



REPUBLIC OF THE PHILIPPINES
DEPARTMENT OF BUDGET AND MANAGEMENT
GENERAL SOLANO STREET, SAN MIGUEL, MANILA

LOCAL BUDGET CIRCULAR

No. 147
Date July 29, 2022

To : Local Chief Executives (LCEs), Members of the Local Sanggunian, Local Budget Officers, Local Treasurers, Local Planning and Development Coordinators, Local Accountants, and All Others Concerned

Subject : **ADOPTION OF THE ENHANCED PUBLIC FINANCIAL MANAGEMENT ASSESSMENT TOOL (PFMAT) FOR LOCAL GOVERNMENT UNITS (LGUs) AND ITS ELECTRONIC VERSION**

1.0 BACKGROUND

- 1.1 Pursuant to Section 3 (b) of the Local Government Code of 1991 (Republic Act [RA] No. 7160), there shall be established in every LGU an accountable, efficient, and dynamic organizational structure and operating mechanism that will meet the priority needs and service requirements of its communities.
- 1.2 Moreover, consistent with Section 354 of RA No. 7160 and Article 426 of its Implementing Rules and Regulations (IRR), the Department of Budget and Management (DBM) shall promulgate rules to improve and systematize the methods, techniques, and procedures employed in budget preparation, authorization, execution, and accountability in local government units, as well as extend technical assistance on local government budgeting.
- 1.3 In 2012, the DBM established the PFMAT for LGUs through Local Budget Circular (LBC) No. 101 dated October 12, 2012¹ as a means of institutionalized governance reform through timely Public Financial Management (PFM) assessments and PFM improvement planning exercises.
- 1.4 Said earlier version of the PFMAT for LGUs was largely based on the 2005 Public Expenditure and Financial Accountability (PEFA) PFM Financial Measurement Framework but the contents were modified to embody the financial rules and regulations being followed by the LGUs in the Philippines which was later updated in 2016.

¹ The Public Financial Management Assessment Tool for Local Government Units (PFMAT for LGUs)

- 1.5 Moreover, the DBM-Department of the Interior and Local Government (DILG)-Department of Finance (DOF)-National Economic and Development Authority (NEDA) Joint Memorandum Circular (JMC) No. 2015-01 dated February 24, 2015² and DILG-NEDA-DBM-DOF JMC No. 1, s. 2016 dated November 18, 2016³ also strengthened and reiterated the PFMAT as one of the tools of PFM at the local level.

2.0 **PURPOSE**

This Circular is being issued to prescribe the guidelines for the official adoption and use of the enhanced PFMAT for LGUs and its electronic version as self-assessment tool for LGUs to check the state of their respective PFM systems, and as an instrument to correct systemic issues identified in the PFM assessment.

3.0 **THE ENHANCED PFMAT FOR LGUs**

- 3.1 The enhanced PFMAT is a self-assessment instrument designed to assist LGUs in evaluating their PFM performance.

The Tool describes the characteristics of a good PFM system, identifies performance indicators to gauge how the LGU is actually doing in a particular area of PFM, and identifies the sources of information which will help the LGUs establish their compliance with graduated levels of performance.

- 3.2 Among the major changes that have been applied in the enhanced PFMAT for LGUs are as follows:

- 3.2.1 Assessment focusing on the seven (7) pillars of an open and orderly PFM system based on the 2016 PEFA Financial Measurement Framework, the most recent upgrade since its inception;
- 3.2.2 Use of immediately preceding year's data instead of the two-year and three-year periods data to reflect the immediately preceding year's actual performance;
- 3.2.3 Synchronization of indicators and sub-indicators based on the seven (7) pillars of PFM for easy presentation of scores;
- 3.2.4 Reduction of indicators to eighteen (18) performance indicators and twenty-seven (27) sub-indicators to consolidate quantifiable data and measure the performance of each pillar of PFM;

² Adoption of the Local Government Units Public Financial Management Reform Roadmap and Implementation Strategy

³ Updated Guidelines on the Harmonization of Local Planning, Investment Programming, Resource Mobilization, Budgeting, Expenditure Management, and Performance Monitoring and Coordination in Fiscal Oversight

- 3.2.5 Revision of the scoring matrix and data tables based on the different issuances on local finance, such as DILG Memorandum Circular No. 2019-149 dated August 30, 2019⁴ and the 2016 Revised IRR of RA No. 9184 dated March 31, 2021;⁵ and
- 3.2.6 Inclusion of a guide for interpretation and analysis of scores that provides sample descriptions that would help LGUs in preparing their PFM Assessment Report. These synopsis tables shall serve as guides for the LGU PFM Team in making analysis and evaluation of the PFM performance of the LGU based on the scores.
- 3.3 The enhanced PFMAT framework identifies and maintains the seven (7) pillars of performance of a good PFM system, as follows:
- 3.3.1 **Policy-based Budgeting** – contains performance indicators that measure if the budget is prepared with due regard to government policy.
- 3.3.2 **Comprehensiveness and Transparency** – contains performance indicators that measure if budget information provide a complete picture of revenue forecasts, prior, current, and budget year's expenditures and the expected outputs. They also measure whether fiscal and budget information are accessible to the public.
- 3.3.3 **Credibility of the Budget** – contains performance indicators that measure whether or not the budget is realistic and is implemented as intended.
- 3.3.4 **Predictability and Control in Budget Execution** – contains performance indicators that measure if the budget is implemented in an orderly and predictable manner and whether or not there are arrangements for the exercise of control and supervision in the use of public funds.
- 3.3.5 **Accounting, Recording, and Reporting** – contains performance indicators that measure whether adequate records and information are produced, maintained, and disseminated for purposes of decision-making, control management, and reporting on operations.
- 3.3.6 **Internal and External Audit** – contains performance indicators that examine the arrangements for scrutiny of public finances and follow-up by the LCE and/or the Local Sanggunian.

