



# **Technical Assistance to the Health Sector Policy Support Programme in the Philippines (EC-TA HSPSP)**

**Technical Assistance to the DoH to Draft a Public Finance Management  
Reform Strategy**

## **Final Report**

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Technical Assistance to the Health Sector Policy Programme in the Philippines  
An EC-GOP joint Programme implemented by the DoH and F1 provinces



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## TABLE OF CONTENTS

<i>Acknowledgements</i> .....	3
<i>Abbreviations</i> .....	4
1. Executive Summary .....	5
2. Introduction.....	9
2.1 Background .....	9
2.2 The Goal of PFM Reforms.....	9
2.3 PFM Reforms to Support the Fourmula One for Health.....	10
2.4 Approach and Methodology.....	11
3. Summary of Key Aspects of PFM.....	12
3.1 Planning and Budget Preparation.....	12
3.2 Budget Classification .....	13
3.3 Medium-term Planning and Budgeting.....	13
3.4 Budget Execution.....	14
3.5 Internal Control .....	14
3.6 Audit.....	15
4. Financial Management Arrangements in the DoH .....	15
4.1 Budget Preparation.....	15
4.2 Budget Execution .....	19
4.3 Internal Control and Audit .....	23
5. PFM Reforms Implementation Plan .....	25
5.1 Budget Preparation.....	25
5.2 Budget Execution .....	29
5.3 Internal Control and Audit .....	30
Annex A: Terms of Reference .....	32
Annex B: List of Officials Met .....	36
Annex C: References .....	37
Annex D: Departmental Structure of Central DoH.....	39
Annex E: Briefing Note on Internal Control and Audit.....	40

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### *Abbreviations*

CoA	Commission on Audit
CHD	Centre for Health Development
DoH	Department of Health
DBM	Department of Budget and Management
eNGAS	Electronic New Government Accounting System
EXECOM	Executive Committee (of the DoH)
FMSC	Financial Management Support Centre
GoP	Government of Philippines
HR	Human Resources
HSEF	Health Sector Expenditure Framework
HSPSP	Health Sector Policy Support Programme
IA	Internal audit
IDC	Integrity Development Committee
MFOs	Major final outputs
MTBF	Medium Term Budget Framework
MTEF	Medium Term Expenditure Framework
NGAS	New Government Accounting System
OPIF	Organisational performance indicator framework
PAGC	Presidential Anti-Graft Committee
PEFA	Public Expenditure and Financial Accountability
PPAs	Programmes, projects and activities
PER	Public expenditure review
PFM	Public Financial Management
PPBDC	Programme Planning and Budget Development Committee
TA	Technical assistance
ToRs	Terms of reference

## **1. Executive Summary**

### **Background**

This DOH has commissioned the preparation of a Public Finance Management Reform Strategy as part of its objective of improving financial, procurement and logistics management systems as identified in its National Objectives for Health. It also aims to address observations and weaknesses identified in recent diagnostic studies undertaken by the DOH and its development partners.

During the HSPSP preparation stage, a public finance diagnostic study was undertaken. One of the study recommendations was for capacity building of financial management functions and staffing of DOH offices. The diagnostic also identified the need for strengthened monitoring and evaluation of the DOH budget and highlights the need to establish an appropriate organisational structure to carry the Finance Service forward.

In addition to the above, the recently issued WB Aide Memoire for the Philippines: National Sector Support for Health Reform Project (July 1, 2007-February 15, 2008) drew attention to the financial management performance in the DOH and its weakness due to staff shortages and issues related to workflow management. The Aide Memoire recommends that the DOH Executive Committee ensures that the shortage of FM staff at the Finance Service be addressed and recommends that a workflow analysis be conducted to help determine the adequate number of FM staff. The WB has estimated a shortfall of at least 16 vacancies in the Finance Service but this need to be verified prior to recruitment.

Moreover, the National Government has been implementing PFM reforms, which include the introduction of results-oriented budgeting frameworks and the computerization of accounting and budgeting systems. Thus, it is necessary that these PFM reforms are cascaded to the sector government agencies, such as the Department of Health, and to examine the likely impact on the numbers, distribution and skills required for effective public finance management in the DOH. The Philippines is in transition from a traditional line item budgeting, in which the governing concern is fiduciary control rather than active resource management. The process underway demands planning and budgeting systems are brought closer together and the Policy, Planning, Budget Development Committee (PPBDC) has been formed in support of this. Implementation of some of the reform agenda has commenced in the DOH but requires completion. Budget reforms and computerisations of the PFM functions at CHDs and hospitals are still at early stages and a functional analysis of finance functions at these institutions is currently underway.

In the light of the above, it has now become necessary to review the current institutional structure of the finance functions of the DOH, including staff and resources and for appropriate recommendations with a view to effecting changes that will improve the institutional efficiency of the organisation.

The following summary recommendations are made from this consultancy and are included in an action plan in section 5:

### **Budget preparation**

- The DoH should undertake, as a priority, a review of all planning processes in the DoH including at CHD and retained hospitals with a view to agreeing, with all stakeholders including section and programme managers and the finance service, an annual timetable that will ensure that programme, activity and project plans are prepared and costed and that resource requirements are estimated as part of this planning process. These resource requirements should be the basis of budget requirements submitted by programme managers to the finance service and planning division.
- The revised planning timetable should be reviewed and approved by the Secretary of DoH, EXECOM and the recently created (June 2006) Program Planning and Budget Development Committee (PPBDC). The PPBDC should be immediately tasked with supervising this review and should meet at least monthly to discuss issues and review and approve recommendations.
- While budget preparation guidelines and timetables are of a good standard and seem to be well understood by budget managers in the DoH, there is a need to ensure joint working of the planning and finance sections in the supervision of budget preparations at all levels in the DoH. A detailed review of budget preparation processes at each level in the DoH (sections, programmes, CHDs and hospitals) is needed to begin the shift from incremental line item budgeting to activity based budgets with consistency across cost centres, using appropriate costing techniques and in keeping with any revised timetable as above;
- The budget timetable for DoH planning and budget preparation should reflect the MTEF process in the wider GoP from the submission, by the DoH, of its strategic budget submission (with costs of on-going programmes, changes to these on-going programmes and any planned new programmes or activities), through to its own internal resource allocation and planning process (should be led by the PPBDC), through to the preparation of annual budgets;
- The payroll preparation process should be reviewed with a view to preparing personnel budgets based on staffing requirements of each programme or section. The use of payroll software, linked to the HR database, should be considered. The practice of funding establishment levels rather than staff in post is adding to delays in recruiting much needed staff for various vacancies in the DoH and ought to be reviewed as part of a more detailed study of how DoH personnel costs are financed by the DBM.
- Planning division should strengthen the coordination the planning process and supporting managers in understanding what is required of them, while all costing and finance related work should be the responsibility of finance service. The preceding

should be coordinated with the programme managers. Where joint working is required, this should be coordinated by the PPBDC or a nominated sub-committee or technical expertise as and when needed;

### **Budget execution**

- The DoH should, as a matter of priority, establish a cost-centre framework to reflect an agreed structure for reporting financial and other performance information for the main programmes/projects/activities of the department. Budget preparation for each cost-centre should be based on a planning process (see previous section) and a monthly management accounting process should be established using up-to-date expenditure information from the accounts division and based on pre-agreed formats for reports, identifying cost-centre managers, a clear reporting timetable during the year and with the level of detail in reports to be agreed with each of the users of the information;
- Monthly management accounting should be done for personnel, non-salary and capital expenditure for each cost-centre using actual expenditure data obtained from the accounting division, not appropriations or approved allocations;
- The DoH should review the ToRs for the recently created PPBDC, the Technical Coordinating Group for Health Sector Reform and the Technical Working Group on Expenditure Management and Monitoring to establish the information needs of each of these bodies and whether the actions to be taken (recommended in this report) will help meet their financial information needs;
- Because it was not possible on this consultancy to review and verify the ‘virement’ regulations in the GoP and practices within the DoH nor to review and verify levels of delegated financial powers, it is recommended that these are reviewed as part of a more detailed review of accounting arrangements in the DoH;
- The DoH should undertake an annual PER based on international good practice and which looks at all aspects of public expenditure in the department and across programmes. This will inform resource allocation decisions and provide useful information on a regular basis to feed into any rolling medium term planning and budgeting processes that form part of the GoP MTEF process;
- The DoH should consider obtaining support from the DBM and/or an external partner to assist with the complete roll-out of the eNGAS system both to spending agencies in the DoH (CHDs and hospitals) and to the wider accounting functions of the finance service to enable it to automate all aspects of budget preparation and expenditure management, and to help establish a basis for financial reporting and management accounting as recommended above. To this end, staffing shortages that have been identified in the finance service as part of the rationalization plan recently drafted by the DoH, should be addressed as a priority for the DoH.

### **Internal control and audit**

- The existing vacancies in the internal audit service should be filled without further delay, especially the posts of head and deputy head. Consideration should be given to the grading of the post of head and whether it can be staffed at assistant secretary level;
- The IA service does not have any systematic or risk-based approach to auditing or audit planning, has no formal processes for reporting to senior management or an audit committee and generally struggles to maintain, in any effective way, any significant coverage of the operations of the department of health. Some relatively easy steps would involve the establishment of an audit committee, chaired by the Secretary (or undersecretary in his absence) and reporting to, say EXECOM on a regular basis;
- The internal audit service should be staffed immediately to the full sanctioned strength as included in the rationalization plan but with a view to further strengthening the staffing levels if it is deemed appropriate. It is felt by this reviewer that the strengthening of the IA function in the DoH would go a long way to meeting the objectives of the IDC initiative given that a properly functioning internal control system should already provide for protection of the integrity of the organization. In the meantime, DBM and the PAGC should consider drafting generic (or updating existing) procedures and policies for the GoP and not delegate this to various lines departments. It should be further considered that the management service of the finance department might serve better the requirements of the IDC initiative given that they are currently charged with reviewing the financial rules and regulations of the DoH.

