

# GUIDE TO APPLYING PFMAT FOR LGUS IN CRAFTING PFM IMPROVEMENT PROPOSALS

**PFMIP-CENTERED  
LGU PFM REFORM PROCESS**

**SUMMARIZING LGU PFMAT RESULTS  
FOR PFM DIAGNOSTICS**

**USE IN FORMULATION  
OF LGU PFMIP PROPOSALS**



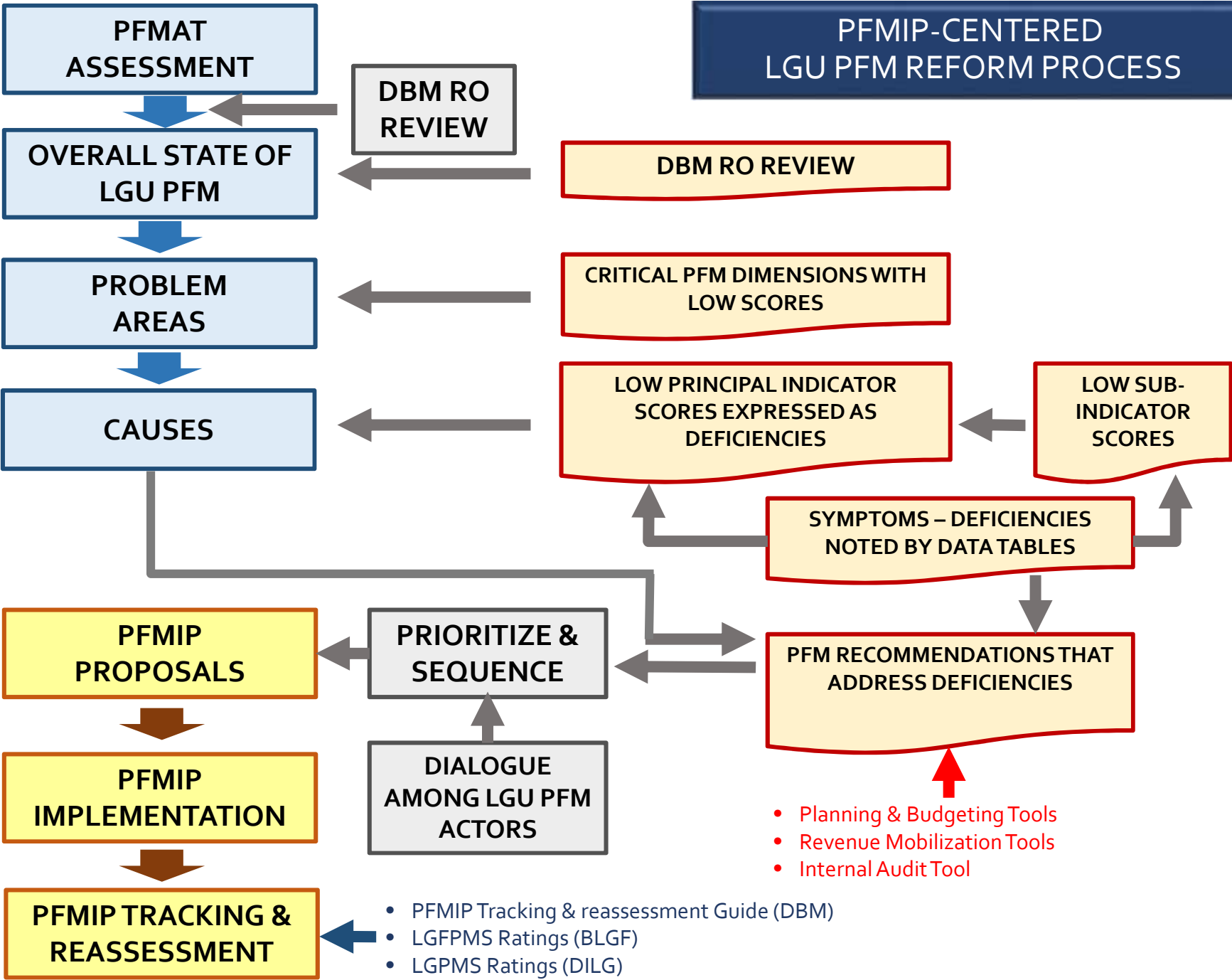
Presented by the Technical Assistance Team (TAT)

