BUDGET INTEGRITY AND ACCOUNTABILITY

How the Government Strengthened the Ecosystem of Accountability in PFM

IN A NUTSHELL

- Accountability requires the Executive to implement the enacted Budget faithfully; and that Congress, the COA, and the citizens are able to scrutinize how public funds are spent.

- *In the past*, weaknesses in the country's PFM system made it difficult to examine how the Budget was implemented and opened avenues for the "pillage" of public funds:
  - Special Purpose Funds (SPFs), Special Accounts in the General Fund (SAGFs), and Off-Budget Accounts (OBAs)
  - Frequent re-enactment of the Budget and the loose definition of savings
  - Fragmented reporting formats and systems of the oversight agencies
  - Weak oversight, particularly the weak capacity of Congress

- *From 2010 to 2016*, the government has built safeguards to ensure the integrity of the Budget and strengthen accountability over the use of public funds:
  - Reduced lump sum SPFs and rationalized the use of SAGFs and OBAs
  - Ended Budget re-enactments by approving the GAA on time for six consecutive years
  - Unified the reporting requirements imposed by the oversight agencies (COA and DBM)
  - Improved the reporting of the status of Budget implementation

- *Moving forward*, the government should further improve budget integrity and strengthen the ability of Congress and the COA to exercise their oversight on the Budget:
  - Address the complexity of the Budget structure
  - Limit the leeway of the Executive in adjusting spending during budget execution
  - Improve the capacity of the agencies to produce accurate and timely budget reports
  - Pass a PFM law, among others, to define Congress' role in scrutinizing reports

Budget integrity means public funds are spent properly and according to the interests of the citizens.[1] Thus, Budgets must be credible: actual spending must be consistent with the approved Budget (PEFA, 2011). Likewise, the information contained in fiscal and financial reports must be reliable: accurate, consistent, readily comparable with the Budget, and independently validated (IMF, 2015). In other words, public spending must be faithful to the Budget as approved by Congress and truthful to the citizens.[2]

Timely, accurate, and consistent accounts of how public funds are spent vis-à-vis the approved Budget enable government managers to ensure that such funds are spent according to the Budget, address deviations in actual performance against the Budget, and assure citizens that their taxes are spent properly. Budget integrity thus enables accountability: oversight institutions—the COA and Congress—and the citizens are able to hold public institutions accountable in properly and effectively use public funds. Such "ecosystem of accountability" (IBP, 2015) establishes the foundation for efficient and effective public financial management, thereby promoting greater public trust in the PFM system and in the government in general.

SITUATION BEFORE 2010

Breakdown of Integrity and Accountability

Abuses in the use of public funds in the past are more fundamentally rooted in weaknesses in the Philippine budget system. These weaknesses were exploited in the previous administration to "pillage" public funds: in particular, the so-called pork barrel fund and other lump sum funds; the Malampaya Fund, a Special Account in the General Fund (SAGF) that sits outside the Budget enacted annually by Congress; and the frequent Budget re-enactments that were open to discretion and abuse (Abad, 2014).

The political set-up in which the President is vested by the Constitution with vast powers and discretion in the implementation of the Budget was in part the root of these vulnerabilities (Boncodin, as cited in Abad, 2014). The inability of Congress to exercise a strong oversight function also contributed to these susceptibilities. As found by the PEFA and other independent assessments of the country's PFM, these issues weakened the accountability of the budget process.

Discretionary Funds in the Budget and Off-Budget

The Special Purpose Funds (SPFs) are items included in the Budget but not yet allocated to the specific recipient-agencies during the budget preparation; these funds are released during budget execution. Certain SPFs are lump sum in nature,[3] such as the Calamity Fund, because the specific activities or projects had not yet been identified during budget preparation. The lump-sum SPFs[4] had tended to be opaque, even as rules govern their use as indicated by the special provisions for each SPF, as well as stall budget execution. Moreover, the SPFs had been presented outside the agencies' regular appropriations in the Budget and transferred to the implementing agencies during budget execution. This procedure "result[ed] in higher levels of obligations than the original departmental appropriations" and made comparisons between the agencies' approved budgets and their actual expenditures difficult (WB, 2010). The use of certain SPFs had led to abuses, such as the PDAF, which allowed corrupt practices and violated constitutional delineations between the Executive and the Legislature.

A particular type of SPF—the Unprogrammed Fund—provides the Executive with the flexibility to use additional resources when needed; but had been subject to criticism as well. Such "standby" appropriations are enacted as part of the GAA, but could only be utilized if the government incurs "windfall revenues:" collections in excess of targets, new revenue sources not originally part of the estimates used in crafting the Budget, newly approved loans for foreign-assisted projects, and savings from programmed appropriations. The conditions for its use "[we]re not followed strictly, resulting in abuse (Boncodin, as cited in HDN, 2009)."