## **2. Introduction**

### **2.1 Background**

The Government of the Philippines, with the support from the European Union and the World Bank, implements the Health Sector Policy Support Programme (HSPSP) at the Department of Health (DOH) central offices and 16 convergence provinces. The HSPSP is supported through Technical Assistance (TA) from the European Commission (EC). This consultancy is provided through the latter.

### **2.2 The Goal of PFM Reforms**

The aim of PFM reforms is to begin to implement much higher standards of management and accountability in the mobilization of all government and development partner resources and to ensure effectiveness and efficiency in the use of these resources. The long term objective is to transform the DoH's PFM system into one that features what are generally accepted as the best international standards. Changes of this nature are medium term in nature and, as a result, this consultancy has identified the early stages that can and should be undertaken in the process of PFM reform. The PFM cycle is widely recognised to follow 3 key but concurrent and interrelated stages – budget credibility and comprehensiveness; budget execution; and, internal control and audit – and this report is structured in the same way.

In the first stage the aim is to make the budget credible as an instrument of strategic and operational management of public resources by ensuring that it delivers resources reliably and predictably to managers in the department. In order to do this, the DoH should consider the planning process and the linkage to the annual budgeting cycle, ensure that, where possible, a programmatic approach is developed that will allocate resources to priority programs and activities but in doing so ensure that performance is monitored against agreed targets. The linkages between the annual planning process, the OPIF and the emerging MTEF initiative will be crucial here.

The second stage in budget execution seeks to ensure that good information is available to managers at all levels in the DoH so that performance and targets established above can be monitored and measured against pre-defined goals and corrective action can be taken as and when needed. A well structured management function staffed by adequately skilled officers in the DoH are essential as are good practices and procedures for ensuring that accounting and financial information is timely, reliable and accurate. Management accounting and financial reporting, good quality financial and activity information, appropriately senior management committees to demand information and with authority to take corrective action as and when the need arises and adequate IT skills, tools and support are essential in this regard.

Thirdly, improvements in the internal controls of any organization are essential and are required as on an on-going basis. As circumstances change and new risks emerge, say with new streams of funding or changes in the administrative and political environment, internal controls must also be updated. The importance of the internal audit function of

any organization in this regard is central. Internal controls should: hold resource managers accountable; improve lines of accountability by clarifying roles, functions, and responsibilities; improve accounting data and management; enhance reporting for managerial and performance management purposes; and improve both internal and external auditing.

### **2.3 PFM Reforms to Support the Fourmula One for Health**

Strengthening PFM in the DoH is essential if the goals established for the health sector are to be met through achievement of targets set under each of the 4 pillars of the Fourmula One for Health. In each of the 3 elements of the budget cycle the following benefits can be realized:

1. **Budget preparation:** By instituting a multi-year planning initiative as described above under the MTBF arrangement and strengthening the linkages between planning, costing and budgeting, the DoH would be able to more easily match resources with stated goals for the public health sector and thereby improve sectoral strategic planning. The resulting allocative efficiencies associated would ensure that current trends in budget allocation and expenditure would feed directly into the next planning cycle. The requirement to prioritise certain programs, projects and activities over others would be more transparent and structured with resource allocation decisions made using up-to-date performance and accounting information. Plans would be costed and budgets calculated on this basis.
2. **Budget execution:** By developing a cost-centre framework which can clearly allocate all costs to a programme, project or activity, a clear reporting timetable, monthly management accounting, strengthening the PPBDC, the Technical Coordinating Group for Health Sector Reform and the Technical Working Group on Expenditure Management and Monitoring and completing the roll-out of the eNGAS system, governance in the DoH would be improved. Financial management and reporting systems are essential for effective and efficient delivery of health services and form the basis for strengthening performance management, transparency and accountability.
3. **Internal control and audit:** By filling vacant internal audit posts, developing a risk-based audit programme, establishing an audit committee and reviewing the work of the IDC committee, management of the DoH would be able to draw assurance from these systems that the assets of the organization were effectively protected. The operation of an efficient internal control system and an effective internal audit function are essential to ensure that weaknesses in internal controls are highlighted and reported to management. Systems and procedures to protect the human, physical and financial resources of the department are crucial.

## **2.4 Approach and Methodology**

This consultancy will focus on drafting a PFM reform strategy for the central DoH FMSC in the context of: wider health sector reform goals (the so-called Fourmula One for Health); the on-going and planned PFM reforms in the GoP; and, on good international best practice and on what, in the experience of this PFM consultant, is likely to work and what is achievable in the short to medium term in the Philippines. It was discussed at critical points with FMSC senior managers and DBM and their approval was sought for any recommendations, workplans and reforms suggested – it is they who will be responsible for eventual implementation of any reforms. The terms of reference for the assignment are included in Annex A.

There is no internationally recognised normative methodology used in designing PFM reforms of this type – the PEFA tool and other fiduciary risk assessment tools are detailed and comprehensive diagnostic tools which look at all aspects of PFM but do not inform government agencies how to go about reforming PFM systems. To a certain extent one could argue that the Diagnostic Study prepared in 2005 already provides a foundation analysis and so need not be repeated.

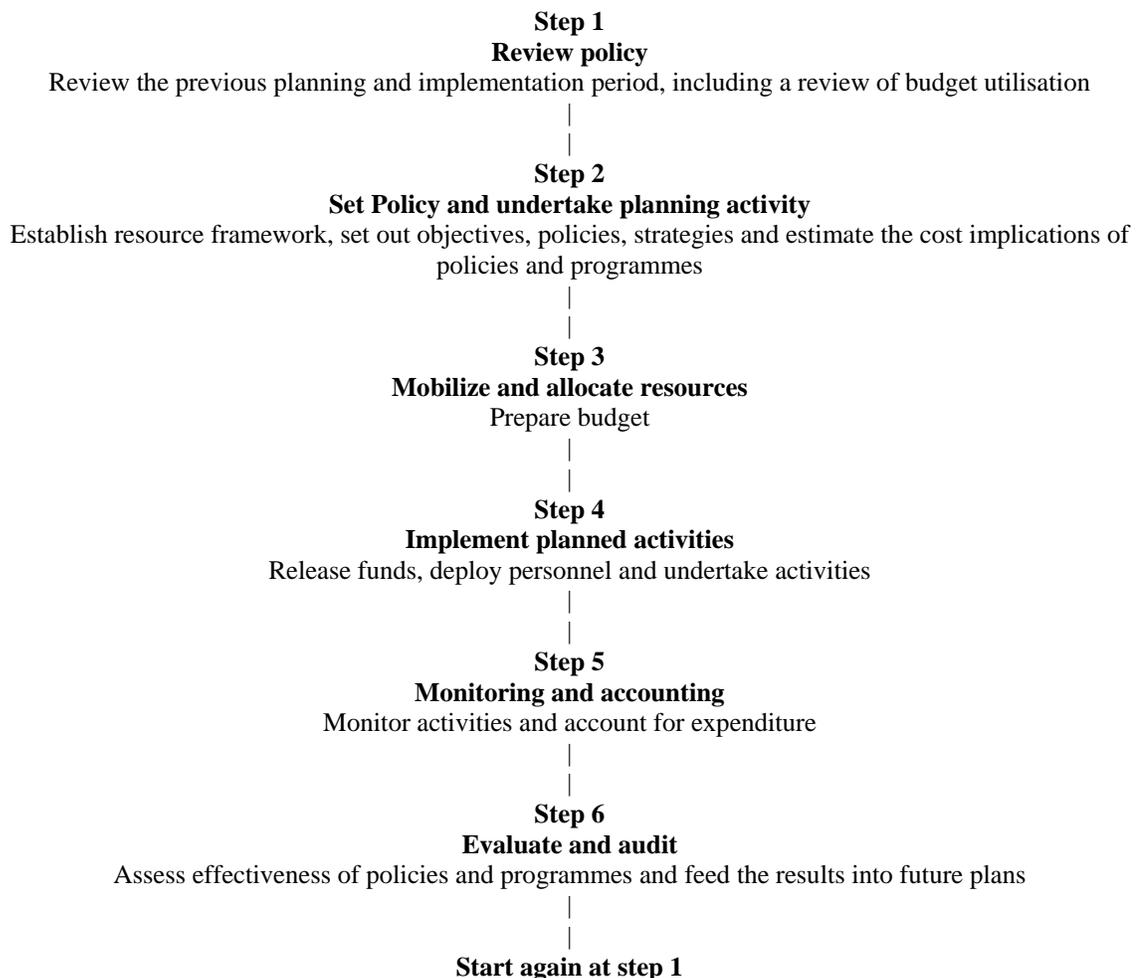
This assignment attempts to review the main PFM arrangements in the central DoH FMSC and, in conjunction with a review of any diagnostics studies done to date, identify the strengths and weaknesses in these PFM arrangements. This was done in the context of on-going reforms mentioned above, in light of international best practice. Relevant reports and literature were reviewed, key staff in each section of FMSC were interviewed, and an understanding of wider PFM reforms obtained from other offices outside the DoH.

