PHI/97/022/I/01/99
ENHANCING THE PUBLIC ACCOUNTABILITY PROGRAMME OF THE PHILIPPINE COMMISSION ON AUDIT: PARTICIPATORY AUDIT WITH CIVIL SOCIETY ORGANIZATIONS

A. DEVELOPMENT CONTEXT

1. Background

The Commission on Audit (COA), supported by the United Nations Development Program (UNDP) and the National Economic Development Authority (NEDA), had undertaken a project called, "Enhancing the Public Accountability Programme of the Philippine Commission on Audit in Auditing and Accounting: Preparatory Assistance (EnPAP) – PHI/97/022." This project aims to improve COA's capability to effectively discharge its constitutional mandate of enforcing public accountability in the Philippines.

Both the existing government accounting and auditing systems have been mainly based on the 1957 study made by the consultancy firm Booz, Allen and Hamilton. Since the government operations have increased in magnitude and complexity, government accounting and auditing systems should keep pace with the requirements of a fast changing technology driven environment.

The COA recognized that an assessment should be made of the government accounting and auditing systems. The assessment was towards promoting: (a) a more effective and efficient management of government resources; and (b) accountability in government operations.

The objective of the EnPAP was to assist the Government of the Philippines, specifically the COA, undertake a general assessment of its public accountability program. It helped the COA identify problems, particularly in government auditing and national government accounting systems; identify and prioritize reform measures; examine possible approaches to deal with them; and formulate an action program. Among the reform measures identified was the need to promote transparency in the conduct of audits through the participation of non-government and peoples' organizations in selected audit activities.

2. Development Problem

As the supreme audit institution, the COA plays an important role in ensuring public accountability in government operations. This mandate is exercised through the conduct of audit of all government transactions. With the increasing magnitude and complexity of government operations, the constraints to COA's effectiveness and efficiency by which it is able to exercise its mandate are increasingly becoming more evident. Indeed the increasing number of government programs and projects for audit has rendered it impossible for COA to conduct a full-scale audit of all or even the more significant ones. These capacity constraints arise because while COA may have the physical number of auditors, majority of COA auditors are professionally trained in accounting and very few are trained in other technical fields of endeavor. Compounding the problem is the current orientation towards compliance audit rather than value for money audit and the advances in information technology.

Moreover, in the face of hard budget constraints and increased citizens' awareness, there is an increasing demand for transparency and accountability. In many parts of the world, citizens, through people's organizations and or other forms of civil society organizations are demanding more responsive and accountable governments in terms of timely and improved quality of service delivery, and prudence in the use of taxpayers' money.

To address its own set of constraints and meet the challenges of an efficient government, COA for the past several years has initiated the implementation of reforms in its internal processes and structure. These reforms include among others, an increasing shift towards value for money audit and the implementation of an audit team approach. The latter is intended to enable COA to leverage its limited manpower by phasing out resident auditors in agencies and adopting the audit team approach. It is likewise intended to foster a more independent relationship between an auditee and an auditor through an "arms length" transaction.

Public sector reform studies have shown that increasing the opportunities for the citizenry to participate in the decision-making and implementation process have actually improved government. This involvement makes people aware of what government's initiatives are and ultimately creates collective pressure on government and on themselves to ensure the programs' success. The 1998/99 World Development Report has very aptly noted that:

> " A variety of concrete policies can help foster transparency. involving communities in monitoring public services improve their provision and check abuses of local power... "

Oversight government agencies, for example, the National Economic and Development Authority (NEDA), the Ombudsman, the Civil Service Commission (CSC) and the Department of Budget and Management (DBM) have long recognized the advantage of seeking and promoting stakeholder participation and have in fact sought their assistance in pursuing a number of their activities.

The COA, in its efforts to improve on its auditing method, recently conducted an exploratory survey on the possibility of authorizing non-government personnel and people's organizations to participate in audits undertaken by the COA. The focus of the survey was a non-government organization (NGO) based in Abra, the Concerned Citizens of Abra for Good Government (CCAGG). This organization has long been engaged in the monitoring of government projects undertaken in Abra. The CCAGG members are professionals (teachers, engineers, doctors, sociologists, others) trained by NEDA in project monitoring. The CCAGG's activities have resulted in a number of cases filed against certain Department of Public Works and Highways (DPWH) officials. These made the citizenry realize that they can effectively assist the government in ensuring that government projects are pursued properly in the field.