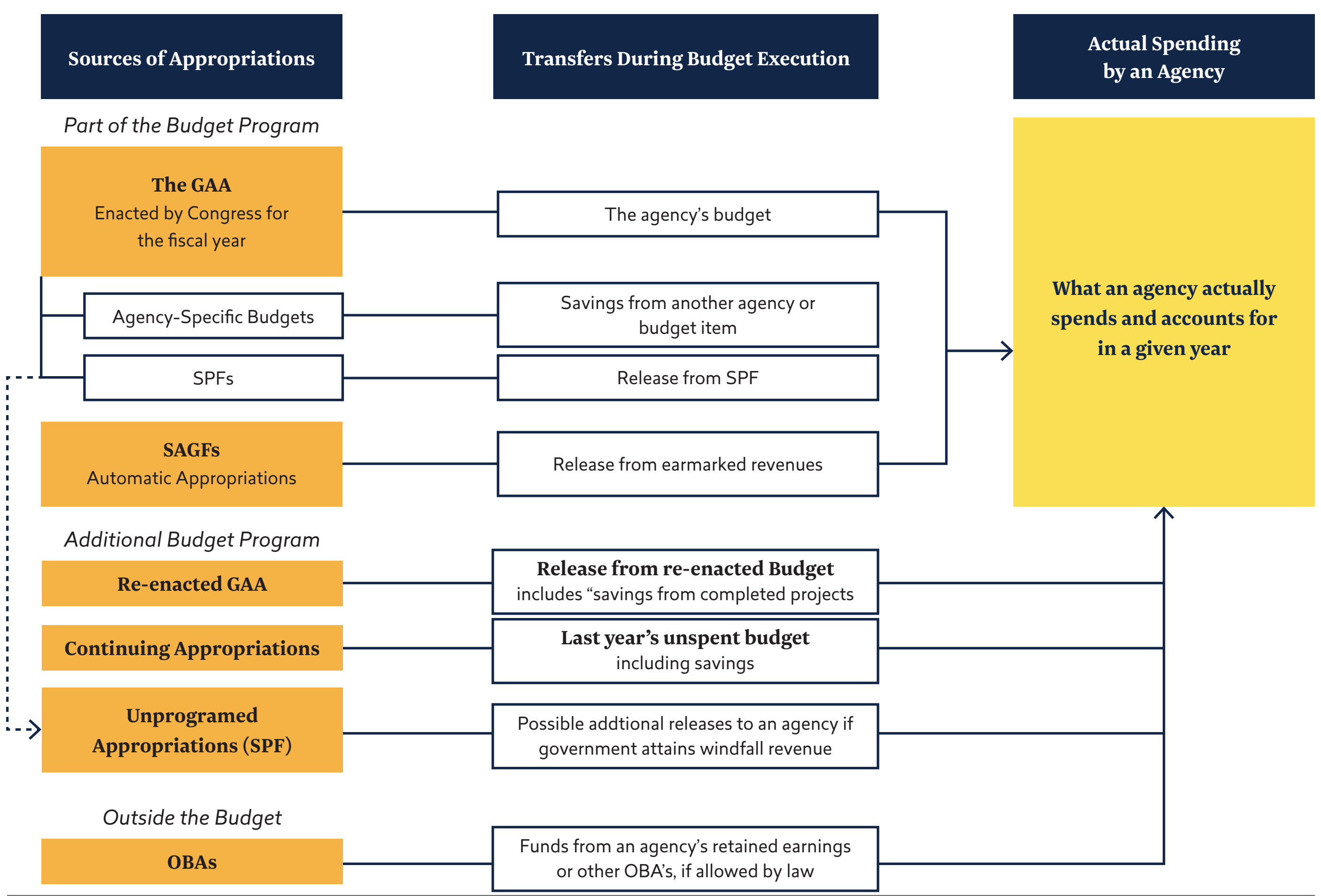
Budget accounts that are "extra-budgetary," e.g., the Off-Budget Accounts (OBAs)[5] and the Special Accounts in the General Fund[6], had made accounting and reporting of government expenditures more complex. The collection of and use of funds from the OBAs and the SAGFs are not approved by Congress through the annual Budget; instead, they are authorized by existing laws.

These two types of funds are characteristic of lump-sum funds because the Executive, as authorized by existing laws, determines the specific programs and projects on which these funds are spent. These characteristics may have allowed grand-scale abuses in the past. For example, the Malampaya Fund, an SAGF intended only for energy development programs and projects, was spent instead on "priority development" projects. Certain releases from the Malampaya Fund,[7] an SAGF intended only for energy development programs and projects, was spent instead on "priority development" projects.[8] Certain releases from the Malampaya Fund during the past administration "opened up an arena for Napoles-type fake NGOs," as discovered by a special audit conducted by the COA in 2013 (Abad, 2014). As to the OBAs, the PEFA found that "reporting on the activities of these revolving funds is poor (WB, 2010)."

Loopholes in the Use of Flexibilities

Under the Constitution, budget re-enactment is a fail-safe mechanism that allows the government to continue to operate despite the failure of Congress to pass a Budget on time. However, budget re-enactment "strengthens the President's control over allocations, owing to larger savings that can be disbursed at his or her discretion" (HDN, 2009). During the past administration, Congress failed to enact the Budgets on time. In three fiscal years—2001, 2004, and 2006—the previous year's Budget was re-enacted in full; while in other years, the previous GAA was partially re-enacted until a new one was passed. Because of the lack of clear rules on how re-enactment must be undertaken, the previous administration re-allocated "savings" from completed projects or non-recurring budget items to new programs and projects. From 2001 to 2009, an estimated 23 percent of the P2.462 trillion from re-enacted budgets during the period could have been released under the full discretion of the former President (Abad, 2014). Budget re-enactment also convolutes the accounting of expenditures: "so long as the recurrent pattern of delayed or non-approval of the GAA continues, however, [the] accurate accounting of the 'original' budget will continue to be difficult (WB, 2010)."

Figure 1. **A Complex Budget**



The use of savings is a flexibility given by the Constitution to the President and other constitutional offices[9] to manage budget execution. However, this power to use savings from an item of appropriation to augment other budget items had constrained budget integrity and accountability. Boncodin (as cited in Abad, 2014) had said that such power had been "commonly subject to abuse" by "forcing" savings to fund personnel benefits as well as expenditures that were unrelated to any existing item of appropriations. Additionally, how savings were to be determined was unclear: the Human Development Network (HDN, 2009) said that unused or unreleased appropriations had been converted to "savings" which, in turn, were used to fund items not originally in the enacted Budget. Moreover, the limited monitoring and reporting of the budget execution had made it difficult to determine the extent of budgetary adjustments during the year (WB, 2010). The power to use savings likewise provided that "[t]he executive has no need to return to the Congress to secure supplemental appropriations... [t]his further limits the possibility of public scrutiny of budget execution and re-allocation (WB, 2010)."