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# PFMIP-CENTERED LGU PFM REFORM PROCESS

- PFM Improvement proposals are specifically tailored to PFM “weaknesses” identified by the LGU-level PFMAT assessment results.
- Subject to annual accomplishment tracking and reassessment every three years

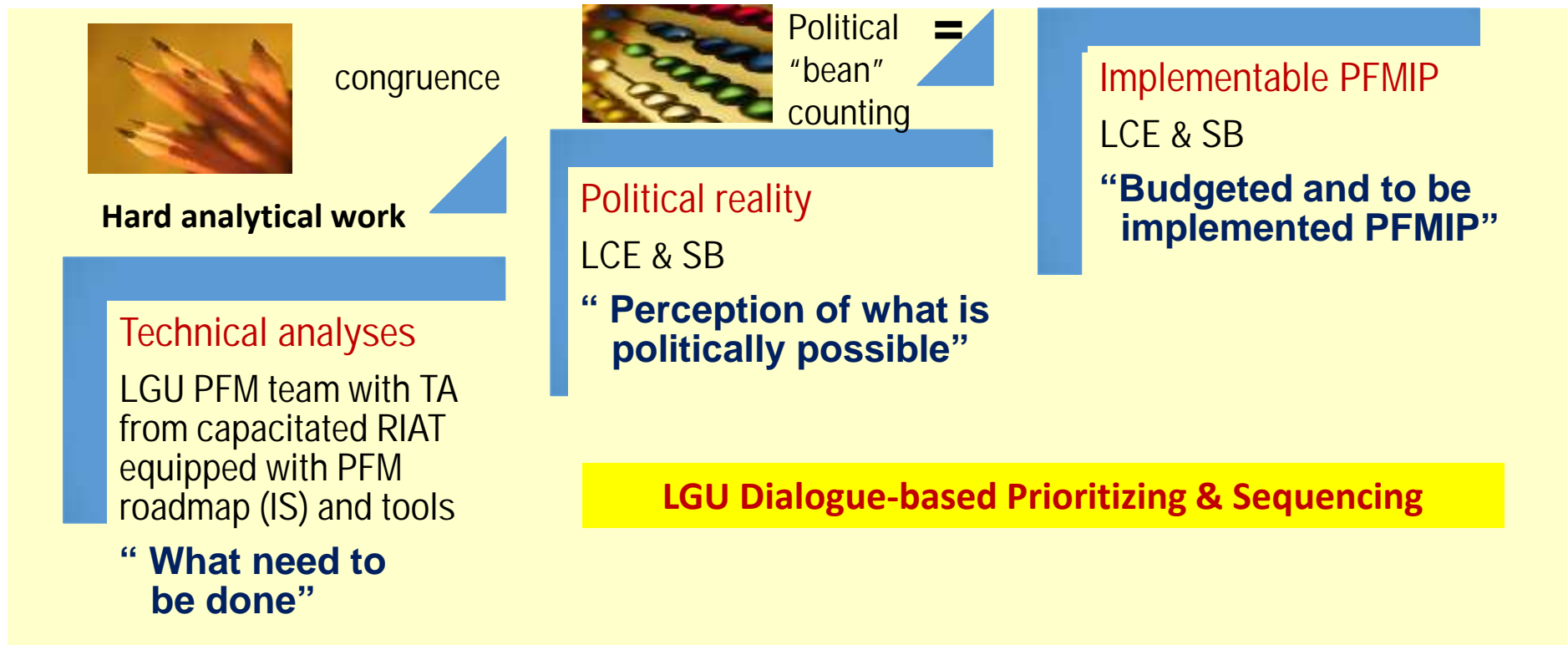
# PFMIP-CENTERED LGU PFM REFORM PROCESS



# PFMIP-Centered LGU PFM Reform Process

Dynamic optimization problem for LGUs desiring to effect localized PFM reform.

- Iterative “climbing” process for LGUs with RIATs providing technical “support”. The process seeks to develop the approximate congruence (or at least balance) between sound technical analyses and political acceptability to come up with an LGU implementable PFMIP



# SUMMARIZING LGU PFMAT RESULTS FOR PFM DIAGNOSTICS

Analytical Approach & Application to a Sample Focus LGU

# PFMAT Indicators

Analysis is undertaken at the 3 levels of PFM indicators prescribed in the PFMAT manual :

- 7 critical dimensions (CD) of PFM;
- 20 principal indicators (PI) for the CDs; and
- 28 sub-indicators (SI) for the PIs.

