



Department of Agriculture
**UPLAND DEVELOPMENT
PROGRAMME in
Southern Mindanao**
ALA/97/68

MISSION REPORT

OF

SHORT TERM

Finance and Administration Specialist

**UPLAND DEVELOPMENT PROGRAMME IN SOUTHERN
MINDANAO - UDP**

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The opinions expressed in this report are those of the author and do not necessarily reflect those of the European Commission or the Upland Development Programme.

Glossary

AWP – Annual Workplan
AWP&B - Annual Workplan and Budget
BCEOM - Société Française d'Ingénierie
CASCADE - Economic Self-Reliance Programme - Caraballo and Southern
Cordillera Agricultural Development
CBDO - Co-operative Bank of Davao Oriental
CECAP - Central Cordillera Agricultural Programme Phase II
COA – Commission on Audit
DA – Department of Agriculture
DBM - Department of Budget and Management
DENR – Department of Environment and Natural Resources
EC – European Community/Commission
ESC – Executive Steering Committee
FA – Financing Agreement
FAP – Foreign Assisted Project
FSC- Financial Services Centre
GIS – Global Imaging System
GPS – Global Positioning System
GSIS - Government Service Insurance System
GOP – Government of the Philippines
LGU - Local Government Unit
MOA – Memorandum of Agreement
NEDA - National Economic and Development Authority
PCRM - Pre-Completion Review Mission
PDF - Portable Document Format
PDIC - Philippines Deposit Insurance Corporation
PFI - Partner Financial Institution
PMO – Project Management Office
PPO – Provincial Project Office
PTTAF - Policy, Training, and Technical Assistance Facility
RDI – Rural Development International
SCF – Seed Capital Fund
SMAP - Southern Mindanao Agricultural Programme
SOGREAH - Société Grenobloise d'Etudes et d'Applications Hydrauliques
TA – Technical Assistance
UDLF - Upland Development Loan Fund
UDP - Upland Development Programme in Southern Mindanao

1. Executive Summary

The Upland Development Programme in Southern Mindanao (UDP) is a seven-year partnership Programme sponsored by the European Commission (EC) and the Government of the Philippines (GOP). It is due to close 17 January 2006 although a proposal for an extension is currently being processed that would put this back to 31 July 2007. This proposal has been approved by the National Economic and Development Authority (NEDA) and is now with the EC in Brussels for a final decision.

In such a situation it would be understandable if senior management might be loathe to take any irreversible steps towards Programme closure but this was not found to be the case. A comprehensive closure plan had already been included in the Annual Work Plan for 2005 and a number of specified closure activities were already underway. There were draft contingency plans for staffing, funding, etc. for either outcome of the proposal decision.

Overall the Programme was found to be in a good state of preparedness for closure and have good quality systems and staff to bring this about.

The only areas of concern to the consultant that could have a detrimental impact on timely closure were the distribution of equipment and the apparent lack of awareness of closure issues at the Project Provincial Offices (PPOs). The concern over distribution of equipment is mainly procedural as a definitive manual⁵ was available but it was not clear if this had been approved by the donors or had been superseded in whole or part. The concern over lack of awareness of closure issues at the PPOs was dealt with immediately by senior management.

It would be helpful for other projects if the donors issued some guidelines for project closure, particularly detailing the requirements and procedures for distribution of equipment and the storage of documents.

The report and closure plan were designed to be as flexible as possible and therefore be as relevant to closure in July 2007 as January 2006.

The key areas requiring the attention of senior management are detailed in the Conclusion. There are also a number of other recommendations made, mainly for the consideration of senior management with some for the EC Delegation.

2. Input Background

From the original Financing Agreement plus the TA contract and its four subsequent addenda the Finance and Administration Specialist was budgeted for 11 man-months of input through the seven year life of UDP.

To the end of 2004 9.5 man-months of this input had been used by one technical assistant, F. P. Stratford, who was contracted to assist in the set up of the financial systems for the Programme. He subsequently made further inputs as a short term TA with terms of reference primarily to perform an audit of financial and administrative systems and controls within UDP¹.