The participation of CCAGG can also provide a fresh perspective to value for money audits, which normally are conducted by government auditors whose training and education are either in accountancy or law. Citizen participation in the conduct of audits can be considered not only to fill-in the shortage of government auditors but also to promote involvement, transparency and openness in the conduct of government audits.

This proposed partnership, a potential leading innovation in governance is being pursued with the objective of involving citizens participation in government audit activities to enhance transparency and accountability. As an innovation, it holds promise as a model for regional / global replicability.

3. *Development objective*

This project aims to enhance transparency and accountability in government by strengthening the partnership among government, the private sector and civil society.

At the end of the project, COA will have:

- Defined its working relationship with a pool of COA authorized non-government organizations/people's organizations (the nature, the extent of participation expected from these organizations, the assistance expected from the COA, the responsibilities of both the COA and the organizations concerned, among others);
- Formalized guidelines for cooperation, in coordination with CSOs;
- Identified the specific audit activities where NGO/PO involvement is crucial;
- Developed a performance system to continually evaluate performance of authorized CSOs.
- Educated its auditors and auditees on the need, nature and extent of participation of NGOs/POs to prevent resistance.

In the long term, there will be a pool of authorized organizations which has been fully trained to assist the COA in the conduct of specific audit activities in certain target areas. Reports rendered by these CSOs will be used either as:

  - initial basis of more in-depth audits or as final basis of suspensions/disallowances of claims for payments, in the case of compliance or fraud audits; and
  - as basis of recommendations to improve the economy, efficiency and effectiveness in government operations, in the case of value for money audits.

4. Strategy

This project will contribute to enhancing transparency and accountability by developing a partnership arrangement with a civil society organization through pilot implementation of participatory audit. The pilot implementation will initially involve the Philippine Commission on Audit

(COA) and the Concerned Citizen of Abra for Good Government (CCAGG). Subject to the results of the initial pilot experiment and the presence of other qualified civil society organizations, the project will be expanded to include the participation of other qualified CSOs, to provide further avenues to explore feasible modalities for partnership; and identify lessons learned as basis for possible replication.

The project activities shall involve defining the working relationship between the COA and CCAGG; the training of CCAGG, other CSOs and COA staff on audit methodologies, results-oriented monitoring and evaluation, and other related subject matters directly relevant to the audit activities; and the conduct of joint audit with CCAGG. This pilot implementation shall serve as the basis for: (a) developing the criteria for selection, accreditation and defining the possible modalities for participatory audit partnership with other CSOs; (b) refining the techniques and mechanisms for conducting participatory audit; (c) developing appropriate training programmes on participatory audit for CSOs; and (d) developing a policy on participatory audit and a strategy for mainstreaming this as part of regular audit activities of COA, if proven feasible.

The project will be implemented for three (3) years. It shall be initially pilot-tested in the province of Abra in partnership with the CCAGG. During the course of the project implementation, based on results of the initial evaluation and presence of qualified CSOs in other sites the project maybe expanded to other pilot areas. Twinning arrangements will be adopted between pilot sites where the COA and CCAGG staff will be tapped as resource persons to enable valuable learning experiences to be shared among stakeholders in the different project sites. This will be further complemented by the conduct of cross-visits and workshops to foster exchanges of experiences and feedback to enable COA to refine the training programme on participatory audit, develop its criteria for accreditation, and develop an appropriate strategy for integrating participatory audit into its audit systems and processes. In the event, however, that the results of the pilot audit after the first year will show that a participatory audit approach is not feasible, this project will automatically be deemed terminated with remaining funds formally accounted and returned to the UNDP.

Linkages between the project and NEDA Regional Offices and other NEDA staff through the Regional Project Monitoring and Evaluation System (RPMES) shall be established to enhance complementarities and maximize benefits from the results of the project activities as well as strengthen the institutional mechanism for accountability. Through this linkage, the results of and lessons from the project can feed directly as input into the project evaluation and investment programming activities of NEDA. For instance, the results can be useful in assessing the potential impact of similar projects to host communities, and or in the re-design of on-going projects. This can lead to improvement in project outcomes through better project design and savings due to cost effectiveness.