### 3. Summary of Key Aspects of PFM

#### 3.1 Planning and Budget Preparation

In practical terms, the budget in any country or organization is the means of allocating financial resources to achieve the objectives of the entity. In theory, the budget is a management tool for national economic and fiscal planning, is the communication of a plan for a given period expressed financially, and is a means of controlling and monitoring the use of funds. Effective planning of programmes and activities should precede budget preparation so that the main policy priorities of government, articulated in national and sector strategies, can be translated into manageable components and subsequently costed to determine affordability. The preparation of budgets should then follow at the end of this process in the form of annual budget submissions made to the central finance department.

Planning, costing and budgeting should follow the following management cycle:



### **3.2 Budget Classification**

Good financial information is essential in budget management systems. Without good information it is impossible to measure expenditures and assess how effective budget allocations have been in meeting government goals and objectives. It is also important to note that financial data is not the same as financial information. What became clear very early on during this mission was the widespread unavailability of reliable financial information with which to analyse expenditures in the health sector and form a judgement on whether expenditures were aligned with government objectives for the health sector. Findings here are discussed in more detail in the next section but for now, while plenty of financial data was forthcoming during the visit it was inconsistent and gave little or no indication of how much was spent where and on what, let alone trying to measure performance at any level.

Classification systems, in any country, should allow analysis of what was spent where and by whom. This should be underpinned by an agreed approach to coding each item of expenditure (economic or 'object' classification) in the chart of accounts and by a systematic (codes clear at the outset of budget preparation) and extensive (across the whole country) approach to coding of expenditure by 'function', 'sub-function' and 'programme'. The various characteristics of the MTEF/OPIF, work and financial plan and annual operational plans and their linkages to the budget preparation process are analysed in the next section.

### **3.3 Medium-term Planning and Budgeting**

Medium term planning and budgeting, usually in the form of an MTEF, usually takes a 3-year time horizon and is based on the commitment, into the medium term, of top-down allocations for government priority programmes allocated across well costed bottom-up programmes from line departments. In calculating macroeconomic projections and estimates, and so called 'fiscal space', departments of finance usually calculate the ceilings for 3 to 5 years for spending departments, ministries and agencies with the first year estimate firmed up in advance of the annual budget preparation process. Two subsequent years' projections are also calculated and provided to line departments who, in turn, must provide clear goals, objectives and outputs to be achieved with the additional resources to be given.

During the negotiation phase, a line department that demonstrates to the finance department a strong capacity to implement a priority programme may gain funds at the expense of ministries with less well developed proposals. A challenge for line departments is to be an active participant in this by developing a good sector MTEF or 'bottom-up' process of estimating their likely demand for resources in the form of directorate and/or departmental requests for a greater share of the available cake. An early critical choice in the development of the MTEF structure for line departments is the choice of categories for which budgets will be projected and resources allocated. The choice of programmatic categories, as mentioned above, needs discussion and debate and

will be based to an extent on the existing structure of service delivery but will be required also to reflect the main programmes to be undertaken to achieve government goals.

### **3.4 Budget Execution**

The ability of government financial management systems to enable line departments to implement the budget, as agreed, is crucial in determining the quality and coverage of delivery of public services. Where the composition of expenditure varies considerably from the original budget figures and where access to budget is not smooth throughout the year, the budget, as a statement of policy intent, will be meaningless.

Effective execution of the budget, in accordance with the work plans, requires that spending departments receive reliable information on availability of funds within which they can commit expenditure. This may be undermined by poor access to budgeted allocations during the year and this in turn may (and often does) lead to a downward revision of allocations in the revised budget estimates. This can be partly explained by the absence, at most levels of government in many countries, of basic management accounting throughout the year which would enable management to analyse underperforming activities and take corrective action accordingly.

### **3.5 Internal Control**

The quality of the internal controls systems within an organization affects the fiduciary environment and hence the efficiency of public spending. Organizations and the systems within them are susceptible to a wide variety of weaknesses and risks resulting in the possibility of poor performance, error and/or abuse. Senior management, therefore, introduces and maintains control procedures and techniques to ensure that organizational objectives are achieved and public standards are met. Internal control may be weakened by accident or design by management or staff, or by failure to respond to changing circumstances. Control needs may change over time to meet changes in external circumstances, methods of processing, priorities or other factors. Environmental factors, such as changes in funding sources or mechanisms for accessing government budget, may affect the performance of a system. Management should review controls to ensure they remain relevant and adequate to meet changing control requirements.

An organisation's internal control system, therefore, can be defined as the whole network of systems established to provide reasonable assurance that objectives will be achieved, with particular reference to: (i) the effectiveness of operations; (ii) the economical and efficient use of resources; (iii) compliance with applicable policies, procedures, laws and regulations; (iv) the safeguarding of assets and interests from losses of all kinds, including those arising from fraud, irregularity and corruption; and (v) the integrity and reliability of information, accounts and data.

The role of internal audit, in turn, is based on the presence of an adequate, effective and reliable set of internal controls. Any audit will begin by assessing the controls in place and indicating where the controls are failing or are inadequate i.e. testing their adequacy.

In international best practice, there are 8 categories or benchmarks of internal controls including: (i) segregation of duties; (ii) organizational structures are effective; (iii) appropriate levels of authorization and approval adhered to; (iv) physical safeguards to protect personnel, assets, systems and records; (v) management review and monitoring take place; (vi) accounting and arithmetical controls are effective; (vii) personnel and staffing levels are appropriate; and (viii) supervision of controls and systems is effective. The next section considers each of these in the context of the health sector in the Philippines.

### **3.6 Audit**

The internal control system in any organization develops over time and it is strengthened through its internal audit function. The internal audit department of any organization, private or public, is an integral part of the management of that organization and performs its work for and on behalf of the management. It can be defined as an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

The approach adopted is that an audit plan is usually developed based on a risk assessment – this should be updated at least annually. Senior management, through an Audit Committee (with non-finance members) helps to formulate the plan. The findings and recommendations included in a standard internal audit report are reported to the management of that organisation. Management should then act upon these recommendations with the result that subsequent internal audits would begin by reviewing previous recommendations and whether or not management was seen to act in response. Internal audit is based on a systematic methodology for analysing business processes or organizational problems and recommending solutions. Internal audit work is often relied upon by external auditors to help target external audit to areas of greatest weakness and to avoid duplication.

A summary of the main features of internal control, internal audit and external audit is included in Annex E.

## **4. Financial Management Arrangements in the DoH**

### **4.1 Budget Preparation**

The quality of the linkages between planning and budgeting exercises in any organisation will determine how well the stated objectives of that organisation are actually translated into resource allocations decisions. A starting point is the sequencing of events in the planning/budgeting calendar and whether or not detailed budget preparation exercises are preceded by a sound planning process which takes as its starting point the main strategies

for the sector and the goals and objectives that have been set. Section 3.1 above outlines the basic steps that should be followed.

Within the central DoH, several planning exercises are being undertaken as follows:

- The DoH has been an active participant in the Organisational Performance Indicator Framework (OPIF) initiative with DBM and has established clear programmes/projects/activities (PPAs) around a set of organisational outcomes and major final outputs (MFOs). Each of the PAPs has been costed, in a joint effort between service heads and the planning division of the DoH, using financial information derived from the previous financial year's GAA approved budget allocations;
- There is an operational planning process which involves bottom-up preparation and collation of various service, programme, CHD and hospital action plans including estimates of costs to be incurred;
- The DOH central office, CHDs and hospitals prepare Work and Financial Plans based on the approved budgets as posted in the General Appropriations Act (GAA). This is, in effect, doing the plan after the budget; and,
- As part of the annual budget preparation process, service heads, programmes, CHDs and hospitals are required to prepare their required budgets (excluding payroll) for the coming financial year. These individual budget requests are collated in budget division of the central finance office and form the basis of the budget that is then submitted to, and negotiated with, the Department of Budget Management (DBM).

In addition, the DoH has prepared its 2005-2010 sector strategy; has recently commissioned a study which has been termed the health sector expenditure framework (HSEF); and, is now required to respond to the requirements of the DBM's medium term expenditure framework (MTEF) approach to planning and budgeting.