As 2005 is the last full year of the programme – the question of the proposed extension notwithstanding – it was determined that the balance of the unutilised input should be allocated to issues relating to programme closure and the consultant was brought in with terms of reference specified to focus on such matters.

The input was made in June – July 2005 and included field visits to four of the five PPOS and the one provincial liaison office.

¹ Although it is not clear if Article 84, Chapter 8 (page 24) of “Council Regulation (EC, Euratom) No 1605/2002 of 25 June 2002 on the Financial Regulation Applicable to the General Budget of the European Communities” is applicable to the Programme this satisfies the requirement that “Each institution shall establish an internal auditing function”.

3. Approach to Assignment

This assignment was approached from two fronts:

1. Top down: The original terms of reference were reviewed and restructured to produce a more practical format (see Appendix II);
2. Bottom up: A review of the 'Finance and Administration Plan for Closure' already prepared by the Programme - and included as annex 6.11 of the approved AWP for 2005 - was undertaken.

These were then merged to produce a comprehensive Closure Plan plus a supporting narrative examining and explaining key issues.

The original Closure Plan was comprehensive, identifying some 68 activities needing to be completed to achieve Programme closure. However it was timely to review it as probably about nine months had elapsed since its completion. A number of activities were found to have been completed, rescheduled or not included.

This report and Closure Plan have been designed to be as flexible as possible so that they are applicable whenever the closure date eventually proves to be. This has been achieved by:

1. Wherever possible references to sources of data and regulations have been cited so that it is a relatively simple task to verify if these are still current.
2. A number of issues have been covered that require no action at this time but are included to complete the closure 'check list' as circumstances are likely to change during an extension.
3. The Closure Plan was reworked in Microsoft Excel to produce deadlines appropriate to either closure date.

This report focuses primarily on the financial and administrative aspects of project closure.

4. Overview of Programme Closure²

There are four significant ‘landmarks’ in Programme closure - Activity Closure; Accounts Closure; Legal Closure and Liability Closure.

?? **Activity closure**: (30 September 2005). No new projects implemented by the LGUs with UDP counterpart funding were commenced after 30 April 2005. It is planned that all ongoing projects will be completed by 30 September 2005. All remaining non-project activities are planned to be phased out at the end of the third quarter with only socialisation and capacity building activities continuing into the fourth quarter.

?? **Accounts closure**: (31 December 2005). This sets a clean ‘cut-off’ for audit purposes. However this leaves open the question of financing and reporting for the final 17 days of the project, which is discussed in ‘Financial Closure’ under 2006 Expenditure.

?? **Legal closure**: (17 January 2006). The last day of the programme’s contracted legal existence.

?? **Liability closure**: (unknown at this time). The date at which the Programme, or the EC Delegation in its stead, has discharged all its outstanding financial liabilities. Distribution of Programme assets should be completed before liability closure. At this time the EC Delegation can decommit any funds remaining in the Programme euro account and return them to Brussels.

These are distinct from the EC determined ‘Technical Closure’ and ‘Financial Closure’, detailed in Appendix III, although these latter two obviously overlap with Liability closure.

PPO Closure

In a straw poll carried out at the PPOs a number of staff were asked when their respective PPO would close and all expressed the opinion that it would be in December 2005, not October as stated in the ‘Finance and Administration Plan for Closure’. This suggested a degree of unawareness of closure issues which was strengthened by a lack of familiarity with the ‘Finance and Administration Plan for Closure’. This was highlighted to senior management and immediately addressed through the inclusion of closure issues on the agenda of the quarterly Management Committee meeting and a special briefing held with the heads of finance and administration of the PPOs, both in July, and the request for revised proposals for distribution of equipment.

² Some ‘thought-provoking’ guidelines and definitions culled from various EC documents specifically related to project closure are attached in Appendix II

5. Trust Account Management Agreements/Projects

Trust Account Management Agreements (TAMAs) and projects are inextricably linked because the implementation of projects is carried out by the LGUs with UDP counterpart funds being paid into the TAMAs. This is treated as an advance, with liquidations submitted monthly until the project is complete and the technical and financial reports are received and accepted. Upon acceptance of these reports any remaining balance of the advance is liquidated or recovered. There are 31 TAMAs, being the original 30 specified in the FA³ plus one for Davao del Norte.