⁴ Amending the DILG Memorandum Circular No. 2013-140 Titled, "Implementing Guidelines on the Full Disclosure of Local Budget and Finances, and Bids and Public Offerings"

⁵ The 2016 Revised Implementing Rules and Regulations of Republic Act No. 9184, otherwise known as the Government Procurement Reform Act

- 3.3.7 **Citizen's Participation in the Budget Process** – contains performance indicators that measure the extent by which the LGU encourages concerned citizens organized as Civil Society Organizations to become partners of the LGU in the formulation, monitoring, evaluation, and improvement of the local budget.

4.0 **THE ELECTRONIC PFMAT (ePFMAT) FOR LGUs**

- 4.1 To facilitate the evaluation of the performance of the PFM systems of LGUs, an ePFMAT system for LGUs was designed and developed by the DBM under the auspices of the Asian Development Bank Technical Assistance.
- 4.2 The ePFMAT for LGUs is a fully web-based electronic self-assessment instrument designed to automate the assessment of LGUs' PFM system following the procedures outlined in the enhanced PFMAT Manual.
- 4.3 The system has the facility to record the scores and generate the assessment results at the LGU level, and consolidate results at the regional and national levels.
- 4.4 The system also provides assistance in the preparation of the PFM Improvement Plan by generating the summary scores per pillar and their corresponding initial interpretations.
- 4.5 The ePFMAT for LGUs is free of charge to LGUs interested in automating the examination or evaluation of their financial systems and operations. The ePFMAT for LGUs can be accessed through the following link: <https://epfmat.dbm.gov.ph>.

5.0 **THE PFM ASSESSMENT PROCESS**

The PFM assessment process involves three phases, to wit:

5.1 **Conduct of PFM Assessment**

Prior to the conduct of the PFM Assessment, it is imperative for the LCE to formally organize its PFM Team by issuing the pertinent executive issuance (e.g., Executive Order). This is to ensure better coordination and sustainability of PFM reforms. The PFM team shall be composed of the Department Heads of the different Offices/Units in the LGU.

Prior to the assessment, the PFM Team shall convene to discuss the contents of the tool to establish a common understanding of the context and the specific contents of the PFMAT.

It is also suggested that prior to the administration of the PFMAT, the PFM Team should orient the LCE and the Local Sanggunian on the PFMAT. Technical Assistance on this matter may be sought from the DBM Regional Offices (ROs).

The PFM Team shall ensure the availability of relevant data and the information required for filling out the data tables under each performance indicator. Based on the relevant reports and other sources of information, the responsible Unit/Office shall fill out the data tables under each performance indicator/sub-indicator. The data tables shall serve as bases for determining the LGU's score for each indicator.

5.2 Preparation of the PFM Assessment Report (PFMAR)

For a more effective presentation for use in executive decisions, among others, the results of the PFMAT should be summarized in a concise and standard manner through the PFMAR. This document presents the assessment result including the methodology process, conclusions, and recommendations to improve PFM systems in the LGU.

5.3 Preparation of the PFM Improvement Plan (PFMIP)

The PFMIP shall provide the details of the recommendations specifying the improvement policies and actions to address the weaknesses identified in the assessment. The PFMIP outlines the programs/projects/activities which will be undertaken to improve PFM systems in the LGU.

6.0 ROLL-OUT OF THE ENHANCED PFMAT FOR LGUs AND ePFMAT

- 6.1 To ensure the widest application of the enhanced PFMAT for LGUs and the ePFMAT, the orientation thereon shall be conducted by the DBM ROs for all provinces, cities, and municipalities within their respective geographical jurisdictions. Technical assistance in the preparation of the PFMAR and PFMIP will likewise be extended by the DBM ROs concerned, whenever necessary.
- 6.2 The DBM ROs shall take charge of the monitoring and evaluation of the implementation of the PFMIPs of LGUs at the regional level using the PFMIP implementation monitoring table (Annex A) to be filled-up by LGUs.
- 6.3 Monitoring and evaluation reports shall be submitted by the DBM ROs to the Functional Group Head (FGH) of the Local Government and Regional Operations Group through the Local Government and Regional Coordination Bureau. The same shall be the FGH's reference in preparing reports required by partner agencies and other stakeholders.

7.0 REPEALING CLAUSE

This Circular and the enhanced PFMAT for LGUs shall supersede LBC No. 101 dated October 12, 2012 and the previously prescribed PFMAT for LGUs, respectively.

8.0 **EFFECTIVITY**

This Circular shall take effect immediately after its publication.


AMENAH F. PANGANDAMAN
Secretary