There appears to be some overlap in the planning exercises in the DoH at present and on which the following observations are made:

- There is minimal contact, let alone pooling of expertise and resources and sharing of information, between the finance and planning sections of the central DoH in the coordination of the planning and budgeting cycles through-out the year. The annual budget prepared by the section heads, collated by the budget division in finance, and then submitted to DBM for the approval of congress and the president, bears little relation to the various planning efforts as described above. This incremental approach, predicated on assumptions for growth and inflation, serves to perpetuate inefficiencies and imbalances in inputs and resource allocation decisions and suppresses involvement in budget preparation to the lower levels of the department. The sight of goals and objectives for the department can be lost with incremental

budgeting along with an opportunity to develop a budget or budgets based on the agreed priorities for health service provision and delivery;

- The costing work that has been undertaken for the OPIF MFOs, the operational plans and the work and financial plans is undertaken by the planning division and against a largely arbitrary timetable. The OPIF costing work appears to have been a one off exercise with little or no inputs from the finance department. Similarly, efforts to prepare and cost the work and financial plans for CY2008 only commenced in April 2008 after the GAA was approved in congress (the stated target being that they should be completed by July 2008). It is unclear what purpose is served by producing costed plans in July 2008 for the year which began in January 2008;
- It is unclear what the linkages are between the health sector strategy, the OPIF exercise and the HSEF. The sector strategy should be based on an analysis of the health needs of the population, should show the priority areas to be tackled, how these needs will be met and what it might cost to meet these needs. This approach results in a sector strategy with clear goals and targets, an outline of the main programmes and activities, and estimates of the resources required, which is then reflected in annual plans and budgets. At present in the DoH, the sector strategy does not appear to link to the OPIF MFOs, the HSEF provides only a very high level analysis of where resources are being consumed and the annual planning and budgeting processes appear to be back-to-front with little real linkages between the two;
- It is unclear how the costings for OPIF have been done and what costing methodology(ies) has (have) been applied. Approaches to costing, such as activity-based, absorption or marginal costing techniques, all require good financial information (for cost and/or responsibility centres), some analysis of cost behaviour and the application of specific costing techniques for treating direct, indirect and overhead costs alongside units of output;
- Communication between the various section and programme managers is rigid and formal and this results in unjustified and inconsistent requests for increases being submitted to the finance service. The lack of defined objectives and this adherence to an incremental approach deny the DoH the opportunity to develop a budget based on their priorities or to measure their performance;
- Given that establishment levels are fixed and staff appointed within approved establishments, there is little or no manpower planning exercise associated with the budget preparation process. Bureau chiefs and programme managers prepare non-salary budgets in isolation of the salary cost implications of the services they are charged with delivering and there is no incentive for the DoH to review staffing with a view to employing appropriate numbers in light of the services it has agreed to deliver. Payroll estimates are prepared centrally by the HR Bureau. Full authority has been delegated to the DoH by DBM under which the DoH receives the full budgetary allocation for all approved/established posts (i.e. funding not based on actual staff-in-post);

- The preparation of, in effect, three separate budgets (salary, other expenditure and capital) by departments and personnel within the DoH has the potential to result in uncoordinated budgets, inefficient deployment of resources and operational inefficiencies especially where capital expenditures have not been properly recognized in recurrent cost budgets. For example, it is unclear how the capital budget ceiling is established for the DoH and, in turn, how this is then allocated to various sections, programmes, CHDs and hospitals within the DoH. It has also been common practice for resources to be shifted from the ‘other expenditures’ category to capital expenditure after budget approval;
- Despite recent budgeting developments and initiatives started in the DOH, on the whole the budget submitted by the DoH (like all line departments) is prepared on an incremental basis with incremental increases, predicated on assumptions for growth and inflation, which serve to perpetuate inefficiencies and imbalances in inputs and resource allocation decisions. Involvement in budget preparation seems to remain at lower levels of the DoH. The sight of goals and objectives for the department can be lost with incremental budgeting along with an opportunity to develop a budget or budgets based on the agreed priorities for health service provision and delivery. Performance measurement, both physical and financial, is also hampered by the lack of an integrated and informed budget;
- Because the MTEF process is still not fully institutionalised in the GoP, and in the absence of meaningful DBM-produced resource estimates, the DoH is not given a formal ceiling nor any indicators of growth or inflation factors for use in the preparation of budget estimates into the medium term. The result is a perpetuation of the incremental approach to budgeting and a mathematical projection of past-year’s budgets into the following two financial years;

### ***Recommendations***

In order to strengthen the planning process and ensure that budget preparation is linked to operational and/or medium term plans the following recommendations are made:

- The DoH should undertake, as a priority, a review of all planning processes in the DoH including at CHD and retained hospitals with a view to agreeing, with all stakeholders including section and programme managers and the finance service, an annual timetable that will ensure that programme, activity and project plans are prepared and costed and that resource requirements are estimated as part of this planning process. These resource requirements should be the basis of budget requirements submitted by programme managers to the finance service.
- The revised planning timetable should be reviewed and approved by the Secretary of DoH, EXECOM and the recently created (June 2006) Program Planning and Budget Development Committee (PPBDC). The involvement of DBM is recommended to ensure that timing of events is in keeping with the budget calendar. The PPBDC

should be immediately tasked with supervising this review and should meet at least monthly to discuss issues and review and approve recommendations.

- While budget preparation guidelines and timetables are of a good standard and seem to be well understood by budget managers in the DoH, there is a need to ensure joint working of the planning and finance sections in the supervision of budget preparations at all levels in the DoH. A detailed review of budget preparation processes at each level in the DoH (sections, programmes, CHDs and hospitals) is needed to begin the shift from incremental line item budgeting to activity based budgets with consistency across cost centres, using appropriate costing techniques and in keeping with any revised timetables above;
- The budget timetable for DoH planning and budget preparation should reflect the MTEF process in the wider GoP from the submission, by the DoH, of its strategic budget submission (with costs of on-going programmes, changes to these on-going programmes and any planned new programmes or activities), through to its own internal resource allocation and planning process (should be led by the PPBDC), through to the preparation of annual budgets. This will require support to begin to develop a medium term approach to planning and budgeting within the DoH, linked to the OPIF indicators and outputs and using a rationalized approach to planning costing and budgeting to link the annual budget preparation process to this medium term perspective and to ensure that the priorities of the DoH are funded into the medium term by beginning to prepare medium term programme and activity budgets;
- The payroll preparation process should be reviewed with a view to preparing personnel budgets based on staffing requirements of each programme or service. This review did not review payroll preparation practices in the HR Bureau but it is good practice for calculation of salaries, wages and allowances for budget and payment purposes to be separated from the HR function of any organization. The use of payroll software, linked to the HR database, should be considered. The practice of funding establishment levels rather than staff in post is adding to delays in recruiting much needed staff for various vacancies in the DoH and ought to be reviewed as part of a more detailed study of how DoH personnel costs are financed by the DBM.
- There is a requirement for all of the above processes to be the joint effort of planning and finance and led by the PPBDC. Planning Bureau should focus on coordinating the planning process and supporting managers in understanding what is required of them, while all costing and finance related work should be the responsibility of finance service. Where joint working is required, this should be coordinated by the PPBDC or a nominated sub-committee or technical expertise as and when needed;

## **4.2 Budget Execution**

Key aspects of budget execution in public financial management include timely access to budget throughout the year, some measure of expenditures against budgets, aggregate

budget outturn, the existence of good management accounting and financial reporting and the classifications used in budget preparation and expenditure reporting.

The terms of reference for this consultancy originally provided for a national consultant to review in detail the working practices of the finance service of the central DoH involving a review of the roles, duties and responsibilities of the finance staff, office outputs and, in general, undertake a detailed review of staffing levels and work practices of the finance function. Because a local expert was not recruited for this assignment these tasks remain outstanding.

In the DoH, the following observations are also made:

- Non-payroll budgets for programmes, services in the central DoH, CHDs and retained hospitals are calculated by the heads of the relevant services and collated in finance service in central DoH but monitoring and management accounting of expenditures are not currently done. There is no 'cost centre' approach to performance management in the DoH whereby budget managers, with responsibility for delivering certain services against predetermined targets, are delegated the responsibility (including financial responsibility) for achieving these targets. This is not to say that there is no accountability currently within the DoH. However, it is virtually impossible to measure the financial aspect of performance without sufficient management accounting and reporting mechanisms in place that, on at least a monthly basis, provide an analysis of expenditures (not appropriations or commitments) against budget for detailed classification codes and/or summary programme codes for all salary, non-salary and capital budget transactions, and for each cost-centre through-out the organization;
- Once non-salary budget preparations are completed for the central DoH, CHDs and hospitals there is no follow up during the year on expenditures against these budgets or on performance. The budget division in finance does monitor, report on and approve budget appropriations but this is for central expenditures only (the 2005 Diagnostic Study estimated that this represented only approximately 10% of total DoH budgeted expenditure) and is not based on real-time transaction based accounting information taken from accounting software;
- There are regular delays in getting congressional and presidential approval in time to approve the General Appropriations Act and this often results in DBM having to revert to previous year's GAA for the 1<sup>st</sup> ¼ of the year, or longer if delays persist. This use of a reenacted budget delays any new activities. While this is not something that the DoH can actively influence, it does underline the need for realistic budget preparation based on operational plans which take account of the (possible) slower releases of cash in the first few months of the year. It also reinforces the need for good management accounting information to ensure that resources are available where needed and that corrective action can readily be taken by senior management of the department if/when access to budget does become a problem at the national level;

- It was not possible on this consultancy to review and verify the ‘virement’ regulations in the GoP and practices within the DoH and whether savings from personnel budgets can be used to meet overspends in other budget heads. This should be reviewed as part of a more detailed review of accounting arrangements in the DoH;
- Similarly, it was not possible on this consultancy to review and verify levels of delegated financial powers to managers and personnel throughout the DoH to ensure that appropriate levels exist in keeping with the needs and responsibilities of each level of manager. This should be reviewed as part of a more detailed review of accounting arrangements in the DoH;
- It is unclear what the information requirements are/were of the PPBDC, the Technical Coordinating Group for Health Sector Reform and the Technical working Group on Expenditure Management and Monitoring, what kinds of information they actually receive and what kinds of decisions they make using this information. From this brief review, it appears that if indeed they still do meet on a regular basis, they are unlikely to get accurate and timely information at periodic intervals throughout the year to monitor expenditures, gauge performance and take corrective action as and when required. It is clear that if this information is not needed at the central DoH then these responsibilities ought to be devolved, in agreement with the DBM, to the appropriate management body which would also assume responsibility for calculating and agreeing budgets with DBM. As mentioned above, at present central DoH helps set budgets for CHDs and hospitals but play no part in monitoring expenditures;
- There is no systematic review of expenditures in the DoH such as, for example, a spending review (often known as a public expenditure review – PERs) by policy/planning bureau jointly prepared by the planning and finance and which would review the equities, efficiencies and effectiveness of various aspects of the work of the DoH and measure performance against various national and international best practices and against stated goals and objectives set for the DoH;
- The NGAS accounting reforms are well established across government and eNGAS has been introduced to automate accounting transactions. However, it appears that the finance service of DoH is using only the accounting module of eNGAS and not the budget and treasury modules. The ebudget module is currently only used in DBM for consolidation of the national budget. There are also plans to roll out eNGAS to CHDs and hospitals, however, given the limited human resources within the finance service they appear to be struggling to be able to manage such a significant exercise. Automation of complex accounting functions in any organization often require additional outside expertise and support and it is likely that the DoH will also need such support if it is to roll-out in an ordered and systematic way, any systems based solutions on such a scale.

