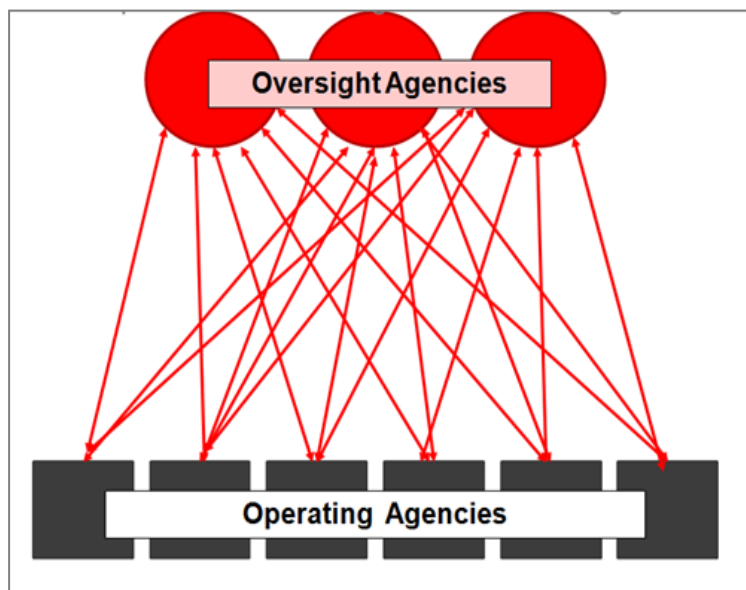
ABM	Agency Budget Matrix	MDS	Modified Disbursement System
ACIC	Advice of Checks Issued and Cancelled	NCA	Notice of Cash Allocation
AGSB	Authorized Government Servicing Bank	NEP	National Expenditure Program
BTr	Bureau of the Treasury	SAOB	Statement of Allotment, Obligations and Balances
GAA	General Appropriations Act	SARO	Special Allotment Release Order
LAP	List of Accounts Payable	SLCIC	Summary List of Checks Issued and Cancelled
LDDAP	List of Due and Demandable Accounts Payable		

There are critical gaps between the vertical columns of activities and reports because each is governed by a set of rules and procedures that have their respective system of collecting and analyzing data to complete said activities. For instance, the appropriated budget or GAA gives the level of authorized spending for agencies but funding availability is actually determined through DBM's budget release orders. Historically, amounts released are much lower than appropriated, due mainly to the chronic shortfall in revenues. Moreover, the amount of appropriations is usually difficult to determine due to the prevalence of reenacted budgets and substantial amounts of funds carried over from the previous year.

The system of budget execution generates budget accountability reports from spending agencies which do very little to explain the real financial performance of the agencies and the overall status of budget obligations and balances. This is partly the result of the disconnect between budget execution, reporting and monitoring. Financial reports are not presented in the same structure and expenditure classifications as the budget, hence making the analysis of agency budget performance impossible. The system is also found by the COA to be vulnerable to double-payment of accounts payable, non-transparent realignment of funds, and diversion of funds to unintended uses.

It follows that with the fragmentation of processes, financial information systems are also splintered, duplicative, exclusive and inaccessible to some important users. The tendency is for each oversight agency to develop its own set of data requirements, reporting formats, and definition of terms. The result is a messy traffic of documents and duplicative reporting requirements. Oversight agencies are unable to validate reports and the analysis is hindered by different budget and accounting classifications. The figure below illustrates this situation:

Figure 2: “Dealing with the Messy Traffic of PFM Reporting Activities”