The PEFA assessment (WB, 2010) flagged another peculiarity in the Philippines' budgeting system: the continuing appropriations. Budget items for Maintenance and Other Operating Expenditures (MOOE) and Capital Outlays (CO) had a two-year validity. With frequent delays in the implementation of programs and projects, this period of validity gave the government elbowroom to utilize the appropriation in the following year without seeking new authority from Congress. However, in the succeeding fiscal year, "neither the government nor Congress ha[d] consolidated data on the continuing appropriations" as "these [we]re only reported as 'actuals' on an ex post basis (WB, 2010)."

Fragmented Reporting of Expenditures

The COA and the Executive had used differing accounting classification systems during budget formulation and execution. The use of these disparate account code systems had made it difficult to track and account for the use of funds against the enacted Budget (WB, 2010). Likewise, the accountability reports that the COA and the DBM require the implementing agencies to submit had been disparate. These reporting requirements entailed different formats as well as separate submissions to the two agencies. The compliance of the agencies with reportorial requirements had been burdened due to these inconsistencies, as well as by the lack of an electronic system through which the reports could be submitted. Moreover, the accountability reports required by the DBM were not consolidated into regular, whole-of-government reports (WB, 2010).

Weak Oversight

The aforementioned issues had compromised the ability of Congress and the COA to hold the Executive accountable in the use of public funds. Moreover, the extent of oversight by Congress was rated as "moderate" by the 2010 OBS (IBP, 2010) because of its limited internal capacity and lack of mechanisms to regularly and independently scrutinize audit reports, among others.[10] The same survey also rated the COA's strength as "moderate" due to its limited resources to conduct audits and the gaps in its audit reports,[11] among others. In addition, the PEFA assessment (WB, 2010) flagged the COA's dual mandate as "an independent, external audit body and an agency in charge of setting the government's accounting standards and rules," which deviates from the international standard of separating accounting and audit functions.

KEY REFORM INITIATIVES AND ACCOMPLISHMENTS

The Groundwork to Restore Budget Integrity and Accountability

> "With greater budget integrity, faster spending does not only accelerate growth per se, but also ensures that agencies implement programs and projects efficiently and with greater accountability for the outcomes."
>
> **President Benigno S. Aquino III**
> President's Budget Message 2011

The Aquino administration had implemented key reforms consistent with the PFM Reform Roadmap, including fundamental changes in the structure of the Budget and the process of implementation and reporting. These key reforms aimed to ensure proper accounting for each peso spent according to the approved appropriations to deter corruption and abuse, as well as ensure that public funds deliver their intended results.

Thus, strengthening budget integrity and accountability accompanied the reforms, which at the same time complemented the efforts in enabling faster budget execution (*see Fast and Efficient Budget Execution*), integrating PFM systems (*see Integrated PFM*), and enhancing fiscal transparency (*see Fiscal Transparency*). Moreover, the improved information contained in the Budget, revised accounting and reporting standards, and the new government-wide reports enabled the COA, Congress, and the public to scrutinize how public funds were spent. With these reforms underway, the following specific reforms had laid the foundation for stronger budget integrity and accountability.

Reduction of SPFs

The SPFs had been reduced from 13 in 2010 to six in 2016. The items under Allocations to LGUs (ALGUs) had been reduced from nine to five in the same period (*see Table 1*). Only the National Disaster Risk Reduction and Management (NDRRM) Fund (formerly Calamity Fund), the Contingent Fund, and ALGUs (particularly the special shares) remained as lump sums, as their particular uses could not be determined reasonably during budget formulation. Other SPFs were disaggregated or had been transferred to the respective line agency implementers, such as key items under the Miscellaneous Personnel Benefits Fund and the Pension and Gratuity Fund; and the totality of the AFP Modernization Program Fund, the International Commitments Fund, the E-Government Fund, and the DepEd-School Building Program Fund. Likewise, the PDAF was abolished by the Executive and rendered unconstitutional by the Supreme Court (*see End of PDAF*). By fleshing out lump-sum funds in detail and by transferring key SPFs to the budgets of the agencies (see table), the government had eased the budget execution process (*see Faster and Efficient Budget Execution*).

Similarly, the government had rationalized the Unprogrammed Fund, first, by reducing it from P118.9 billion in 2010 to only P67.5 billion in 2016. Second, savings from programmed appropriations under the GAA cannot be used any longer to support unprogrammed appropriations.[12] Third, after the Supreme Court's decision on the DAP (*see Aftermath of DAP*) as well as the recommendations of the IMF's FTE in 2015 (*See Fiscal Transparency*), revenue collections in excess of target that may be used to fund unprogrammed appropriations had been limited to "any one of the identified non-tax revenue sources."[13]

Rationalized OBAs and SAGFs

Even as these funds were characteristic of lump-sum funds, the government endeavored to rationalize their use and make them more transparent. The Malampaya Fund, for example, was utilized to support programs and projects related to energy development. The P15.3 billion in releases from this fund supported the Sitio Electrification and Barangay Line Enhancement Programs, as well as the purchase of defense equipment to strengthen the security of the Malampaya Natural Gas Project (Abad, 2014). In 2013, the government likewise has started to practice disclosing revenue, utilization, and balances from OBAs as part of the Proposed Budget, and improved the presentation of SAGFs and other earmarked revenues in the Budget documents.[14]