# Aggregation of PFMAT Scores

Aggregation of sub-indicator scores to arrive at principal indicator scores; that of principal indicator scores to derive the critical dimension scores; and that of critical dimension scores to arrive at the overall PFMAT scores were based on the **mean scores** as prescribed in the PFMAT manual.

1. The overall PFMAT score for each LGU is computed as the mean of the scores of the 7 CDs.
2. The individual CD scores are in turn computed as the mean of the PIs measuring each of the CDs.
3. The PIs are scored singly in cases where the PI has no corresponding SIs – P2, P4 to P7, PI9, PI13 and PI14, PI16 and PI19 and PI20 (11 of the 20 PIs have no SIs) – and computed as the **mean of the corresponding SIs in cases where the PI has a corresponding set of SIs.**

# Ranking PFM Concerns

- As a PFM concern, the CD/PI/SI with the lowest contribution to the overall PFMAT/CD/PI/SI score is ranked 1<sup>st</sup> priority, and the one with the highest contribution ranked last.
  - The **lower** the CD score, the lower is its contribution to the overall PFMAT score, the **higher** is its priority as a LGU PFM concern.
  - Within each CD, rank “causes” inversely according to the contribution of each PI to the corresponding CD score and of each SI score to the corresponding PI score.



## CATBALOGAN CITY

- Focus LGU in Eastern Visayas Region VIII.
- Analysis presented here is only to illustrate the analytical approach using a preliminary EXCEL template that has not been rigorously subjected to stress testing.
- Only meant to highlight points in the PFMAT results for the RIAT to look into.
- Not meant to be a critique of the PFMAR submitted by the LGU.

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# SAMPLE ANALYSIS OF 2012 PFMAT RESULTS

# Establishing the Overall State of LGU PFM

- **Overall state of LGU PFM:** Description of lower 4 of the 5 score ranges of the overall average score of the LGU expressed as a deficiency.
- Thus, the overall PFM problem of any LGU can either be of 4 types:
  1. Complete open and orderly PFM system are not fully operational **(3.0 – 3.9)**
  2. Incomplete elements of an open and orderly PFM system are in place and these partial elements are fully operational **(2.0 – 2.9)**
  3. Incomplete elements of an open and orderly PFM system are in place and these partial elements are not fully operational **(0.1 to 1.9)**
  4. All elements of an open and orderly PFM system are not in place **(0)**
- **Proposed cut off score: 3.0** with LGUs with an overall PFMAT score of 3.0 considered as on the whole practicing sound PFM systems and processes.

## Dealing with LGUs with an Overall PFMAT Score of 4.0

- **Problem:** Sustainability of reforms
- **Causes:** Risk factors for non-full attainment of 7 critical dimensions. For example, politically motivated radical changes in the LDIP without any corresponding basis from the CDP.
- **Symptom:** Only 1 symptom – failure to sustain PFMAT score of 4.0

## Establishing the Problem Areas, Causes and Symptoms in LGU PFM

- CD scores where LGUs got weak scores will define the PFM “problem” areas or areas of concern.
- PI scores will define the “causes.”
- SI scores will help refine or focus the definition of the causes for PIs with corresponding Sis.
- The deficiencies quantified in the data tables will define the “symptoms.”

# Overall PFMAT Score, by Critical Dimension

CATBALOGAN CITY			
CD No.	Critical Dimension (CD)	Score	Rank as a PFM concern
1	Policy based budgeting	2.00	3
2	Comprehensiveness and transparency	0.50	1
3	Credibility of the budget	2.33	5
4	Predictability and control in budget execution	2.29	4
5	Accounting, recording and reporting	3.00	6
6	Internal and external audit	0.67	2
7	Citizens' participation	4.00	7
Overall PFMAT Score		2.11	

**Overall PFMAT score of 2.11** (between 2.0 and 2.9) across LGUs indicate that the elements of an open and orderly **PFM system** are **not complete** but what are in place are **fully operational**.

- LGU was **weakest** in terms of comprehensiveness & **transparency**.
- Thus, **CD 2** merits a rank of 1 as a PFM concern, followed by **CD 6 (internal and external audit)** and **CD 1 (policy-based budgeting)**.
- Perfect rating for **CD 7 (citizen's participation)**.