## *Recommendations*

In order to strengthen PFM arrangements in the DoH by ensuring budget execution is in keeping with planned objectives, the following recommendations are made:

- The terms of reference for this consultancy originally provided for a national consultant to review in detail the working practices of the finance service of the central DoH involving a review of the roles, duties and responsibilities of the finance staff, office outputs and, in general, undertake a detailed review of staffing levels and work practices of the finance function. Because a local expert was not recruited for this assignment these tasks remain outstanding and should be carried out by a well-qualified (in accounting in general and possibly with some government or public sector accounting experience) local consultant. An international expert should be used only where an appropriate local consultant cannot be hired;
- The DoH should, as a matter of priority, establish a cost-centre framework to reflect an agreed structure for reporting financial and other performance information for the main programmes/projects/activities of the department. Budget preparation for each cost-centre should be based on a planning process (see previous section) and a monthly management accounting process should be established using up-to-date expenditure information from the accounts division and based on pre-agreed formats for reports, identifying cost-centre managers, a clear reporting timetable during the year and with the level of detail in reports to be agreed with each of the users of the information. For example, the cost centre manager, concerned with what resources have been used and how the budget is being utilized, will require more detailed accounts than the PPBDC which will be concerned with overall performance of main programmes and, therefore, require summary financial information which it will then compare against non-financial indicators;
- Monthly management accounting should be done for personnel, non-salary and capital expenditure for each cost-centre using actual expenditure data obtained from the accounting division, not appropriations or approved allocations. This should be done for all entities within the DoH which receive an appropriation from the DoH budget including all central departments, CHDs and retained hospitals;
- The DoH should review the ToRs for the recently created PPBDC, the Technical Coordinating Group for Health Sector Reform and the Technical working Group on Expenditure Management and Monitoring to establish the information needs of each of these bodies and whether the actions to be taken (recommended in this report) will help meet their financial information needs. This review ought to be linked to a wider review of performance and/or M&E information that does or should exist in the DoH. For example, the quality of information going to EXECOM ought to be part of this wider review;
- Because it was not possible on this consultancy to review and verify the ‘virement’ regulations in the GoP and practices within the DoH nor to review and verify levels

of delegated financial powers, it is recommended that these are reviewed as part of a more detailed review of accounting arrangements in the DoH. In particular, the levels of authority vested in the Secretary of the department are relevant and whether he/she can, via EXECOM or some other body, take responsibility for material adjustments to budgeted allocations, has authority to 'vire' resources from one activity or programme to another and/or can delegate this to appropriate levels within the DoH;

- The DoH should undertake an annual PER based on international good practice and which looks at all aspects of public expenditure in the department and across programmes. This will inform resource allocation decisions and provide useful information on a regular basis to feed into any rolling medium term planning and budgeting processes that form part of the GoP MTEF process by providing an objective analysis of health expenditures, identifying beneficiaries and making recommendations that should then inform important resource allocation decisions of the DoH. It should be undertaken by the HPDPB under supervision of the PPBDC and be timely in providing analysis prior to the formulation and submission of strategic priorities as part of the MTEF process; and,
- The DoH should consider obtaining support from the DBM and/or an external partner to assist with the complete roll-out of the eNGAS system both to spending agencies in the DoH (CHDs and hospitals) and to the wider accounting functions of the finance service to enable it to automate all aspects of budget preparation and expenditure management, and to help establish a basis for financial reporting and management accounting as recommended above. To this end, staffing shortages that have been identified in the finance service as part of the rationalization plan recently drafted by the DoH, should be addressed as a priority for the DoH.

### **4.3 Internal Control and Audit**

Organisations and the systems within them are susceptible to a wide variety of weaknesses and risks resulting in the possibility of poor performance, error and/or abuse. Senior management, therefore, introduces and maintains control procedures and techniques to ensure that organisational objectives are achieved and public standards are met. The internal control system in any organisation develops over time. It is strengthened through its internal audit function.

The following observations are made for internal control and audit in the DoH:

- There are significant staffing problems in the internal audit service of the DoH. The head of IA has departed and the deputy deceased and a senior auditor is acting up into both positions on a temporary basis;
- The (vacant) post of head of the internal audit service is graded at the level of section chief and not, as an Assistant Secretary as required by the DBM. This potentially undermines the effectiveness of the entire internal audit function;

- There are in excess of 100 entities that should be audited on a regular basis. However, with only 7 staff in post, from a staff strength of 25 originally in 2000, the capacity of the unit has been seriously weakened with the result that the management assurance that is required from internal controls cannot be guaranteed. The DoH's rationalisation plan provides for 16 audit staff;
- The current approach of the audit team is that they audit each entity at least once every three 3 years. However, from internal reviews of internal audit plans, some entities have not been audited since 2001;
- In addition to these chronic staff shortages and the significant gaps in audit coverage, the internal audit service has now also been tasked as the secretariat of the Integrity Development Committee (IDC). While the work as secretariat to the IDC does not appear in workflow diagrams of the internal audit service, nor in its workplan, it has been nevertheless, required to perform this function. Whilst the work of the IDC is commendable it is unclear why the internal audit service has been tasked with carrying out the work of the IDC. For example, the internal audit service have been required to draft policies for the DoH on anti-corruption, rules on receipt of gifts, blacklisting of suppliers and so on and while this is important work it should really be the work of the Presidential Anti-Graft Commission (PAGC) and its secretariat to avoid duplication of efforts and to enable economies of scale – most of the policies on anti-corruption are generic across government departments and ought not to be drafted at spending agency level much in the same way that government financial rules and regulations or the civil service code of conduct is drafted for all government entities and employees and not separately by each department;
- The approach adopted in the internal audit service to audit planning is not currently based on any systematic assessment of risk; rather, an entity approach is taken wherein coverage of the audits determines which entities are audited and not specific aspects of internal controls. It has been noted that some training by PAGC/WB has started in this area;
- Similarly, audit procedures exist for X-ray, pharmacy, accounting, central supply but these are, again, entity based rather than on any assessment of risk such as aspects of procurement, cash management, payroll and/or licensing and so on;
- The audit approach, audit reports and reporting lines of the internal audit service are unclear. In the absence of an audit committee to review risk, agree audit plans, review audit reports, ensure follow up action and report to the Secretary as the Principal Accounting Officer on status of internal controls, it is uncertain if any effective reporting takes place and whether follow up actions on reported weaknesses are followed up;
- The strength of the internal audit service lies in its experienced senior staff and in the wealth of experience that they have accumulated in the workings of DoH and GoP

rules and regulations in general. Several members of staff are qualified professionally as accountants but there are significant weaknesses around staffing numbers, recruitment of trainees and in some form of continuing professional development using local auditing institutes to maintain and update the professional standards of officers;

### ***Recommendations***

- The existing vacancies in the internal audit service should be filled without further delay, especially the posts of head and deputy head. Consideration should be given to the grading of the post of head and whether it can be staffed at assistant secretary level. This will help maximize the effectiveness of the internal audit function in the DoH. Similarly, with vacancy levels running at over 50%, there is an urgent need to fill the remaining vacant posts to begin to rebuild a credible audit function in the department;
- The IA service does not have any systematic or risk-based approach to auditing or audit planning, has no formal processes for reporting to senior management or an audit committee and generally struggles to maintain, in any effective way, any significant coverage of the operations of the department of health. Some relatively easy steps would involve the establishment of an audit committee, chaired by the Secretary (or undersecretary in his absence) and reporting to, say EXECOM on a regular basis. The committee should comprise 3 members with non-finance roles in the DoH. The audit committee, after the appointment of a head of internal audit, should begin to develop an audit plan based on an analysis of risk areas, review audit reports and ensure follow up actions are taken;
- The internal audit service should be staffed immediately to the full sanctioned strength as included in the rationalization plan but with a view to further strengthening the staffing levels if it is deemed appropriate. It is felt by this reviewer that the strengthening of the IA function in the DoH would go a long way to meeting the objectives of the IDC initiative given that a properly functioning internal control system should already provide for protection of the integrity of the organization. In the meantime, DBM and the PAGC should consider drafting generic procedures and policies for the GoP and not delegate this to various lines departments. It should be further considered that the management section of the finance department might serve better the requirements of the IDC initiative given that they are currently charged with reviewing the financial rules and regulations of the DoH.