Table 1. **SPFs in the 2010 GAA and 2016 GAA**

2010	2016	Notes
1. Budgetary Support to Government Corporations	**1. Budgetary Support to Government Corporations**	Fleshed out and with performance indicators
2. Allocations to Local Government Units (ALGUs): • Special Shares of LGUs in the Proceeds of National Taxes • Bgy Officials Death Benefits Fund • Financial Subsidy to Local Government Units (FSLGU) • Kalayaan Barangay Program Fund • Kilos Asenso Support Fund • Metropolitan Manila Development Authority (MMDA) • Municipal Development Fund (MDF) • Pasig River Rehabilitation Commission (PRRC) • Premium Subsidy to Indigents	**2. (ALGUs):** • MMDA • Special Shares of LGUs in the Proceeds of National Taxes • Bgy. Officials Death Benefits Fund • Local Government Support Fund (LGSF) • Special Shares of LGUs in the Proceeds of Fire Code Fees	**Sub-funds rationalized:** • *Kalayaan Barangay Program Fund* and *Kilos Asenso Support Fund* scrapped after ZBB • *MDF* now under the DOF's budget • *Premium Subsidy to Indigents* now under the DOH's budget • *PRRC* now categorized under Other Executive Offices • *FSLGU/LGSF* rationalized for rules-based mechanisms, e.g., BUB and KALSADA • *Special Shares of LGUs in the Proceeds of Fire Code Fees*, pursuant to R.A. No. 9514
3. AFP Modernization Program		Now under the DND-AFP budget
4. Calamity Fund	**3. National Disaster Risk and Reduction Management Fund**	Lump sum; includes funds for Yolanda rehabilitation
5. Contingent Fund	**4. Contingent Fund**	Lump sum in nature
6. Department of Education – School Building Program		Now under the DepEd's budget
7. E-Government Fund		Now under the budgets of the relevant agencies
8. General Fund Adjustments		Scrapped in 2011
9. International Commitments Fund		Now under the DFA's budget
10. Miscellaneous Personnel Benefits Fund (MPBF)	**5. MPBF**	Significant part (e.g., funds for creation of new positions) under the agencies' budgets
11. National Unification Fund		Scrapped in 2011; peace-building programs and projects (PAMANA) appropriated under the agencies' budgets
12. Pension and Gratuity Fund (PGF)	**6. PGF**	Significant part lodged under the agencies' budgets
13. Priority Development Assistance Fund		Abolished in 2013

Note: The list excludes automatically appropriated SPFs, such as Debt Service-Interest Payments, Net Lending, Tax Expenditure Fund, and ALGU-Internal Revenue Allotment. Source: 2010 and 2016 GAA.

> "With the availability of information on the magnitude of SAGFs, we can evaluate agencies' budget proposals more realistically and consider their respective absorptive capacities for both annually appropriated and automatically appropriated funds. Also, the policy to disclose OBAs in the BESF supports the DBM's open budget initiatives. Such information gives our stakeholders a more holistic view of the funds being used by the agencies."
>
> **Director Amanella Arevalo**
> BUDGET TECHNICAL BUREAU

An End to Budget Re-Enactment

With the support of Congress, the administration ended the Budget re-enactments of the past. The Budget had been enacted on time for five fiscal years in a row, beginning with the 2011 GAA, the longest so far, post-EDSA. The end to Budget re-enactments had not only "closed a key means for unbridled presidential discretion (Abad, 2014)" but had ensured likewise their timely implementation. Henceforth, the administration had adopted a new budget preparation calendar, which started with the Budget Call in January and not in April, as was the past practice. As a result, the President had been able to submit consistently the proposed Budget to Congress one working day after delivering the State of the Nation Address (SONA) and not at the close of the constitutional deadline of 30 days after the SONA (*see Table 2*). The new budget calendar had also given Congress more time to scrutinize and approve the Budget bill.

Table 2. Timeliness of Budget Legislation

Fiscal Year	Issuance of Budget Call	Submission to Congress	Enactment
2001	March 10, 2000	July 24, 2000	2000 Fully re-enacted
2002	April 5, 2001	August 22, 2001	January 21, 2002
2003	March 8, 2002	August 21, 2002	May 12, 2003
2004	May 5, 2003	August 6, 2003	2003 Fully re-enacted
2005	April 30, 2004	August 25, 2004	March 16, 2005
2006	April 25, 2005	August 24, 2005	2005 Fully re-enacted
2007	May 8, 2006	August 23, 2006	March 22, 2007
2008	May 4, 2007	August 21, 2007	March 11, 2008
2009	May 2, 2008	August 27, 2008	March 12, 2009
2010	May 8, 2009	August 25, 2009	February 8, 2010
2011	May 12, 2010	August 24, 2010	December 27, 2010
2012	December 30, 2010	July 26, 2011	December 15, 2011
2013	December 29, 2011	July 24, 2012	December 19, 2012
2014	December 28, 2012	July 23,2013	December 20, 2013
2015	January 6, 2014	July 30, 2014	December 23, 2014
2016	January 28, 2015	July 28, 2015	December 22, 2015

Source: National Budget Call, President's Budget Message, and GAA for the relevant fiscal years.

> "The UACS facilitated the generation of detailed information and the evaluation of budget proposals. The OSBPS enabled the more timely and consistent submission by agencies of their proposals. These measures enabled us to submit the Proposed Budget and ensure the enactment of the GAA on time.
>
> **Assistant Director Dante De Chavez**
> DBM BUDGET TECHNICAL BUREAU

Clarified Parameters for Savings

In its first three years, the administration had leveraged the President's power over savings to address underspending through the Disbursement Acceleration Program (DAP) mechanism. Through the DAP and other reform measures, the government closed expenditure shortfalls thereby boosting economic growth. In 2014, even as the Supreme Court acknowledged the positive impact of the DAP, it invalidated certain acts under the DAP and clarified that mere unreleased appropriations and unobligated allotments could not be construed as savings (*see Aftermath of DAP*).