# CD Scores, by Principal Indicator

PFMAT Item	1. POLICY-BASED BUDGETING				
	PI 1	PI 2	PI 3	PI 4	Ave Score for CD/ Total Contribution to CD Score
	Multi-year perspective in fiscal planning and budgeting	PFM improvement policies are included in the budgets covered by appropriation ordinances	Orderliness of activities in the annual budget preparation and authorization phases	Financial self-reliance of local economic enterprises (LEEs) and public utilities (PUs)	
Score	2.67	1.00	2.33	2.00	2.00
Priority with respect to addressing the PFM concern	4	1	3	2	

- Main weakness is lack of budgetary support for PFMIP proposals (P2)
- Financial self reliance of LEEs (P4), orderliness of budget process (P3) and policy based budgeting (P1) are all equally weak.

# CD Scores, by Principal Indicator

		2. COMPREHENSIVENESS AND TRANSPARENCY		Ave Score for CD/ Total Contribution to CD Score
		PI 5	PI 6	
PFMAT Item		Comprehensiveness of budget info contained in the appropriation ordinance covering the annual budget	Public access to key information	
Score		1.00	0.00	0.50
Priority with respect to addressing the PFM concern		2	1	
		3. CREDIBILITY OF THE BUDGET		Ave Score for CD/ Total Contribution to CD Score
		PI 7	PI 8	
PFMAT Item		Actual revenue collections compared with estimated revenues in the budgett	Actual expenditures compared with appropriations, by allotment class	
Score		3.00	1.67	2.33
Priority with respect to addressing the PFM concern		2	1	

Lack of details in PI 5

No public access to info

Actual expenditures do not fully match appropriation

# CD Scores, by Principal Indicator

PFMAT Item	4. PREDICTABILITY AND CONTROL IN BUDGET EXECUTION						Ave Score for CD/ Total Contribution to CD Score
	PI 9	PI 10	PI 11	PI 12	PI 13	PI 14	
	Real property tax accomplishment rate (RPTAR)	Effectiveness of tax enhancement measures	Predictability in the availability of cash for committed expenditures	Value for money and controls in procurement	Effectiveness of payment controls	Effectiveness of internal controls for non-personal services (PS) expenditures	
Score	1.00	2.67	0.50	1.60	4.00	4.00	2.29
Priority with respect to addressing the PFM concern	2	4	1	3	5	5	

Major weaknesses include:

Cash flow forecasting (PI 11); RPTAR (PI 9); Procurement (PI 12)



# CD Scores, by Principal Indicator

PFMAT Item	5. ACCOUNTING, REPORTING AND RECORDING		Ave Score for CD/ Total Contribution to CD Score
	PI 15	PI 16	
	Timeliness and regularity of accounts reconciliation	Quality and timeliness of regular financial reports and annual financial statements	
Score	2.00	4.00	3.00
Priority with respect to addressing the PFM concern	1	2	
PFMAT Item	6. INTERNAL AND EXTERNAL AUDIT		Ave Score for CD/ Total Contribution to CD Score
	PI 17	PI 18	
	Effectiveness of internal audit	Follow-up on external audit	
Score	0.00	1.33	0.67
Priority with respect to addressing the PFM concern	1	2	

- Weak in timeliness of accounts reconciliation (PI 15).
- Non-existent internal audit (PI 17).
- Weak follow-up efforts on external audit recommendations (PI 18).

# CD Scores, by Principal Indicator

PFMAT Item	7. CITIZENS' PARTICIPATION		Ave Score for CD/ Total Contribution to CD Score
	PI 19	PI 20	
	Civil society organization (CSO) accreditation by local sanggunian	Degree of citizen's participation in the budget process	
Score	4.00	4.00	4.00
Priority with respect to addressing the PFM concern	1	1	

- Perfect ratings for both PIs.

# Things to Remember for RIATS

1. PFMAT indicators must be viewed not as independent indicators but as interrelated and mutual interacting.
2. PFMAT ratings reflecting the state of LGU PFM systems and processes must be viewed vis-à-vis the results of other PFM indicator systems.
  - a. LGFPMS – actual financial performance of LGU
  - b. LGPMS – service delivery perception of constituents

# Things To Remember For RIATS

3. The “whys” behind the PI scores are important
  - a. For PIs with sub-indicators (SI), examine what SIs contribute to the low PI ratings.
  - b. Examine the evidences presented in the data tables to examine the “symptoms” behind the low ratings at the SI and PI (for PIs without SIs) levels.