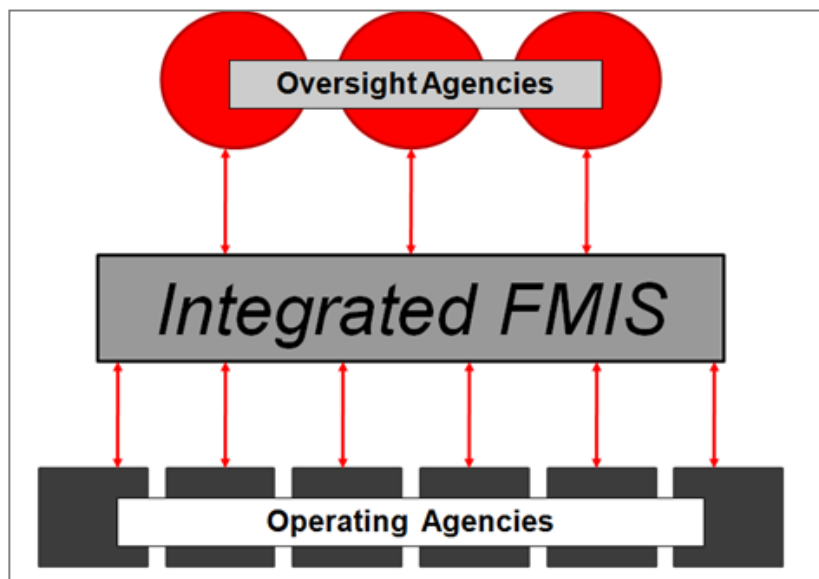


The government intends to replace this with a systematic and orderly flow of shared data to support PFM requirements. The objective is to use the GIFMIS to solve government's fragmented financial management system, underpinned by the effective integration of processes between COA, DBM and BTr, at its initial phase. Simplification of procedures and harmonization of reporting requirement will increase the chances of beneficial application of available integrated FMIS solutions to reduce development time and

cost (by considering, for instance, off-the-shelf software package solutions).

The figure below shows a typical model of a modular but integrated financial management information system.

Figure 3: “Integrated Financial Management Information System”



At the most recent planning workshop held in Tagaytay City on January 13-14, 2011, the group identified specific objectives and strategies for clusters of related activities in preparation for the tasking of groups that will carry them out. These are the proposed PFM reform projects and four of them are initially envisaged: Budget reporting and performance management, treasury cash operations, contingent liabilities, and GIFMIS conceptual framework.

Composite sub-committees consisting of organic personnel of COA, DBM and DOF/BTr were already created to work on the four projects.

Budget Reporting and Performance Management Project

Development of the GIFMIS calls for harmonizing data structures, simplifying and consolidating formats for collection of the data, and applying a consistent set of accounting rules and regulations for generating financial reports. A key aspect of this task is the harmonization of budgetary and accounting classifications so that expenditure reports can show the status, utilization and variances in the use of public funds, especially at the level of programs.

The desired result is that spending agencies are made accountable for the use of their budgetary program appropriations and oversight agencies are effective in seeing to it that the financial performance of government as a whole is in accordance with financial management plans and policies and fiscal risks and financial disasters are averted. This will be made possible with the enhanced quality of data and reports with the elimination of duplicative formats, increased reporting compliance by spending agencies, and cross-referenced financial data.

Budget Reporting and Performance Management Project: Sequenced Strategies

Short-Term Strategies

1. All available budget utilization reports submitted by agencies are published and made accessible to users through the COA and/or DBM website to encourage agencies to be responsible in providing the correct information in their reports;
2. Common reporting requirements of oversight and spending agencies will be mapped out to eliminate duplication and overlaps;
3. Harmonization of budgetary and accounting classifications and inclusion of budgetary accounts in the financial statements of agencies to enable the comparison of expenditures for programs/projects/activities with their approved appropriations; and
4. Definition of fiscal terminologies will be standardized.

Medium-Term Strategies

1. Comprehensive review and revision of the Philippine Government Chart of Accounts, the PFM Rules Manual and NGAS Manual to incorporate changes in data structures, definition of terms and inclusion of budgetary accounts in the financial statements of agencies; and
2. Piloting and technical support for agencies in the application of revised accounting and reporting rules and definitions.

Long-Term Strategy:

Design of the GIFMIS as translator of fiscal accounts

The outputs of this set of reforms are (a) accurate and timely reports on the status and utilization of appropriations, (b) enhanced NGAS that is compatible with classifications in the approved budget, and (c) streamlined reporting requirements to generate the common information needed by COA, DBM and BTr. The short-run goal is to produce quarterly reports within two weeks of the next quarter and the long-term goal is to generate real-time reports on budget utilization and financial performance through the GIFMIS. The group is going to publish consolidated and agency level budget execution and budget utilization reports submitted by agencies during the different stages of implementing the reforms in budget reporting, using the COA and DBM official websites.

The group envisions the reform of budget reporting to take the following broad steps. The immediate need is to improve the data structures to address duplications, allow cross-referencing, and reporting of budget appropriations. The medium-term strategies will focus on the comprehensive review and revision of various accounting guidelines and manuals, and supporting agencies in the preparation and submission of reports in accordance with the harmonized definitions, reporting requirements and accounting treatment of appropriations.