5. Beneficiaries

The direct target groups of the proposed intervention of this project are the members of the CSOs , COA auditors and auditees. The citizens in the localities to be covered by the project activities are expected to benefit from this project through their participation in the audit activities and in the expected improvement in accountability. These outcomes maybe in the form of improved prudence in the use of public resources and better design and implementation of projects based on needs of local communities.

6. Regulatory Framework

The Commission on Audit is the supreme audit institution of the Philippine Government. As constitutionally mandated, it is independent of the executive, legislative and judicial branches of the government.

The Philippine Constitution provides the following powers and functions of COA:

- Audit function – to examine, audit, and settle all accounts pertaining to all forms of government revenues and expenditures

- Adjudicatory (Quasi-judicial) function. COA through the Commission Proper, is mandated to decide on any case brought before it within sixty days from the date of submission for resolution.

- Recommendatory functions for improving economy, efficiency and effectiveness. COA is tasked to recommend measures to improve the economy, effectiveness and efficiency of government, its subdivisions, agencies and instrumentalities, including government-owned and controlled corporations (GOCCs). This function requires the conduct of performance (value for money) audit by COA of all government agencies.

- Limited accounting functions. COA is charged to keep the general accounts of the government (Unappropriated Surplus). Under the current government accounting system, COA is responsible for maintaining one of the three sets of books. These books are the government's general account maintained by COA, the agency book maintained by the Bureau of Treasury; and the agency book maintained by each agency.

- Reportorial function. COA is mandated to submit to the President and Congress an annual report covering the financial condition and operation of the government, its subdivision, agencies, instrumentalities, including GOCCs, and non-governmental entities subject to its audit.

- Custodial function. COA is directed to preserve the vouchers and other supporting papers pertaining to the general accounts. In addition to the constitutional provision, Section 43 item 4 of Presidential Decree (P.D) 1445 (The State Audit Code of the Philippines), further expanded the custodial function of COA to include the custody, safekeeping and preservation of paid vouchers, journal vouchers, stubs of treasury warrants or checks, reports of collections and disbursements and similar documents together with their respective supporting papers.

- Rule-making functions for accounting and auditing. This pertains to the promulgation of accounting and auditing rules and regulations including those for the prevention and disallowance of irregular, unnecessary, excessive and extravagant expenditures, or uses of government funds and properties.

In the exercise of COA's mandated functions, COA coordinates with a number of government agencies. In the area of audit, the results of audit are submitted to Congress which serve as basis for Congressional oversight of the executive branch. Audit findings of fraud are submitted to the Office of the Ombudsman for prosecution of cases against government personnel. While non-government organizations do not normally fall within the ambit of COA's audit, COA undertakes audit of government funds disbursed through CSOs.

B. STRATEGY FOR USE OF UNDP RESOURCES

This project supports and is consistent with the global policy of UNDP to promote good governance by supporting initiatives aimed at promoting participation, transparency and accountability as articulated in two policy documents namely: "Governance for Sustainable Human Development" (January 1997) and "Fighting Corruption to Improve Governance" (February 1999). This is also consistent with the thematic thrust of the Country Cooperation Framework (CCF) aimed at enhancing "operating systems and procedures that enhance transparency and accountability."

The assessment report on the government audit system conducted during the preparatory assistance phase identified several interventions aimed at enhancing transparency and accountability in government operations. These include improving audit processes pertaining to financial audit, and fraud audit; strengthening internal control of agencies; improving the adjudication process and developing computerized date base of information about COA's audited entities. While these efforts are important complementary initiatives, the technical nature of these interventions lend themselves more along the technical expertise and experience of other multilateral and bilateral donors who have had more experience in providing technical assistance in economic and financial management in different countries. On the other hand, the proposed pilot project which is catalytic in nature involves interfacing with civil society organizations in which UNDP has had extensive experience, and previous working relationship with CSOs, in particular with the CCAGG. Moreover, with its potential as a leading edge innovation in governance, the project fits well into the framework of UNDP's PARAGON Regional Governance Programme for Asia and the Pacific as a national innovation with potential for regional replicability. These considerations make UNDP a more appropriate partner for undertaking the pilot testing of this proposed intervention.