No new projects have been started since the end of April 2005.

The outstanding balance for all TAMAs was pesos 4,701,673.83 at the end of April 2005, 4,461,166.62 at the end of May, and 4,317,361.00 at end of June. This slow reduction is due to the net effect of aggregate releases for ongoing projects offsetting most of the liquidations.

The field trips made in July focussed mainly on issues related to physical completion and financial reconciliation for a number projects, both prerequisites for financial completion.

Based on the physical project count summary for May 2005 – which covers 16 of the 31 TAMAs – six municipalities no longer have any ongoing projects so, subject to confirmation of physical and financial completion of some remaining projects, the respective TAMAs can be reconciled, any outstanding funds recovered and the TAMA closed without waiting until the above deadline. Draft figures, at the same date, for another nine municipalities indicate a further seven TAMAs that could also be closed subject to the above confirmations.

It is recommended that the monthly summary report of TAMA releases and liquidations is expanded from being a financial summary as it is now, to include a full physical count of projects by status (financially completed; physically completed and assessed for physical completion but not yet financially completed; physically completed but yet to be assessed; and ongoing). This will highlight exactly how many projects are at each status and provide a management tool to trigger timely and appropriate action - e.g. highlight problem municipalities where action needs to be taken such as taking measures to expedite project completion, call attention to TAMAs that are ready for closure, etc.

³ As specified in Section 2.3.1, A replicate model for sustainable management of the natural resources in the uplands developed and tested, sub-section a

It is important to note that the TAMA MOA explicitly specifies that:

“The Trust Account shall be closed upon Financial Completion of all projects funded from UDP grants. Any unused funds and interest generated thereon, will be returned by the LGU to UDP”⁴

And further that:

“Upon completion of all projects, all unutilised grant funds released by UDP... shall remain the property of the European Commission and shall be returned in full by the LGU within ten (10) days upon receipt of request from UDP”⁵.

This progressing of completion reports is an ongoing task and it is planned that all projects will be technically and financially completed by the end of September 2005. Once all projects are completed the reconciliation of TAMAs can be completed and any outstanding balances recovered, a process that should be completed by the end of October as the LGUs have a good track record for returning funds not utilised.

A letter will be sent to all LGUs with ongoing projects confirming the above deadlines in July. This will be supported by a comprehensive review of all ongoing projects to verify that they all have closure dates before 30 September. Any that do not will be dealt with on a case by case basis. Finance staff from PMO will be mobilised to visit the PPOs and LGUs in August to facilitate TAMA reconciliation and funds recovery if necessary.

⁴ Article3, point 4

⁵ Annex A, 2. Financial Procedures, point h

6. External Monitoring

External Audit

The only specific reference to external auditors in the FA states that:

“Reporting of expenditures on a quarterly basis from the Programme accounts shall be prepared by the two Co-Directors and submitted for inspection to a qualified firm of auditors to be hired by the Programme for this purpose. The selection of auditors shall be subject to the prior concurrence of both DA and the Commission”⁶.

It is Programme practice to tender for audit services annually and be audited by semester⁷. Therefore the last audit report received covers the period ending 31 December 2004. There is currently a tender⁸ in process for audit services for 2005 that should be awarded in July 2005. The consultant was a member of the audit tender evaluation committee. The audit for the first semester of 2005 is scheduled to commence on 15 August.

A review of the audit reports⁹ for the semesters ending 30 June 2004 and 31 December 2004 was made. These covers the EC grant funds (with the exception of the Technical Assistance FA budget category, amounting to euros 3,230,000, which is disbursed directly by the EC) plus those from Local Government Units, Partner Financial Institutions and Beneficiaries.

The audit reports consist of a ‘Statement of Cash Receipts and Disbursements’ for the euros and pesos accounts for the semester, a ‘Schedule of Budget Against Actual Project Expenditures’ for the semester and cumulative for the life of the project to date (both in euros and pesos). These latter two schedules are given both by Component and Budget Category.