## **5. PFM Reforms Implementation Plan**

### **5.1 Budget preparation**

The following steps are proposed with suggested dates:

<b>By when</b>	<b>Description</b>	<b>Who responsible/ support required</b>
<b>Oct 08</b>	Meeting/workshop to review of current planning processes in DoH and presentation of revised draft planning calendar and processes.	Planning division with T/A support
<b>Oct 08</b>	Review of budget preparation processes at central, CHD and hospital facilities including costing methods used, initial training on revised planning process and costing techniques with finance staff in DoH.	Finance service with T/A support
<b>Oct 08</b>	Review of the committees in the DoH including PPBDC, the Technical Coordinating Group for Health Sector Reform and the Technical working Group on Expenditure Management and Monitoring to establish whom responsible for revisions to planning and budgeting reforms in the DoH.	Secretary and EXECOM with T/A support
<b>Nov 08</b>	Review of requirements of MTEF and meetings between DoH and DBM to discuss requirements of planning and budgeting in DoH, review planning guidelines and agree information requirements.	DoH and DBM with T/A support
<b>Nov 08</b>	Detailed review of personnel budget preparation processes in DoH and proposal for automation/computerization, enhancing the role of finance in payroll preparation proposal for review of personnel budget as part of planning process.	Finance and HR services in DoH with T/A support if required
<b>March 09</b>	The DoH EXECOM, Secretary, planning and finance services to agree a single planning process, timetable, planning formats, content of plans and estimate what support will be required from T/A or additional expertise brought in to help.	Planning and finance. T/A in planning and finance.
<b>April 09</b>	Formats for plans and financial tables that have been agreed (Oplan and WFP format) used as basis for design and compilation of financial information.	Finance and planning
<b>April 09</b>	EXECOM meet to discuss planning process, agree a timetable and identify further support required, outlining scope of plans to be drafted and giving instructions on costing of plans for budgeting.	Secretary, EXECOM and planning and finance services
<b>April 09</b>	Drafting of plans and costing work undertaken in each service, programme, CHD and hospital prior to budget preparations.	Service chiefs and directors.
<b>May 09</b>	Draft plans completed for each department, programme, CHD and hospital.	Service chiefs and directors.
<b>May 09</b>	Detailed annual budgets prepared and regular DBM budget calendar events commence.	

### **Note on MTEFs**

Common to MTEF exercises internationally, establishing a medium-term perspective at departmental level include the following main steps:

- 1. Conduct sector review and agree on sector objectives and policies:** This is the first stage of developing a ministry MTEF. At the outset, a clear vision for the sector has to be agreed and this will determine the sector priorities. When priorities are set the instrument for implementing these policies is the budget. There then follows the job of setting goals and objectives, including the outputs to be produced, and the specific activities to achieve these outputs. Mechanisms need to be in place to debate and reach agreement on the relative priorities, goals, outputs and activities.
- 2. Define sector resource envelope:** Define the total quantum of resources available to the sector including resources available through the GoP's national budget, development partners and fee income, amongst others. So called 'soft' sector limits should be established for government budget in keeping with any macroeconomic projections established by the DBM.
- 3. Assess costs and expenditure implications of policies:** Where possible existing cost information should be used to begin to estimate the costs associated with the sector priorities developed through the sector review process. One starting point is to establish the cost of current service delivery so as to establish a 'baseline' estimate of services. An estimate of changes (and cost implications) to on-going programmes is made along with any new programmes.
- 4. Focus on overall expenditures for the whole sector:** The MTEF should cover all activities and organisations in the sector and focus on all expenditures whether personnel or non-salary, recurrent or capital. All programmes, activities and projects need to be looked at together to ensure that decisions are made using complete information and that a unified view is taken in resource allocation decisions in the sector.
- 5. Develop mechanisms to facilitate resource shifts when priorities change:** Mechanisms must also be devised to facilitate the decision making process as it operates within the sector. Strategic level decisions will require that full information is available to enable informed choices and resource allocation decisions within the resource ceiling set.

MTBFs usually take a 3 year planning period and begin with a strategic review prior to the budgeting process. So called 'fiscal space' will be projected for the medium term and 'hard' ceilings will be established for the coming year with indicative or 'soft' ceilings set for years 2 and 3. During the negotiation phase, a line department that demonstrates a strong capacity to implement a priority programme may gain funds at the expense of departments or ministries with less well developed proposals. A challenge for the Philippine DoH will be to participate in the 'bottom-up' process of estimating their likely demand for resources in the form of directorate and/or departmental requests for a greater share of the available cake. For the purposes of the MTEF, however, it is not necessary to undertake the iterative process of matching bottom-up requests with top-down allocations by preparing detailed line item budgets for every sub-component of every activity of

every programme. This would be unwieldy and of little practical use to senior management in making resource allocation issues.

An early critical choice in the development of the MTEF structure in the DoH in Manila is the choice of categories for which budgets will be projected and resources allocated. The choice of programmatic categories will need discussion and debate and will be based to an extent on the existing structure of service delivery but will be required also to reflect the main programmes to be undertaken to achieve MFOs and OPIF targets, Presidential priorities, MDG goals and other sector level goals as established in the National Objectives for Health. A consensual view of the programme structure of the operations of the DoH, the national programmes and the CHDs and hospitals is the cornerstone of attempts to link policy to budgets. It is important to note here that the programme and classification structures that are eventually agreed will need to be matched by the ability of the accounting and reporting systems to actually track such expenditures i.e. budgets and some form of responsibility structure (cost centres) to ensure accountability and responsibility for performance against these budgets, and reporting and monitoring for information and supervision purposes.

Next steps could also include the following:

- Establish a working group to review functional and sub-functional classifications. This should involve inputs from finance planning and section heads; and,
- Technical assistance to review the current classifications used, map existing health policies to these codes, identify gaps and suggest alternative classifications needed, build capacity within the context of MTEF to improve understanding of the importance of classifications and the reporting requirements needed to underpin them, and facilitate discussions of the working group and between it and the DBM which should be consulted to amend government classification and accounting codes if needed.

Some excellent work is being done by DBM and the line departments in the form of institutionalising the OPIF process and this is a good starting point for the introduction of the MTEF/MTBF process currently being developed by DBM with the support of some international TA. The OPIF process is an annual process, and easily lends itself to the programming of resources into the medium term as outlined in points 1 and 3 above. A fundamental change (often not fully appreciated by line departments and the central department of finance in many countries) associated with the MTEF initiative is a behavioural one in that the currency of discussion changes between a line department and the finance department so that emphasis shifts from a debate on 'how much is spent, where, by whom and on what' to one more concerned with identifying priorities, matching resources to priorities and setting targets in who should achieve what and by when. The OPIF approach starts to facilitate this shift and is now ready to move into the next phase of performance management in taking a medium term approach to resource allocation and performance management.

## 5.2 Budget execution

The following steps are proposed with suggested dates:

By when	Description	Who responsible/ support required
<b>Oct 08</b>	Review of the roles, duties and responsibilities of the finance staff, office outputs and, in general, undertake a detailed review of staffing levels and work practices of the finance function.	Finance service and T/A
<b>Dec 08</b>	Establish a cost-centre framework to reflect an agreed structure for reporting financial and other performance information for the main activities/programmes/projects of the department. A monthly management accounting process should be established using up-to-date expenditure information from the accounts division and based on pre-agreed formats for reports, identifying cost-centre managers, a clear reporting timetable during the year and with the level of detail in reports to be agreed with each of the users of the information.	Finance and planning sections and T/A as required.
<b>Dec 08</b>	Monthly management accounting procedures should be established all DoH expenditures for each cost-centre using actual expenditure data obtained from the accounting division.	Finance service and the PPBDC and T/S as required.
<b>Dec 08</b>	Review ToRs for PPBDC, the Technical Coordinating Group for Health Sector Reform and the Technical working Group on Expenditure Management and Monitoring to establish the information needs of each of these bodies and whether the actions to be taken will help meet their financial information needs.	EXECOM, Secretary and T/A as required.
<b>Dec 08</b>	Review and verify the 'virement' regulations in the GoP and practices within the DoH and review and verify levels and appropriateness of delegated financial powers.	Finance service and T/A
<b>Dec 08</b>	The DoH should complete the roll-out of the eNGAS system both to spending agencies in the DoH (CHDs and hospitals) and to the wider accounting functions of the finance service to enable it to automate all aspects of budget preparation and expenditure management. Staffing shortages in the finance service should be addressed as a priority for the DoH.	Finance service and T/A as required.

The following additional tasks also need to be considered:

- In liaison with the DBM, design reporting formats for the DoH and its spending agencies for budget preparation, financial reporting, management accounting and reconciliation of accounts at facility and department level with those of the DBM

central and regional offices. Devise formats for basic management accounting reports for budget holders and senior management of the DoH;

- As part of a financial management capacity building programme, devise a training programme to develop capacity of finance service staff in basic accounting and financial management, aspects of internal control, the role of internal and external audit, linkages between medium term planning and budgeting and links to the annual budget preparation process, MTEF, financial and management accounting and basic costing techniques. This should complement the current EC TA adviser's approach to use good locally available training programmes first before designing bespoke or in-house solutions;
- T/A may be required to support the development of costing work in the health sector, in particular the costing of policy options, the costs of on-going programmes and identifying funding gaps; and,
- Identify, jointly with DBM, the requirements of the MTEF initiative as indicated in the previous section.