Development of GIFMIS applications as translator of fiscal accounts and as single FM database for generating and accessing real-time budget utilization reports will be the long-term strategy. GIFMIS will make possible in-year reporting on budget execution and eventually capture information to link these reports to those on performance under the Organizational Performance Indicator Framework of each agency. The project will also support capacity building and orientation of Congress members on the use of the reports to improve their oversight over the national budget, and for the public's, the CSOs' and other stakeholders' information and education on expenditure management issues.

The sub-committee for this project is led by DBM and COA officials.

Treasury Cash Management Operations Project

Among the important benefits from the GIFMIS is in facilitating cash management where accurate data on bank account balances, revenue and cash positions and fund utilization can provide fiscal managers with a reliable basis for cash flow forecasting, short-term financing, and maintaining appropriate daily cash balances. Spending agencies can then plan their operations with predictable cash release schedules. The objective is to increase operational efficiency of implementing agencies while minimizing the cost of treasury operations.

Through the GIFMIS, government also wants to consider ways of simplifying and streamlining fund disbursement arrangements. The electronic transfer of funds to creditors and employees can replace the complex layers of fund releasing and clearing procedures and forms. While doing so, the system can provide an accounting trail for cash transactions, hence assisting the COA in completing its audits without the usual wait for delayed fund releases and transmittal of documents. Moreover, it would enable government to reconcile its bank accounts daily and take action immediately on discrepancies appearing in the reports. Government will also be able to closely monitor the amount of funds that are held as bank floats in depository banks and consider the option of a transaction fee-based banking arrangement.

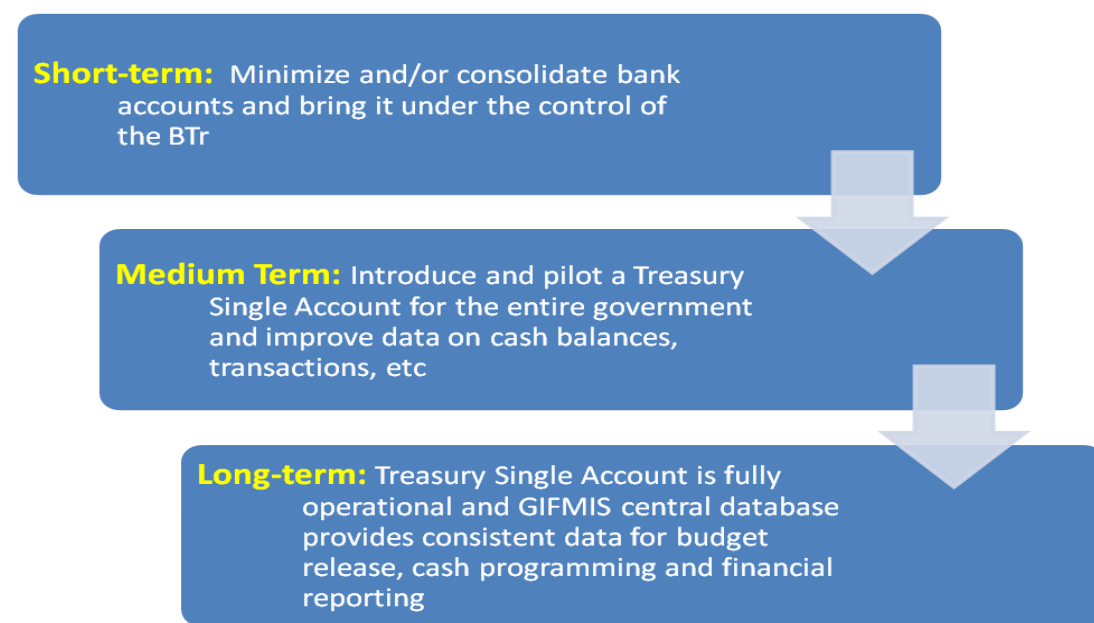
The output of the project is a **system of cash management that can keep daily cash balances of government at appropriate levels and the cost of treasury operations at a minimum**. At the core of these treasury management operations is a **single treasury account** which government is aiming to have in place by 2014.

The envisioned reform of treasury cash operations will start with an inventory of all existing bank accounts to close all dormant accounts immediately and determine which ones need to continue. Those that should be continued will be placed under a plan to reduce the number of bank accounts under the effective control and monitoring by the BTr. The GIFMIS Committee is going to initiate the issuance of a joint policy circular among DOF, DBM and COA to tighten the procedure for authorizing the opening and maintenance of bank accounts by government agencies. This will hopefully put a **stop to the practice of unauthorized opening of bank accounts** that allow agencies to hold on to unspent appropriations, income, and other forms of extra-budgetary resources for future use as discretionary funds.