There is also a separate ‘Consolidated Management Letter’, which seems to focus on operational issues such as compliance with documented procedures¹⁰ and deadlines rather than strategic issues such as critically analysing internal control systems, highlighting weaknesses and recommending improvements or compliance with EC procedures. This apparent omission was also raised by the European Court of Auditors but it is understood that these issues were explicitly covered in earlier Management Letters as the auditors have been auditing the Programme continuously since January 2001.

⁶ Section 2.8.2 Financial Procedures, bullet point 6

⁷ *Ibid*, previous footnote, “...The project may move to semi-annual audit...”

⁸ Publication reference 2005-SC-A S-001

⁹ Prepared by Carlos J Valdes & Associates, certified public accountants

¹⁰ The Programme uses “The UDP Financial Manual”, an internal procedures manual based on a revised and simplified version of GOP procedures

Although the audit report complies with the FA¹¹ there is no Balance Sheet or statement on equipment which is surprising as these represent, respectively, an essential snapshot of the financial position of the Programme; and the Programme's highest value asset, all of which was purchased from the EC grant. However it is not recommended to change the audit report requirements for the Programme so late on, regardless of the outcome of the extension proposal.

Senior management expressed a concern that the external audit team seems to have performed rigorous investigations into investment expenditure (e.g. the purchase and utilisation of cement for water systems) but not into operational expenditures (e.g. vehicle use, the purchase and utilisation of vehicle parts and tyres or office consumables such as stationery and printer inks) in the past, so this should be a special focus in the two semesters' audits for 2005.

For the second semester 2005 audit the audit of the PPOs will have to be conducted at the PMO as the PPOs will already have been closed. This can be achieved by having all necessary documents available for the audit team's access. Any physical verification of projects required can be conducted using the PMO as a base.

A point that should be noted is that the current tender for audit services provides for services that only run to 31 December 2005. This leaves open the question of auditing the final 17 days of the project, which is discussed in 'Financial Closure' under 2006 Expenditure.

Pre-Completion Review Mission (PCRM)

The PCRM is the second¹² and final review mission detailed in the FA¹³. It was scheduled for the third quarter of 2005 and expected to visit UDP in August/September. However it now looks more likely to be mobilised in October as it is reported that the tender has not yet been launched.

In the consultant's experience this mission generally focuses on the technical aspects of the Programme rather than its finances, and when it does look at financial data it tends to perform more of an economic analysis than a review of financial statements. Certainly its terms of reference do not specify any financial or administrative investigations. Therefore no special preparations can be made for the PCRM until such time as any specific requests are received beyond having the financial statements, reconciliations and balances as up to date as possible.

¹¹ Section 2.8.2 Financial Procedures, bullet point 6 – "Reporting of expenditures... shall be... submitted to a qualified firm of auditors to be hired by the project for this purpose"

¹² FA, 2.12.2 - Two tri-term reviews (MTR) were envisaged in the FA but only one took place

¹³ FA, 2.12.2 - "A pre-completion review will be undertaken in year 7"

The main workload arising from the PCRMM will be logistical – arranging meetings and transportation for its seven members, as for each the six experts supporting the team leader “at least three weeks will be devoted to (field investigation)” of the total four weeks budgeted. The team leader is budgeted for 37 days in the Philippines. In practice the team will split up and visit different stakeholders at different locations.

If mobilised in October as anticipated the reporting schedule is such that the final report will be not be received until December at the earliest.

European Court of Auditors

The European Court of Auditors was originally expected in September/October of 2005 but actually visited UDP in January/February 2005. The sections of its report relating to its audit of UDP were received in June 2005. They contained no major findings – two were systematic (the terms of reference for external audit and the treatment of VAT) and the third was a misconception (the procurement of seedlings).

In the absence of any major findings it is not anticipated that the European Court of Auditors will make a second visit to the Programme in the same year and therefore no further preparations are deemed necessary.