### 5.3 Internal Control and Audit

The following steps are proposed with suggested dates:

By when	Description	Who responsible/ support required
Oct 08	The existing vacancies in the internal audit service should be filled without further delay, especially the posts of head and deputy head. Consideration should be given to the grading of the post of head and whether it can be staffed at assistant secretary level.	Secretary & EXECOM
Nov 08	Establishment of an audit committee, chaired by the Secretary (or undersecretary in his absence) comprising 3 members with non-finance roles in the DoH to develop an audit plan based on an analysis of risk areas, review audit reports and ensure follow up actions are taken.	Secretary & EXECOM with T/A as required
Nov 08	The internal audit service staffed to the full sanctioned strength as included in the rationalization plan of the DoH.	Secretary
Dec 08	The strengthening of the IA function in the DoH to indirectly help the DoH to meet the objectives of the IDC initiative. Also, DBM and the PAGC consider drafting generic procedures and policies for the GoP and not delegate this to various lines departments.	Secretary
Dec 08	Management section of the finance department given responsibility as secretariat of the DoH IDC.	Secretary
Dec 08	Support to the IA service to draft and Audit Plan for 2009	T/A
Dec 08	Conduct Audit Committee meeting and approve an audit plan for the FY 2009, format for audit reports and meeting schedule	T/A

<b>By when</b>	<b>Description</b>	<b>Who responsible/ support required</b>
	for Audit Committee to review audit reports during 2009.	
<b>Nov 08 on-going</b>	Capacity building of senior staff in Internal Audit – requires technical assistance in role of audit, audit concepts, audit approaches and audit reporting.	T/A and on-going support form the World Bank
<b>Jan 09</b>	Review staffing and structure of IA service and match staff resources with audit plan.	T/A.

## **Annex A: Terms of Reference**

### **Terms of Reference for a Short-Term Expert to assist the DOH to draft a Public Finance Management Reform Strategy and undertake an operational review of the Finance Service**

#### **A. Background**

The Government of the Philippines, with the support from the European Union and the World Bank, implements the Health Sector Policy Support Programme (HSPSP) at the Department of Health (DOH) central offices and 16 convergence provinces. The HSPSP is supported through Technical Assistance (TA) from the European Commission (EC).

During the HSPSP preparation stage, a public finance diagnostic study was undertaken. One of the study recommendations was for capacity building of financial management functions and staffing of DOH offices. The diagnostic also identified the need for strengthened monitoring and evaluation of the DOH budget and highlights the need to establish an appropriate organisational structure to carry the Finance Service forward.

In addition to the above, the recently issued WB Aide Memoire for the Philippines: National Sector Support for Health Reform Project (July 1, 2007-February 15, 2008) drew attention to the financial management performance in the DOH and its weakness due to staff shortages and issues related to workflow management. The Aide Memoire recommends that the DOH Executive Committee ensures that the shortage of FM staff at the Finance Service be addressed and recommends that a workflow analysis be conducted to help determine the adequate number of FM staff. The WB has estimated a shortfall of at least 16 vacancies in the Finance Service but this needs to be verified prior to recruitment.

Moreover, the National Government has been implementing PFM reforms, which include the introduction of results-oriented budgeting frameworks and the computerization of accounting and budgeting systems. Thus, it is necessary that these PFM reforms are cascaded to the sector government agencies, such as the Department of Health, and to examine the likely impact on the numbers, distribution and skills required for effective public finance management in the DOH. The Philippines is in transition from a traditional line item budgeting, in which the governing concern is fiduciary control rather than active resource management. The process underway demands planning and budgeting systems are brought closer together and the Policy, Planning, Budget Development Committee (PPBDC) has been formed in support of this. A review of the effectiveness of this committee to fulfil this function would be timely in the light of this consultancy and the responsibilities of the Committee members incorporated in this study. Implementation of some of the reform agenda has commenced in the DOH but requires completion through the implementation of eBudget. Budget reforms and computerisations of the PFM functions at CHDs and hospitals are still at early stages and a functional analysis of finance functions at these institutions is currently underway.

In the light of the above, it has now become necessary to review the current institutional structure of the finance functions of the DOH, including staff and resources and for appropriate recommendations with a view to effecting changes that will improve the institutional efficiency of the organisation. Therefore, this terms of reference (TOR) seeks to hire Short-Term Experts (STEs) to support the Finance Service in developing a PFM Strategic Plan which seeks to improve its organisational efficiency enabling it to determine and meet its mission, goals and objectives and those identified in the National Objectives for Health, the Department of Health Organisational Performance Indicator Framework (OPIF) and in other plans such as the draft rationalisation plan.

## **B. Tasks**

In the process of conducting the functional analyses, below are identified general activities:

- Prepare a work and time plan which shall be agreed with the Finance Service and presented to DOH's Technical Assistance Coordination Team (TACT)
- Review appropriate documentation including, but not confined to PFM Diagnostic reports, Aide Memoires of the recent and current development programs, appropriate consultant reports, relevant Government Orders and Instructions, etc
- Take briefing from the Assistant Secretary, Internal Management Service Team, and her staff
- Liaise with staff from the Finance Service, HPDPB, IMS, BIHC, Procurement Service, DBM and other relevant bodies and become familiar with ongoing and planned activities in the financial aspects of health sector reforms and financing arrangements
- Meet with DBM staff and ensure any proposed strategy is linked to GOP initiatives
- Meet with International Development Partner representatives, and their consultants as appropriate, especially the EC and World Bank
- Hold a workshop for all key financial personnel in the DOH and associated offices such as Health Policy Development and Planning Bureau, Information Management Service and other members of the PPBDC to formalise the vision and strategic plan for the Finance Service in the context of i) support to the health sector reform goals in F1-for Health, ii) international best practice in public finance management, and iii) the reform agenda of the DBM as regards public finance
- Review and document the various departments and their relationships for the financial management functions of the DOH including the Budget Division, Accounting Division, Management Services Division, Information Management Service, Procurement Service, Health Policy Development and Planning Bureau and the PPBDC
- Undertake a thorough work-flow analysis of the duties undertaken in the DOH Finance Service and the time allocation for the tasks required to fulfil duties and responsibilities of the service. Analyse the data and information of the tasks performed vis-à-vis tasks required to fulfil their duties and responsibilities, including their roles in implementing PFM reform, the ongoing operational finance duties of the DOH and any implications of the health reform program and make recommendations

for improvements to the short, medium term future in the form of a draft strategy and implementation plan.

- Present the draft report and plans including supporting analyses and recommendations to the DOH through a workshop or meeting.

The general tasks mentioned above shall be specifically delineated to the team of STEs composed of one Senior and one Junior Consultant.

Senior consultant:

- Steer the process and direction of the studies; and, supervise the Junior consultant
- Prepare assessment methodologies and prepare workplans
- Design and facilitate a strategic planning workshop to establish the direction for Public Finance Management in the DOH including appropriate performance measures, timelines and capacity development requirements
- Analyse existing or undertake cross departmental analysis of roles, duties and responsibilities of financial management staff and departments of the DOH, recommend optimal organisational structures and staffing requirements in each management unit including identification of new functions, skills requirements, etc.
- Suggest job redesign where appropriate; and, facilitate negotiations with managers to reach agreements on proposed FM staff numbers and grade levels.
- Analyse intra- and inter-practices among DOH financial management offices, linkages of staffing systems in producing outputs; and, recommend sound PFM systems and develop a general model for improved organisational performance.

Junior consultant:

- Collect data/information and review relevant documents, reports and policies on the existing (1) roles, duties and responsibilities of financial management staff
- Analyse financial requirements in producing office outputs; and, develop a template to capture the analysis
- Liaise and cross-check with other stakeholders e.g. CHD departments, DOH, DBM and COA
- Assist the Senior consultant in processing the data/analysis and in delivering the outputs

**C. Deliverables**

The outputs of the assignment will be:

1. Draft strategic plan for PFM in the Department of Health with recommendations for implementation including timelines and resources required, particularly human resource.
2. A report that summarises the present situation, highlights the way forward and summarises the consultants' work during the consultancy

3. Implementation plan:
4. Presentation of findings and recommendations to the TA Team, DOH relevant offices through a meeting/workshop.

**D. Duration of the Contract**

The assignment will commence in June 2008 until July 2008 with an input of maximum 20 working days each from the resources available under the TA contract.

**E. Reporting Arrangements**

The consultants shall report to the Assistant Secretary in charge of Internal Management Services (IMS) and to the TACT for the DOH, and to the Financial Management Specialist for the EC funded Technical Assistance Team. Close cooperation with the Department of Budget and Management is also required and other technical assistants assigned to the DBM and the Health Financing Specialist of the EC TA team. The consultants will work closely with personnel assigned by the DOH for this assignment.