Henceforth, the administration clarified the definition of savings and the parameters for their use beginning with the 2015 GAA.[15] First, savings cannot be declared from the final discontinuance or abandonment, or the non-commencement, of a program, activity, or project (P/A/P) due to the fault or negligence of the agency concerned.[16] Second, savings may be used to augment a P/A/P, which is deemed deficient due to unforeseen modifications or adjustments, as well as the re-assessment in the use, prioritization, or distribution of resources. Non-existing P/A/Ps cannot be funded by augmentation; also, the particulars of expenditures to be funded from savings must be within the scope of the existing P/A/P. In the same vein, the meaning of the realignment of funds was clarified in order to provide a limited yet reasonable flexibility to the heads of the agencies in managing their budgets.[17] In sum, the Budget law required the government to submit regularly reports on the use of savings and the realignment of funds to Congress.

Harmonized Account Codes and Reports

As part of the PFM Reform Roadmap, the COA, the DBM, and the DOF harmonized their account codes, charts of accounts, and reporting formats. In the process, the Unified Accounts Code Structure (UACS) was introduced in 2013,[18] which provided a government-wide classification framework for all financial transactions (*see Integrated PFM*). Also in 2013, the COA and the DBM further improved the accounting and reporting processes and systems of the government. Specifically, they prescribed common formats for the Budget and Financial Accountability Reports (BFARs).[19] As a result, the duplication of reporting requirements of the agencies was eliminated and the needs of the COA and the DBM was fulfilled (*see Table 3*). The DBM likewise introduced the Unified Reporting System (URS), an online reporting system that facilitated the submission of BFARs[20] by the agencies. Moreover, the timely submission of BFARs and their public disclosure via the agencies' websites through their Transparency Seals was made a requirement in releasing the agencies' Performance-Based Bonuses (*See Compensation Reform*).

Table 3. List of Harmonized BFARs of COA and DBM

BAR 1	Quarterly Physical Report or Operation
FAR 1	Statement of Appropriations, Allotments, Obligations, Disbursements and Balances (quarterly)
FAR 1-A	Summary of Appropriations, Allotments, Obligations, Disbursements and Balances by Object of Expenditures (quarterly)
FAR 1-B	List of Allotments and Sub-Allotments (quarterly)
FAR 2	Statement of Approved Budget, Utilizations, Disbursements, and Balances (for Off-Budget Funds, quarterly)
FAR 2-A	Summary of Approved Budget, Utilizations, Disbursements, and Balances by Object of Expenditures (for Off-Budget Funds, quarterly)
FAR 3	Aging of Due and Demandable Obligations (yearly)
FAR 4	Monthly Report of Disbursements
FAR 5	Quarterly Report of Revenue and Other Receipts

Source: COA-DBM Joint Circular No. 2014-1

Whole-of-Government Reporting

Since 2011, the DBM has published in its website reports on the status of allotment releases; consolidated statement of allotments, obligations, and balances; and cash allocation releases and their utilization (disbursements).[21] This move has addressed the lack of whole-of-government reports on the status of the budget implementation. The government, through the DBCC, since 2013 has published the Mid-Year and Year-End Reports that provide a cohesive discussion on the state of the budget at these times of the fiscal year (*see Fiscal Transparency*). The GAA also requires the agencies and the national government to submit their respective reports regularly to Congress.[22]

CHALLENGES AND MOVING FORWARD:

Fundamental Reforms for Budget Integrity and Accountability

The administration had laid the groundwork to restructure the Budget, streamline its execution, and improve the accounting and reporting of expenditures. However, the credibility of the budget continued to be undermined by the complexity of the Philippines' budget framework (IMF, 2015). "As a result, budget outturns generally deviate from the initial budget law in a way that makes comparisons difficult, although detailed data [we]re regularly published (IMF, 2015)." While the FTE noted progress through the new budget execution reports and the UACS, such reports were still incomparable with the enacted Budget. The FTE presented 12 priority recommendations, seven of which were related to budget integrity (*see Table 4*).

Table 4. Priority Recommendations of the IMF-FTE related to Budget Integrity

No.	Recommendation	Main Principle of FTC and Potential Change
Short-Term Recommendations		
1	Strengthen the executive branch's capacity to consolidate and report fiscal statistics and data	Statistical integrity: "Basic" to "Good"
2	Present all forecasts and reports with the same budget structure and prepare reconciliation tables	Comparability of Fiscal Data: "Basic" to "Good"
3	Prepare a comprehensive annual budget document covering the whole central government, and present mid-year and end-year reports with the same coverage	Budget Unity: "Good" to "Advanced" Forecast Reconciliation: "Basic" to "Good"
4	Publish a detailed quarterly statement on the management of budget execution, including contingency provisions	Supplementary Budget: "Not Rated" to "Good" Budgetary Contingencies: "Good" to "Advanced"
Medium-Term Recommendations		
7	Compile and report fully consolidated data for the public sector and its subsectors in line with international standards	Coverage of Institutions: "Basic" to "Advanced"
8	Establish a function for auditing of Annual Financial Reports (AFRs) separate from the function of preparing them	Audit of AFRs: "Not Met" to "Good"
10	Tailor budget flexibility to actual needs by streamlining earmarking and SPFs, including the Unprogrammed Fund	Supplementary Budget: "Not Rated" to Good"

Source: IMF (2015).

The recent PEFA assessment (WB, 2016) reported that the Philippines' performance has dramatically improved in many dimensions, though performance remained weak in areas related to budget integrity and accountability. First, the budget lacked credibility due to the significant variance between appropriations and actual obligations. Second, the downstream pillars—accounting and reporting, and external scrutiny and audit—remained weak due to delayed reporting of the agencies, the lack of a whole-of-government audit opinion, and "the absence of a formal scrutiny process at the legislature [which] leaves the oversight function in the budget cycle incomplete (WB, 2016)," though some improvements were made through the adoption of the UACS and the harmonized BFARs as well as the clearer definition of savings.