To contribute towards the achievement of the development problem, UNDP assistance to the project will be utilized to support the pilot implementation of participatory audit by developing the capacity of civil society organizations for conducting effective value for money audit of selected projects; assist the COA develop criteria for accreditation of CSOs; develop and/or refine existing training materials to be used for training CSO in participatory audit; and develop strategy for mainstreaming the approach in the government audit system.

C. IMMEDIATE OBJECTIVES, OUTPUTS, INDICATORS AND ACTIVITIES

Immediate Objective. To increase openness and transparency; promote government credibility and bring government closer to the people by developing mechanisms within the government audit system, which will strengthen direct citizen participation in audit affairs.

Success Indicators:

- Participatory Audit and Strategy for Implementation, developed and officially adopted by COA
- Criteria for selection of CSOs to be authorized to participate in COA audits in the event that this project will be replicated
- At least one authorized CSO conducting audit activities.

Outputs

- Signed Memoranda of Understanding with CSO(s);
- Training program on value for money (VFM) audit, fraud audit, and results-oriented monitoring and evaluation (ROME) established and conducted for staff of COA, CCAGG, and participating CSOs;
- Participatory Audit reports completed by CCAGG and participating CSOs and used by COA for decision-making;
- Criteria for selection of CSOs which can be authorized to participate in participatory audits have been developed and officially adopted by COA Commission Proper; and
- COA Policy on Participatory Audit and Strategy for Implementation developed and officially adopted for replication

Activities

Phase 1 (First Year):

Pilot site activities: Abra

1.1 In consultation with CCAGG, define proposed working relationship (nature, extent and timing of coordination desired, extent and nature of assistance by COA, responsibilities of both COA and participating organization, among others.)
1.2 Based on #1.1 execute a Memorandum of Agreement with CCAGG
1.3 Conduct competency skill assessment of COA and CCAGG staff to determine appropriate method for delivery of training on VFM audit, fraud audit, results-oriented monitoring and evaluation and other related activities.
1.4 Based on (1.3) prepare training materials
1.5 Develop training effectiveness measurement systems, with corresponding indicators
1.6 Conduct a training of CCAGG and COA staff
1.7 Identify projects and or agencies to be audited
1.8 Conduct consultations and advocacy with agencies subject to participatory audit
1.9 Undertake a pilot implementation of participatory audit with COA and CCAGG in Abra
1.10 Monitor the conduct of pilot participatory audit implementation
1.11 Conduct a joint evaluation of the pilot implementation involving COA auditors, auditees and CCAGG to identify possibility for replication.
1.12 If replication is deemed feasible, identify areas for improvement and lessons learned. Refine training program on participatory audit for CSOs
1.13 Undertake process documentation of pilot experiment
1.14 Develop participatory audit methodology manual

<u>Other sites:</u>

Based on the results and evaluation of the pilot test in Abra, if replication of project is deemed feasible:

2.1 Identify at least one (1) CSO each in other areas for possible replication;
2.2 Evaluate qualifications and competence of CSOs. Conduct actual field inspections, interview selected members, review work done/outputs, interview clients of CSOs.
2.3 In consultation with the CSOs, define proposed working relationship (nature, extent and timing of coordination desired, extent and nature of assistance by COA, responsibilities of both COA and participating organization, among others.)
2.4 Obtain approval of the Commission Proper re the participation of identified and qualified CSOs in COA audits under the Participatory Audit approach.
2.5 Sign Memoranda of Agreement with the participating CSOs

<u>Phase 2 (Second year)</u>

2.5. Using the manualized audit methodology, design training program for participatory audit and conduct training of the identified CSOs for other sites;

2.6. Implement participatory audit in the identified areas once approval by the Commission Proper is obtained. To maximize insight and learning from previous experience during the project implementation, twinning arrangements and cross-visits between CCAGG and the participating CSOs on the one hand, and between COA units on the other hand, shall be strongly encouraged.