**F. Qualifications**

The STEs must satisfy the following requirements:

International Senior Consultant

- A minimum of 10 years relevant experience
- The consultant should have in-depth knowledge of international public finance reform programmes and their implementation
- In-depth knowledge of public finance management including accounting, budgeting, procurement systems, including the use of computerised systems
- The consultant should have extensive experience in organisational and human resource assessments and particularly workflow analysis
- Preferably with knowledge of the health sector in Philippines

National Junior Consultant

- A minimum of 3 years relevant experience
- In-depth knowledge of public finance management including accounting, budgeting, procurement systems, including the use of computerised systems
- In-depth knowledge of GOP financial management systems

## Annex B: List of Officials Met

Department/name	Designation
<b>DoH</b>	
Lydia Fernandez	Assistant Secretary, IMST
Maylene Beltran	Director, Health Policy Development and Planning Bureau
Ligaya Catadman	HPDPB
Carol Taino	OIC, Finance Service
Dr. Ma. Viriginia Ala	OIC, BIHC
Racquel 'Beng' Alvendia	Chief, Accounting Division
Nemencia Angelio	Chief, MSD
Larry Cruz	Chief, Budget Division
TACT members	Presentation at meeting on 13 <sup>th</sup> August
<b>DBM</b>	
Darlene Casiano	Director, Health Sector, DBM
Arturo Bumatay	Director, Social Sectors, DBM
<b>EC</b>	
Holger Rommen	Head of Contracts and Finance Service
Anja Bauer	Task Manager Health
<b>WB</b>	
Agnes Albert-Loth	Senior PFM Specialist
Abigail Barbara B. Sanglay	Consultant, PREM
Yasuhiko Matsuda	Senior Public Sector Specialist, PREM
Roberto Rosadia	Health Specialist
<b>EC TA to the HSPSP</b>	
Jose Cardona	Team Leader
Diane Northway	Financial Management Specialist
Vida Gomez	Deputy Financial Management Specialist
Lluis Vinyals	Health Financing Specialist
Kjeld Elkjaer	LGU PFM Specialist
<b>AusAID</b>	
Andrew Crumpton	1st Secretary, Governance

## Annex C: References

<b>A. EC TA WORKPLAN</b>
1. PFM workplan
2. Functional Chart of DOH and the TA Team
3. Full Inception Report
4. PFM Progress Jan-July 2008 and Plan for Aug 2008-Jan 2009 – powerpoint presentation
5. PFM interim progress report Jan-July 2008 – draft writeup
6. Most recent workplans and progress reports for the PFM TA in DoH
<b>B. DOH</b>
1. DOH Organogram (from annex of EC TA Inception Report)
2. National Objectives for Health
3. Department of Health Organisational Performance Indicator Framework (OPIF)
<b>C. DOH FINANCE SERVICE ORGANIZATION, PLANS, PROCEDURES</b>
1. Organizational Chart of the FMSC (in Powerpoint)
2. Functional Chart of MSD (in Powerpoint)
3. Proposed New Staffing (Rationalization Plan) – no narrative
4. Financial Management Manual, current version
5. Updated Financial Management Manual, working draft of short-term consultant
6. Standard Operating Procedures (Jan 2006), Administrative Division of Baguio General Hospital and Medical Center
7. Manual on NGAS (for National Government Agencies)
<b>D. PFM in DOH</b>
1. EC Diagnostic Review of PFM in DOH, 2005
2. SEMP2 Final Mission Report
3. Workplan for the Grant for Strengthening DOH's Internal Management Systems – 25 July 2008
4. Health Sector Expenditure Framework – <i>A Multi-year Spending Plan for the Department of Health by Rosario G. Manasan and Janet S. Cuenca</i>
5. NSSHRP Aide Memoire for July 2007 – Feb 2008 Supervision
6. Organizational Performance Indicator Framework (OPIF) FY 2008
7. Review of Financial Reporting of Government Agencies in the Health Sector (Final Report May 2008)– by Rufo R. Mendoza (short-term EC-TA consultant)
<b>E. PLANNING AND BUDGETING</b>
1. Department Memo No. 2007-0111: Guidelines in the Preparation and Submission of CY 2008 DOH Operational Plan
2. Department Memo No. 2007-___: Guidelines in the Preparation and Submission of CY 2008 Work and Financial Plan
3. Guidelines on CY 2009 Operational Planning – powerpoint presentation (from Dir. Beltran)
4. PIR Implications to Policy, Planning, and Budgets – powerpoint presentation (from Dir. Beltran)
5. DBM Budget Preparation Guidelines No. 2009-1 (March 2005, 2008): Guidelines on the Budget Updates of Forward Estimates (FEs) for 2008-2010 and the Formulation of the 2011 Fes
6. DBM Budget Preparation Guidelines No. 2009-3 (June 13, 2008): Guidelines in the Evaluation of FY 2009 Budget Proposals
7. Budget Call for 2009
8. Comparison of Appropriation CY 2008 GAA vs CY 2009 DBM Recommendation
9. TOR for TWG on 2008 Expenditure Tracking
10. OPIF Report 2008

11. GoP PFM strategy documents, MTEF updates, PFM workplans from DBM
F. DOH INTERNAL AUDIT AND MANAGEMENT DIVISION
1. DOH Internal Audit Unit Manual
2. Compilation of Internal Audit Mandates
3. National Guidelines on Internal Control Standards (DBM 2008)
4. DBM Circular Letter No. 2008-5 (April 14, 2008): Guidelines in the Organization and Staffing of an Internal Audit Service/Unit and Management Division/Unit in Department/Agencies/GOCCs/GFIs Concerned

## **Annex D: Departmental Structure of Central DoH**

### Sectoral Management Coord Team (SMCT)

1. Health Policy Development and Planning Bureau (HPDPB)
2. Bureau of International Health Cooperation (BIHC)
3. Bureau of Local Health Development (BLHD)
4. Human Resource Development Bureau (HHRDB)
5. Information management Service (IMS)

### Internal Management Support Team (IMST)

1. Finance Service (FS)
2. Administrative Service (AS)

### Policy and Standard Development team for Regulation (PSDTR)

1. Bureau of Food and Drugs (BFAD)
2. Bureau of Health Facilities and Services (BHFS)
3. Bureau of Health Devices and Technology (BHDT)
4. Bureau of Quarantine

### Policy and Standard Development Team for Service Delivery (PSDTSD)

1. National Centre for Disease Prevention and Control (NCDPC)
2. National Epidemiology Centre (NEC)
3. National Centre for Health Facility Development (NCHFD)
4. National Centre for Health Promotion (NCHP)
5. Health Emergency Management Service (HEMS)
6. Philippine National AIDS Council (PNAC)
7. Population Commission (PopCom)
8. National Nutrition Council (NNC)

## Annex E: Briefing Note on Internal Control and Audit

### Internal Control

<b>Definition:</b>	The whole network of systems established in the project to provide reasonable assurance that objectives will be achieved via effective operations, economical and efficient use of resources; compliance with policies, procedures, laws and regulations; safeguarding of assets and interests from losses from fraud and irregularity; integrity and reliability of information, accounts and data.
<b>Role:</b>	Regarded as the management function of acting to ensure that objectives are achieved.
<b>Approach:</b>	It starts with the definition of aims and objectives and continues through an organisation's plans, structure and activities and can be identified in policies, procedures, regulations, directions, manuals and other arrangements. It incorporates the procedures for directing, supervising, monitoring and reporting on all operations, functions and activities.
<b>Underlying concepts:</b>	<ol style="list-style-type: none"> <li>1. Segregation of duties: operations are independently checked;</li> <li>2. Organisational structures: in place to achieve objectives;</li> <li>3. Authorisation: at various levels to review actions and ensure plans are delivered;</li> <li>4. Physical safeguards: to protect the assets and resources of the organisation;</li> <li>5. Management review: of financial and performance indicators;</li> <li>6. Accounting: of basis used for recording, accounts compilation and reporting;</li> <li>7. Personnel: adequate staff and quality of staff used where needed;</li> <li>8. Supervision: there is effective management oversight of staff, systems &amp; procedures.</li> </ol>

### Internal Audit

<b>Definition:</b>	Internal audit is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.
<b>Role:</b>	International accounting standards dictate that organisations in the public and private sectors have effective 'internal' audit. The internal audit department of any organisation, private or public, is very much an integral part of the management of that organisation and performs its work for and on behalf of the management. Internal controls are strengthened through the internal audit function.
<b>Approach:</b>	An audit plan is usually developed based on a risk assessment and updated at least annually. Senior management helps to formulate the plan. The findings and recommendations included in a standard internal audit report are reported to the management of that organisation. Management should then act upon these recommendations with the result that subsequent internal audits would begin by reviewing previous recommendations and whether or not management was seen to act in response. Internal audit is based on a systematic methodology for analysing business processes or organizational problems and recommending solutions.
<b>Underlying concepts:</b>	Internal Audit is based on the existence of internal controls, measuring compliance with these policies and procedures and recommending improvement actions to management. Internal Audit 'advises' management on issues that arise and whether follow-up action has been taken. It is an on-going process.

### External Audit

<b>Definition:</b>	A periodic examination of the accounts and records of an entity conducted by an independent third party to ensure that they have been properly maintained, are accurate and comply with established concepts, principles, and accounting standards, and give a true and fair view of the financial state of
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	the entity.
<b>Role:</b>	External auditors are independent of the organisation but are engaged by it. Their objectives are set primarily by statute and their primary client - the board of directors.
<b>Approach:</b>	Internal audit work is often relied upon by external auditors to help target the time limited external audit to areas of greatest control weakness and to avoid duplication. They should meet periodically on common interests; benefit from complementary skills, gain understanding of each other's work and methods; discuss audit coverage and scheduling; share reports and working papers and jointly assess areas of risk.
<b>Underlying concepts:</b>	External Audit is: an annual inspection of accounts and records; is performed by a body external to the organisation; is mandatory; can raise issues informally or formally in its letter to the senior management; is required to 'sign off' that the accounts give a 'true and fair view' of the financial position in the entity at that point in time.

*Joe Martin, Manila, 13<sup>th</sup> August 2008*