Further policy reforms would be needed, including amendments to laws, to reduce the complexity of the Budget dramatically, curb in-year changes while providing ample flexibility to government managers, and enable the accurate and timely reporting of expenditures. These policy reforms should be supported by capacity building of the agencies to improve their compliance with the required reports and continuing efforts to automate reporting via the planned IFMIS. Reforms to strengthen budget integrity and accountability may be considered a top priority by the incoming administration, as the citizens increasingly demand to know how the Budget is spent.

Simplify the Structure of the Budget

The structure of the Budget continued to hamper budget integrity and accountability even as lump-sum SPFs had been reduced in the 2016 Budget, because of a "large number of earmarking, special purpose funds, and automatic appropriations permanently authorized by other laws (IMF, 2015)," as the FTE had noted. In response, major policy changes had been proposed in the Public Financial Accountability bill. First, limit SPFs to only the NDRRM Fund, the Contingent Fund, and Special Shares of LGUs. Second, rationalize the Unprogrammed Fund, such as limiting it to only two percent of total regular appropriations: at 3.6 percent in 2016.[23] Third, empower a permanent committee, composed of the COA, the DBM, and the DOF to review and recommend regularly the termination or modification of OBAs and SAGFs. Fourth, impose a "sunset provision" of three years for every new SAGF introduced by Congress.

Furthermore, policymakers and stakeholders may need to review the usefulness of the "line item" structure of the Budget. For one, the tens and thousands of P/A/Ps make the monitoring and reporting of the actual use of these appropriations—including in-year changes through the use of savings and realignments—cumbersome and even confusing. The line items were also not organized and presented intuitively, i.e., according to the programs linked to the desired results. This issue could be addressed through the PREXC, which would reorganize the line-item P/A/Ps according to major programs with corresponding performance targets (*see Linking Budgeting and Performance*).

Capable Agencies Wanted

The timely enactment of the Budget and the streamlining of fund releases had significantly curbed leakages. However, issues that complicate the accounting and reporting of actual expenditures against the original Budget had remained, especially those that had given the Executive "substantial leeway to shape both the allocation and composition of spending during budget execution (IMF, 2015)." First, the planned one-year validity of appropriations for the MOOE and the CO had been reverted by Congress to a two-year validity.[24] Second, the President still has the power to declare and use savings, though this authority had been limited after the definition of savings was clarified. Third, the gradual release of appropriations as allotments, despite the GAA-as-Release Document policy (*see Fast and Efficient Budget Execution*) that established the practice of releasing them comprehensively to the agencies. Lastly, the very characteristics of the SPFs, the OBAs, and the SAGFs, as previously discussed. The proposed Public Financial Accountability Act seeks to address these gaps.

Stronger budget integrity and accountability would ultimately depend on the capacity of the agencies to program their expenditures realistically, implement their programs and projects timely and efficiently, and report progress accurately against the approved Budget. By improving the capacity of the agencies to design and implement their budgets efficiently, the government would have less need for flexibilities during budget execution.

Improve Capacity to Account and Report

The DBM closely coordinates with the COA to further improve the government's accounting and reporting processes. Technology-based solutions, particularly the BTMS (*see Integrated PFM*), and increasing the capacity of the agencies in using these technologies would support the major PFM reforms. The UACS had significantly streamlined the way financial accounts were classified and reported, and provided the necessary backbone for the planned IFMIS. Further refinements would be required, however, given the shift to the PREXC; and the training of the agencies' PFM professionals to use the UACS effectively should continue.

Moreover, while compliance with the "hard copy" submission of the BFARs had been desirable, the online submission of these reports via the URS should increase (*see Table 5*). Thus, the DBM should conduct more thorough handholding sessions to acquaint the users on the URS and other ICT-based systems, but at the same time address interconnectivity and usability issues.[25] Furthermore, the DBM and the other DBCC agencies should increase their capacity to sustain the publication of the Mid-Year and Year-End Reports as well as improve their level of detail (*see Fiscal Transparency*).

Table 5. **Compliance Rate of the On-line Submission of BFARs as of 1st Quarter of 2016**

BAR 1	5%
FAR 1	12%
FAR 1A	11%
FAR 1B	12%
FAR 2	6%
FAR 2A	6%
FAR 3	0%
FAR 4	11%
FAR 5	8%

Source: ICTSS

How About External Oversight?

The Executive should produce timely and accurate budget reports that are easily comparable with the approved Budget.

However, in order to strengthen its "accountability ecosystem," the Executive should also dialogue with Congress and the COA to strengthen their oversight capacity. In the case of Congress, its oversight was rated "weak" in the 2015 OBS primarily because the Executive was not required by law to seek Congress' approval or inputs before moving funds within and among the agencies (savings and realignment), using contingency funds (SPFs), and using excess revenue (Unprogrammed Fund). The proposed Public Financial Accountability Act would limit these flexibilities, and emphasize the role of Congress in regularly scrutinizing the Executive's budget reports and the COA's audit reports.

The COA's oversight strength was rated "adequate" by the 2015 OBS primarily due to its constitutional independence. However, this rating did not reflect the conflict-of-interest as again highlighted by the 2016 PEFA and the FTE. "While external auditing of individual government entities is the responsibility of a constitutionally independent Supreme Audit Institution—the COA—it is itself also assigned the task of compiling the government's AFRs, thus compromising its ability to audit them (IMF, 2015)."

To address this situation, the DBM had proposed the creation of an Office of the Comptroller General (OCG) within the department to monitor and ensure the agencies' compliance with the COA's accounting standards and audit findings, and consolidate quarterly and annual financial accounts of the government. The PFM bill seeks to formalize the OCG.