2.7. Undertake joint evaluation of pilot implementation in the new sites involving local residents/ stakeholders, and auditees.

Third Year

2.8 Based on the results of implementation, synthesize lessons learned on: developing partnership for participatory audit with CSOs; criteria for CSO accreditation; etc.

2.9 Based on lessons learned, formulate COA policy on participatory audit and a strategy for mainstreaming participatory audit in the government audit system.

2.10 Obtain Commission Proper approval.

2.11 Document lessons learned; disseminate results.

Refer to Annex 1 for a summary of the project objectives, outputs, and monitoring indicators or benchmarks.

D. INPUTS

The UNDP will provide technical assistance and support to this project. The support will be in the form of resource persons / national consultants, and expenses to defray the costs of workshops and consultations; monitoring visits; conduct of field audit with civil society organizations; evaluation of the project, and documentation of lessons learned.

The Commission on Audit as the Designated Institution / Executing Agency shall provide the staff for the audit teams and project management team; the resource persons for the training on value for money audit as well as office space and equipment for the duration of the project. NEDA as cooperating agency shall be tapped to provide resource persons on results-oriented monitoring and evaluation.

E. RISKS AND PRIOR OBLIGATIONS

One of the potential risks for the project is the possibility that confidential and public documents may be used for purposes other than those agreed upon. For this reason, a rigorous selection process will have to be exercised in the selection of potential partner NGOs. Both in the selection process and in the implementation, accountability mechanisms will be put in place to ensure the proper code of behavior in carrying the proposed collaborative activities. The Memorandum of Agreement between COA and the individual CSOs should emphasize on the obligations and liabilities of parties relative to premature disclosures and breaches in confidentiality.

Another potential risk comes from possible resistance from within COA and government agencies to be included in the participatory audit process. This resistance is expected given the nature of this project and the risks identified previously. To minimize this risk, the target COA pilot office(s) will, at the outset, be actively involved in the formulation of the project together with the CCAGG (and other participating CSOs during the expansion phase). This process is expected to enable COA and CCAGG to level off expectations, and define feasible areas and scope for collaboration.

Approved resolution on the programme's objectives and activities by the Commission Proper shall be secured before UNDP approval of the project.

F. Management and Coordination arrangements

The Commission on Audit shall be the Designated Institution for this project. As the Designated institution, the COA will be accountable to the Government and UNDP for the attainment of the project objectives.

The COA, as the Designated Institution, shall provide the overall policy guidance to ensure that the project will be implemented in accordance with, and dovetailed to, the COA's change management processes / programs. It shall ensure that the results expected from the project are achieved, and in particular that the outputs are produced through effective process management and use of UNDP funds.

For this purpose, the project shall designate a Project Management Unit (PMU) or its equivalent, to be headed by a Project Director; with members formally assigned by the COA. The PMU work shall coordinate with the Change Management Support Unit (CMSU) established within COA which is responsible for coordinating and managing the change process within the COA. This is to ensure that the lessons learned from this project are integrated accordingly into the overall policy and management reform process that COA is implementing.

The PMU or its equivalent shall be responsible for the following:

- Technical and administrative coordination and monitoring of project activities;
- Oversight on the implementation and management of the project at the field level;
- Mobilization of needed project support from other COA units within the central office and field units;
- Ensure effective delivery of UNDP inputs to include the management of funds and provision of appropriate counterpart support;
- Financial management and monitoring;
- Preparation (in coordination with COA-CAR, CCAGG, NEDA and UNDP), review, and approval of the overall workplans and budgets, including release of required funds to the COA-CAR Regional Office;
- Provision of appropriate counterpart support, drafting of TORs and contracting of resource persons, procurement of inputs, and conduct of various workshops, among others; and
- Preparation of the Annual Project Report;
- Maintenance of financial transaction records and non-expendable equipment (if any) purchased under the project; and
- Backstopping the CMSU on technical and policy-related matters;

During project implementation, the revised UNDP Guidelines on National Execution shall apply.

At the field level, the PMU will be headed by the COA Regional Director who will be designated as the Project Manager. The Project Manager who is directly under the Project Director based at the COA Central Office, will be the lead focal point for the project at the field level.