# Principal Indicator Scores, by Sub-indicator

No.	Principal indicator/sub-indicator		Score	Priority with respect to addressing the "cause" highlighted by the PI
PI 1	Multi-year perspective in fiscal planning and budgeting		2.67	
	SI 1.1	Linkage between the PDPFP, the CDP, and the LDIP	4.00	2
	SI 1.2	Linkage between the LDIP and the AIP	0.00	1
	SI 1.3	Linkage between the AIP and appropriation ordinances covering the budget	4.00	2
PI 3	Orderliness of activities in the annual budget preparation and authorization phases		2.33	
	SI 3.1	Adherence to a fixed calendar for budget preparation and authorization phases	3.00	2
	SI 3.2	Timely enactment and approval of the Appropriation Ordinance authorizing the Annual Budget	3.00	2
	SI 3.3	Timely submission of the Appropriation Ordinance to the appropriate reviewing authority	1.00	1

- Low PI 1 rating due to lack of linkage between LDIP and AIP (SI 1.2 = 0)
- Low PI 3 rating due to delays in the budget review (SI 3.3 = 1.0)

# Principal Indicator Scores, by Sub-indicator

No.	Principal indicator/sub-indicator		Score	Priority with respect to addressing the "cause" highlighted by the PI
PI 8	Actual expenditures compared with appropriations , by allotment class		1.67	
	SI 8.1	Total allotments received compared to total appropriations	1.00	1
	SI 8.2	Total actual obligations compared to total allotments released	1.00	1
	SI 8.3	Total actual disbursements compared with total obligations	3.00	3

Weak in matching:

- Total allotments released with total appropriations (SI 8.1 = 1.0)
- Total actual obligations with total allotments released (SI 8.2 = 1.0)

# Principal Indicator Scores, by Sub-indicator

No.	Principal indicator/sub-indicator		Score	Priority with respect to addressing the "cause" highlighted by the PI
PI 10	Effectiveness of tax enhancement measures		2.67	
	SI 10.1	Computerized RPT system database linkages	4.00	3
	SI 10.2	Effectiveness of implementing tax collection strategies for delinquent RPT	0.00	1
	SI 10.3	Effectiveness of civil remedies on tax payments (for cities and provinces only)	0.00	1
	SI 10.4	Planning and monitoring of tax mapping	4.00	3
PI 11	Predictability in the availability of cash for committed expenditures		0.50	
	SI 11.1	Cash availability to support budgeted programs, projects and activities and liabilities	1.00	2
	SI 11.2	Preparation and updating of cash flow forecasts and cash flow analysis	0.00	1
PI 12	Value for money and controls in procurement		1.60	
	SI 12.1	Use of public bidding in the procurement of goods (except common used supplies and equipment) , civil works and consulting services in accordance with RA 9184 and its IRR	2.00	4
	SI 12.2	Procurement of common use supplies and equipment from DBM Procurement Services	0.00	1
	SI 12.3	Effectiveness of procurement	1.00	2
	SI 12.4	Publication of procurement-related activities	4.00	5
	SI 12.5	Timeliness of procurement related activities	1.00	2

# Principal Indicator Scores, by Sub-indicator

- Strong in tax base assessment but weak in collection:
  - High ratings in RPT database linkages (SI 10.1 = 4.0) and tax mapping (SI 10.4 = 4.0)
  - Zero ratings in tax collection-related SIs – SI (10.2 and 10.3)
- No cash flow forecasting (SI 11.2 = 0) leading to periodic availability of cash problems (SI 11.1 = 1.0)
- Weak in all aspects (SI 12.1 to 12.3 and 12.5) of sound LGU procurement practices except for meeting the publication requirement (SI 12.4 = 4.0)



# Principal Indicator Scores, by Sub-indicator

No.	Principal indicator/sub-indicator		Score	Priority with respect to addressing the "cause" highlighted by the PI
PI 15	Timeliness and regularity of accounts reconciliation		2.00	
	SI 15.1	Regularity of bank reconciliation	4.00	2
	SI 15.2	Timeliness of reconciliation and liquidation of cash advances	0.00	1
	SI 18.2	Extent of COA disallowances	4.00	3
	SI 18.3	Magnitude of COA disallowances settled	0.00	1

Bank account reconciliation is regularly done (SI 15.1 = 4.0) but less than 70% of the cash advances are liquidated properly within the prescribed period (SI 15.2 = 0).