> "The lack of a categorical legal basis may hamper the OCG's discharge of its functions. Moreover, consolidating these reports in a timely and accurate manner may be very challenging absent an automated system that will expedite the process and ensure the integrity of information. Some agencies still prepare their financial statements and reports manually.
>
> "The PFM bill should be enacted to formalize the OCG. The development and operationalization of the BTMS, to be scaled into the IFMIS, is likewise imperative. Capacity development interventions must also be provided to PFM practitioners to help them appreciate and discharge their functions in a fast-paced and continuously evolving environment."
>
> **Undersecretary Janet B. Abuel**
> DBM COMPTROLLER GENERAL GROUP

NOTES

[1] Integrity is commonly associated with honesty, which serves as "an antithesis to 'corruption' or 'the abuse of office' (Armstrong, 2005)." At the core of integrity, however, is authenticity: building on the philosopher John Rawls' definition of integrity as truthfulness, sincerity, lucidity, and commitment, Harvard law professor Lloyd Weinreb argued that "[a] democratic government has an obligation arising from its democratic nature to practice authenticity toward its citizens, those to whom it is responsible (2003)."

[2] This article defines the elements of "budget integrity" by citing global norms that relate to "authenticity" in budgeting. These global norms include budget credibility or reliability, statistical integrity, the presence of control mechanisms, and independent scrutiny, among others. Taken collectively, these norms not only emphasize "truthfulness" but also the dimensions of wholeness and functionality to "integrity."

[3] Not all SPFs are "lump sum" in nature. For instance, the Budgetary Support to GOCCs specifies the recipient-GOCCs and the purposes for which subsidies, capital transfers, and other forms of support are to be used.

[4] SPFs had been used in the past as a mechanism to draw the attention of legislators to priority programs and projects. An example would be the GATT-Related Adjustment Measures Fund: an SPF which is released to various implementing agencies for programs and projects that provided safety nets against the possible negative impact of GATT on specific sectors. Based on interview with Usec. Pascua.

[5] OBAs are financial accounts that are outside the Budget: under specific laws, certain agencies are authorized to maintain OBAs—retained incomes, trust funds, and revolving funds—where they collect income from specific business-type activities and utilize these for specific purposes. Revenue and expenditures from OBAs are not accounted for as part of the General Fund. An example of OBAs are the income of State Universities and Colleges (SUCs) from tuition and other fees, which may be used to augment their capital outlays.

[6] Like OBAs, SAGFs come from specific revenue sources which are earmarked for specific purposes. SAGFs, however, are considered as part of the Budget program and accounted for as part of the General Fund: revenues from these are remitted to the Treasury but segregated into "special accounts." Still, expenditures from these SAGFs need not be approved by Congress through the annual Budget as these are already automatically appropriated through existing laws. An example is the Motor Vehicle User's Charge which is collected from the registration of motor vehicles, remitted to the Treasury, and then allocated to agencies like the DPWH and DOTC to implement road maintenance, road safety, and other related purposes.

[7] This SAGF is authorized by Section 8 of Presidential Decree No. 910 to be collected from royalties from the Malampaya Natural Gas project and "used to finance energy resource development and exploitation programs and projects and for such other purposes as may be directed by the President." [emphasis ours]

[8] Of the P23.6 billion released from the Fund by the previous administration, only one percent was for an energy development-related project: Sitio Electrification (Abad, 2014).

[9] Section 25(5) Article VI of the 1987 Constitution.

[10] In assigning a "moderate" rating of 43 on legislative strength, the 2010 OBS also cited the lack of consultations with the legislature prior to the tabling of the proposed Budget in Congress; the limited independent research capacity of Congress; and the Executive's shifting of funds and use of contingency funds (SPFs) without need to secure Congress' prior approval.

[11] With a score of 60 (IBP, 2010), which also accounts for gaps in the quality of audit reports. However, in a subsequent methodology change, IBP limited the rating of audit institutions' strength to questions pertaining to their independence, while those relating to the comprehensiveness of audit reports were excluded as these were already accounted for in the transparency rating through the OBI. After a re-computation, the COA was rated "strong" with a score of 83 in 2010.

[12] The phrase "including savings generated from programmed appropriations for the year" was deleted from the special provision of the Unprogrammed Fund beginning the 2012 GAA. Prior to this, the 2011 GAA included additional parameters to the implementation of the said phrase.

[13] Since the 2015 GAA.

[14] Beginning with the 2014 Proposed Budget, the BESF now contains a table presenting OBAs, including revenue inflows, utilization, and balances; as well as descriptions of their sources and uses. Similarly, the DBM improved the BESF table containing Earmarked Revenues (includes SAGFs) by presenting actual and projected inflows, utilization, and balances and improving their descriptions. Similarly, the government currently discloses OBAs and SAGFs in the special provisions of the Budget.

[15] The parameters cited here are based on Sections 72 to 74 of the General Provisions of the 2016 GAA, which are similar, with some improvements, to the counterpart provisions of the 2015 GAA. Savings refer to "portions of balances of any released appropriations in this Act which have not been obligated" because of: i) Final discontinuance or abandonment, ii) Non-commencement, iii) Decreased cost from improved efficiency; iv) Difference between the approved budget for the contract and the awarded price. Savings may likewise come from available balances of appropriations for unutilized compensation-related costs.

[16] Non-commencement means that the agency is unable "to obligate the released allotment and implement the PAP due to natural or man-made calamities or other causes not attributable to the fault or negligence of the agency concerned during the validity of the appropriation."

[17] Realignment, as defined by Section 76 of the 2016 GAA, "refers to the reallocation, modification, or change in the details within an existing PAP. In the programs with several activities, shall be limited within each of the activity." The same section nonetheless emphasized the general rule that agencies "shall spend what is programmed in their respective appropriations in this Act."