The PMO at the COA-CAR Regional Office shall be responsible for:

Ensuring proper implementation of the project activities at the field level, in terms of timing, scope, coordination and monitoring of activities;

Provision of appropriate feedback to the PMU on the insights, learnings and recommendations during project implementation, which will serve as vital inputs to COA's reform program;

Preparation of work and financial plans, as well as monitoring reports in coordination with the CCAGG, for review and approval of the PMU, UNDP, and NEDA;

Mobilization of needed project support from other stakeholders within the Region / Province;

Maintenance of financial transaction records and non-expendable equipment (if any) purchased under the project.

The COA Regional Office and the Concerned Citizen of Abra for Good Government (CCAGG) shall be the Implementing Institutions for the pilot implementation of this project. As such, COA and the CCAGG will be responsible for conducting participatory audit activities in accordance with the Memorandum of Agreement (MOA) and the workplan. The COA shall ensure that the CCAGG shall:

Provide counterpart staff who shall be trained in methodologies / techniques to be used in conducting audit in partnership with the COA auditors;

Provide inputs and suggestions on how to improve the training programme to better suit the training programme for CSOs;

Undertake audit activities in accordance with the workplan and provide feedback to COA and UNDP on ways to improve the programme design for possible replication;

- Act as resource person to other participating CSOs to share experience and learning in implementing the project; and

- Participate in the assessment of the project activities

G. PROJECT REVIEW, REPORTING, AND EVALUATION

A detailed work and financial plan (WFP) will be prepared for this project by the COA in consultation with the implementing agencies, and UNDP. The WFP shall contain the detailed activities, financial requirements and the indicators to be used for monitoring the progress towards achievement of the identified outputs and outcomes / results. The WFP shall be reviewed jointly by COA, NEDA, UNDP and other participating CSOs at least every six months to reflect necessary adjustments in the project activities and budget.

The project will be monitored by UNDP and NEDA (Management Staff and the National Project Coordinating Unit) through field visits at least every six months. Based on the monitoring indicators (Refer to Annex I), a method of field monitoring should be established such that the progress of project activities are assessed on a timely basis, implementation bottlenecks are resolved, and output indicators are appropriately evaluated. Interviews with the target beneficiaries, auditees and other stakeholders, for example, should be conducted systematically to generate the appropriate responses which will input into the project evaluation and decision-making processes.

Results of the monitoring visits shall be discussed with the designated agency. Recommendations of the field visit shall serve as input in the review of the project and or during the annual tripartite meeting.

An Annual Project Report (APR) will be prepared every year by the COA in consultation with the stakeholders or target beneficiaries of the project. The APR will detail the progress of implementation based on the objectives and outputs of the project. It shall provide an assessment of the progress of the project in achieving the expected results and present stakeholders' insights into issues affecting the implementation of the project. Should the project review indicate that pilot-testing in other sites will not be recommended, the resources allocated for such activities will be appropriately reprogrammed.

The APR will be the main document for discussion during the Annual Project Review. For this purpose, the APR shall be submitted by COA to the Country Office at least two weeks prior to the conduct of the tripartite review.

The project shall be audited at least once during its project life or as deemed necessary, based on the agreement between UNDP, NEDA and the COA. Consistent with existing policies on national execution (NEX), the Government through the COA will be responsible for funding the cost of the audit. However, if done by a commercial auditor, project funds may be used to defray the cost of the audit with the approval of the UNDP-CO.

H. LEGAL CONTEXT

The project document shall be the instrument referred to as such in Article 1 paragraph 1 of the Standard Basic Assistance Agreement between the Government of the Philippines and the United Nations Development Programme signed by the parties on July 21, 1977.

The following types of revisions maybe made to this project document with the signature of the UNDP Resident Representative only, provided he or she is assured that the other signatories of the project document have no objections to the proposed changes.

Revisions in, or addition of, any of the annexes of the project document;

Revisions which do not involve significant changes in the immediate objectives, outputs or activities of the project, but are the rearrangement of inputs already agreed to or by cost increases due to inflation; and

Mandatory annual revisions which rephase the delivery of agreed project inputs or increased expert or other costs due to inflation or take into account agency expenditure flexibility.