The project will also undertake activities to restore the government's **cash programming functions** in the short-term. It will simplify fund release procedures and address critical control gaps in the payment of accounts payable.

The project will respond to the need for **capacity building to enhance the effectiveness of BTr, DBM, and COA in overseeing the use of government funds** as more cash management information is liberally and routinely shared. For instance, BTr access to reports of budget releases and checks issued would considerably improve the capacity of the agency to adjust its cash forecasts and borrowing program. Automation of monthly reconciliation of bank accounts would help the BTr staff in identifying discrepancies and unauthorized diversion of funds. The BTr will also have an important role to play in the verification of budget utilization reports by connecting cash disbursements to the agencies' budget appropriations, which can be incorporated in the design of the GIFMIS.

Figure: 4: Sequenced Strategies for Treasury Cash Operations



The long-term strategy of the project will be directed at the **configuration of treasury cash management information needs into the design of the GIFMIS**. For this the BTr and the other oversight agencies will need to develop IT applications to generate the reports on cash position and technical support for utilization, analysis and publication of GIFMIS-generated reports. The design of the GIFMIS will run in parallel with the transition to single treasury account which will start piloting in 2013 and be fully operational by 2014.

DOF-BTr and COA will take the lead in this project.

Management of Contingent Liabilities Project

The government has an existing policy to promote public private partnerships in the delivery of public services to modernize and expand the capacity of infrastructure facilities. The new administration is also adopting this as a major strategy to achieve growth targets in some key sectors. This however exposes government to contingent liabilities that can turn into real liabilities that are absorbed by the National Government.

The government sees the need to put in place a system for **managing government's exposure to contingent liabilities**. Current efforts are focusing on determining the level of exposure by developing a policy on valuation and risk assessment and management. The task also involves the establishment of a database of Government-Owned and -Controlled Corporations (GOCCs) to facilitate a centralized monitoring and management of guaranteed loans. The immediate output would be a complete list of contingent liabilities which will be useful for policymakers to identify and address concerns about legal limitations on government action to define or delimit the scope of certain types of contingent liabilities. The project also envisions the formulation of an integrative framework that can be implemented through an executive policy order or legislation to authorize the appropriate agencies to take the necessary measures.

For the medium-term, the project will get into comprehensively developing rules and regulations on

- Setting accounting standards for full disclosure of contingent liabilities
- Assigning the sole authority for issuing policies on contingent liabilities to the DOF
- Clarifying and enforcing a consistent policy on when and how the National Government should assume liabilities incurred by GOCCs
- Reviewing charters of GOCCs and considering the need to propose a law to clarify and reiterate accountable and transparent incurrence of contingent liabilities

The sub-committee for this project is led by DOF and COA officials.

GIFMIS Conceptual Development and Design

The task of developing an integrated IT solution to enable the GIFMIS to function as envisioned is assumed by a fourth project under this PFM Reform Roadmap. The objective of the project is to facilitate the evaluation of investment and implementation plans for the physical development of a working GIFMIS that can collect and organize financial information in a central database.

At the early planning stage, the project will see to it that modern and cost-effective IT options are considered in the policy decisions that government makes on the scope of the PFM reform program. It will also comprehensively assess existing capacity and ongoing projects that are currently operating in various government agencies.

One concrete activity that the government is planning to undertake is to move towards the **integration of electronic data management systems for fund releases and disbursements of COA (eBudget System), DBM (eBudget) and BTr (eMDS)**. This could be an interim measure to share and reconcile data on allotments, cash allocations, and bank balances, reconciliation of cash balances and replenishments and be able to develop a better monitoring or tracking system for daily inflow of collections and disbursements. This is likely to be an interim measure until government can migrate to a truly integrated financial management information system with a central database.

Over the medium-term period, the project will go into system design and technical specifications. The task will flow from an assessment of ICT skills and resources and government's ICT or e-government strategy framework. This involves the supervision of design consultants and the firming up of technical proposals leading to an investment decision by government over the medium-term. The project will assist the designated implementing agencies in handling the documentary and process requirements for the procurement of the ICT solution.

The following diagram (Figure 5) represents the desired operation of the GIFMIS as it supports the basic functions of the PFM system. With a common database in the center, the GIFMIS can provide consistent data and effectively induce transparent decision-making and financial transactions from budget formulation to execution, monitoring and audit.

Figure 5: Proposed Conceptual Framework for Philippines GIFMIS