# Principal Indicator Scores, by Sub-indicator

No.	Principal indicator/sub-indicator		Score	Priority with respect to addressing the "cause" highlighted by the PI
PI 17	Effectiveness of internal audit		0.00	
	SI 17.1	Existence of an operational IAS	0.00	1
	SI 17.2	Frequency and distribution of internal audit reports	0.00	1
	SI 17.3	Extent of management action on internal audit findings	0.00	1
PI 18	Follow-up on external audit		1.33	
	SI 18.1	Compliance with audit recommendations	0.00	1
	SI 18.2	Extent of COA disallowances	4.00	3
	SI 18.3	Magnitude of COA disallowances settled	0.00	1

# Principal Indicator Scores, by Sub-indicator

- No efforts exerted to effect internal audit practices (SIs 17.1 to 17.3 rated zero)
- No COA disallowances (SI 18.2 = 4.0)
  - Should SI 18.3 be scored 4.0 instead of 0.0 as there are no disallowance to settle?
  - Analogously, could there have been zero compliance with COA recommendations because there were no disallowances?
  - In such a case, PI 18 should be rated as strong instead of weak.

Sources of PFMIP proposals, prioritizing and sequencing LGU  
PFM improvement proposals from a technical viewpoint

# FORMULATION OF LGU PFM IMPROVEMENT PROPOSALS

# Sources of LGU PFMIP Proposals

- Specific proposals that addresses the causes (deficiencies) of the LGU PFM problem areas as identified through the **low** principal and sub-indicator scores.
  - **Policy** – LGU PFM policies like ordinances, resolutions orders, etc.;
  - **Systemic** – PFM tools and procedures including enforcement with sanctions for non-compliance and monitoring; and
  - **Capability** – skills and competence build-up.

# Illustrative PFMIP Proposal for Tuba, Benguet, CAR

- CD 1: Policy-based budgeting (rated at **2.58**)
  - PI 1: multi-year perspective in local planning and budgeting (rated at **2.60**)
    - No CDP or LDIP
      - Prepare CDP/LDIP/ELA in accordance with the RPS guidelines of DILG
  - PI 4: Financial self-reliance of local economic enterprises (LEEs) and public utilities (PUs) (rated at **2.0**)
    - Declining revenues
    - Increasing financial requirements

# Illustrative PFMIP Proposal for Tuba

- A recommendation could be the conduct of a facility service audit to see whether facilities and services can be improved to increase facility patronage.
- At the same time a cost audit could be done to determine the true cost of running each LEE along with an ability and willingness to pay study of the users to come up with sustainability options like:
  1. Increased and inflation indexed rates to commercialize the operations of the LEEs; and
  2. Cost reduction by taking out undue charges like people working in other city departments but are charged against LEEs.
- If the results are not economically feasible or are not politically defensible, divestment via privatization of either operations or even ownership should be considered.

# RIAT Support Commitments

- PFMIP proposals should be accompanied by RIAT support commitments.
  - Guidelines and manuals like DILG's CDP guide, BLGF's revenue mobilization manuals; DBM budget issuances; etc.
  - Conduct of support training workshops activities
  - Regular face to face or distance mode mentoring



# Prioritizing and Sequencing LGU PFMIP Proposals – Technical viewpoint

- **Group** each proposed LGU PFM initiatives in terms of the 7 critical LGU PFM performance dimensions as prioritized using the PFMAT results.
- **Within** each critical PFM dimensions, specific initiatives can be further prioritized in accordance with the degree of implementation **risk** and the potential **impact** of each PFMIP proposals with lesser risky and potentially high return proposals given a higher priority for implementation.
- Consider the **inter-dependence** of CDs in sequencing PFMIP activities. For example, based on the analysis of the 550 BuB LGUs with available PFMAT results.
  - CD 4 has a high correlation with CD 3, CD 1, and CD 2.
  - CD 6 has a high correlation with CD 1.
  - CD 5 has a high correlation with CD 4
  - CD 7 has a high correlation with CD 4

**END**