[18] The COA, DBM, and DOF issued Joint Circular (JC) Nos. 2013-01 and 2014-01 on the introduction and on the enhancement of the UACS.

[19] COA-DBM JC No. 2013-01 prescribes revised guidelines on the submission of quarterly accountability reports on the appropriation, allocation, obligation and disbursement. JC No. 2014-01 also modified the format of BFARs and prescribed guidelines for their use.

[20] The DBM issued Circular Letter No. 2013-13 to prescribe the use of the on-line reporting system for the submission of Budget Execution Plans and Targets for 2014 and Subsequent Years. The guidelines on the use of the Unified Reporting System served as an attachment to the circular letter.

[21] The status of allotment releases and cash allocation releases and utilization are released monthly as these are based on DBM's tracking as well as reports from government servicing banks. Meanwhile, the consolidated status of allotments, obligations, and balances is released quarterly as these are dependent on agencies' submission of certain BFARs, which are likewise submitted quarterly.

[22] Includes General Provisions Section 65 (status of allotment releases and obligations); Section 68 (funds directly released to regional offices and operating units); Section 71 (savings and augmentation); Section 84 (agencies' performance against their Monitoring Implementation Plans); Section 95 (agencies' annual reports and audited financial statements); Section 96 (agencies' report on actions taken on audit findings); Section 97 (agencies' quarterly BFARs; and government-wide quarterly reports on releases and balances from SPFs; supplemental, continuing, and automatic appropriations; and realignment of funds); and Section 100 (Post Budget Status Report).

[23] P67.5 billion divided by P2.071 trillion (i.e. the 2016 GAA excluding automatic appropriations).

[24] The policy of one-year validity of MOOE and CO appropriations was adopted in the 2013 GAA; however, Congress, upon endorsement of the Executive, passed a Resolution reverting back to the two-year validity of appropriations in order to secure ample funding for post-Yolanda rehabilitation and reconstruction efforts. In the same year, Congress passed a 2014 GAA which allows continuing appropriations for MOOE and CO. However, even if the Executive proposed to restore the one-year validity policy under the 2015 and 2016 Budgets, Congress reverted back to the two-year validity policy.

[25] Based on interview with ICTSS on October 2015.

HOW WE BUILT SAFEGUARDS IN PUBLIC SPENDING

Since 2010, the administration had implemented reforms to strengthen Budget Integrity: government expenditures could now be clearly accounted for according to the appropriations approved by Congress. These reforms enabled oversight institutions, especially Congress, and the public to hold government accountable in faithfully implementing the Budget.

Prior Year's Appropriations

Using the past year's Budget for the current year convoluted the accounting of expenditures. The government ended this practice not only to clarify the accounting of public funds but also to curb anomalies associated with it.

By ensuring that the GAA was enacted on time for six fiscal years in a row, the government **ended the frequent re-enactment of the Budget** in the past: a practice that delayed the delivery of services and gave the previous administration a vast amount of discretion to shift funds allocated for completed programs and projects.

Off-Budget Accounts (OBAs) and Special Accounts in the General Fund (SAGFs)

The government ensured the prudent and transparent use of OBAs and SAGFs[1]. For example, the Malampaya Fund, an SAGF, was now strictly used for energy development-related projects. The government also started the practice of disclosing revenue collections, utilization, and balances from OBAs as part of the Proposed Budget and improved the presentation of SAGFs in the Budget documents.

[1] *OBAs and SAGFs are authorized by law to be collected from specific revenue sources (e.g., royalties from oil and gas exploration) and used for specific purposes (e.g., energy development). However, SAGFs are still considered as budgetary accounts (part of the total Budget program) but are earmarked for particular purposes; while OBAs are not part of the Budget program (e.g., retained revenue of hospitals that are collected, spent, and accounted for in addition to the National Budget).*

Agencies' Programs, Activities, and Projects (P/A/Ps)

The government reduced lump sum funds and fleshed out the agencies' budgets into detailed programs, activities, and projects, which not only reduced discretion but also ensured faster budget execution.

Special Purpose Funds (SPFs)

SPFs in the GAA were reduced from 13 in 2010 to only 6 in 2016[2].Only three of the remaining SPFs are lump sum in nature: the National Disaster Risk Reduction and Management Fund (formerly Calamity Fund), the Contingent Fund, and Allocations to Local Government Units (e.g., special shares of LGUs). The three other remaining SPFs were disaggregated: Budgetary Support to Government Corporations, Miscellaneous Personnel Benefits Fund, and the Pension and Gratuity Fund. During the fiscal year, SPFs were transferred to agencies to fund certain PAPs.

Similarly, the Unprogrammed Fund[3] was nearly halved (to P67.5 billion in 2016). The conditions for its release were also clarified.

Savings and Augmentation

After the Supreme Court's decision on the Disbursement Acceleration Program, the government clarified the definition of savings and their use to augment deficient P/A/Ps. For instance, savings could not be declared from unused funds that result from discontinued P/A/Ps due to the fault or negligence of agencies concerned.

[2] *The count excludes Interest Payments and the Tax Expenditure Fund, and the Internal Revenue Allotment for local governments, which are automatic appropriations. The other SPFs were eliminated or transferred under the agencies' budgets (e.g., E-Government Fund, School Building Program).*

[3] *The Unprogrammed Fund includes appropriations approved by Congress but may only be used if the government earns windfall revenue: if it collects non-tax revenues in excess of targets, if it gains new revenue sources, or if it perfects new loan agreements (e.g., for official development assistance). The amount for the Fund is on top of the Budget program (i.e., not counted as part of the 2016 P3 trillion Budget) as revenues for and expenditures from the fund added to the Budget program.*