Upland Development Loan Fund

A special audit of the Rural Finance Upland Development Loan Fund is planned. Terms of reference were prepared by the Rural Finance Services Specialist TA based on the standard audit terms of reference. The consultant reviewed the terms of reference for this audit and suggested some minor revisions to them. Until the audit report is received it is not possible to say what, if any, actions will need to be taken.

Commission on Audit (COA)

COA audits the GOP contribution to the Programme, which covers the salaries for staff. As members of COA visit the Programme office routinely, most weeks in fact, no special preparations are deemed necessary for its ongoing work.

SOGREAH

There will be an annual monitoring mission by Mr David Felicisimo of SOGREAH sometime between 15 and 26 August 2005. This

“...Is to gather results-oriented information on projects in the field and to report on progress in order to maintain and where possible

improve the quality of external co-operation activities through timely, independent, well-targeted information on project implementation”¹⁴.

No specific preparations can be made for this mission until the explicit requirements of the consultant are known.

Monitoring by the EC Delegation

Staff from the EC Delegation periodically visit the Programme and conduct *ad hoc* financial checks. No visit is planned at the time of writing this report so no specific preparations are necessary.

Post-Project Evaluation

The FA makes no specific provision for a post-project evaluation but many EC projects are followed up in this way to review issues such as sustainability. The Programme does not need to make any special preparations for such an evaluation should one be mobilised.

¹⁴ EC Delegation letter, 27 June 2005, reference EM D(2005)1143

7. Equipment

For closure of UDP the following definitions have been used:

1. **Non-expendable Supplies:** “Articles which are not consumed in use and which ordinarily retain their original identity during the period of use such as weapons, vehicles, machines, tools and instruments”¹⁵. These have a unit cost above pesos 10,000
2. **Semi-expendable Supplies** “Property with a unit value of pesos 10,000 and less, used in government operations but not consumed in such operations or having a life expectancy of more than one year like stapler, puncher, scissors, etc.”¹⁶
3. **Expendable Supplies:** any items not covered in the above definitions, primarily consumables such as office supplies, tyres and other spare parts for vehicles.
4. **Document and Records:** These are excluded from the above definitions and are dealt with separately elsewhere in this report. For simplicity books are also treated as being in this category.

These are the GOP definitions; no equivalent EC definitions were found. At another EC project¹⁷ the minimum unit cost for non-expendable items recommended by the Finance and Contracts Unit was euro 500 (approximately pesos 34 thousand).

The Finance Division maintains an equipment list that conforms to general guidelines for non-expendable equipment in that all items above Pesos 10,000 are recorded in it; however items below this value have also been recorded if they are deemed to have an estimated useful life of three years or above. There is a second equipment list that conforms to the broad definition of semi-expendable except that it does not currently include the items currently in the main list but below the unit price threshold.

A team from DA performed a physical inventory check at the end of May 2005. This was primarily a physical verification of the above lists but the report from this visit is expected soon and should verify the items checked, determine condition (usable/damaged) and instruct the Programme to ‘drop’ all assets with a unit cost price below pesos 10,000 from the list¹⁸ - in practice this will result in moving them from the non-expendable to the semi-expendable list.

A breakdown of the equipment purchased and retained by the Programme as at 31 December 2005 is given in Appendix IV. ‘Renovation’ refers to structural

¹⁵ Manual on Property Custodianship, COA-PTTAF, page 145

¹⁶ COA Circular 86-200B as amended by COA Circular 87-005

¹⁷ Leuser Development Programme (ALA/94/26), Indonesia

¹⁸ This is in compliance with COA Circular 97-005 under which “The capitalization benchmark for items categorized as Furniture, Fixtures, Equipment, Books and Work Animals (8-79-000) is hereby increased from P1,500 and P10,000”

work done to the PMO such as the building of a motor pool and the office partitioning so is not equipment *per se*. Even so there is no commitment to leave such renovations when the building is vacated and they could be donated in the same manner as equipment.

An additional 417 items of equipment are held by the Programme which were inherited from SMAP. With a mean purchase year of 1992/1993 this equipment is now all beyond the end of its estimated useful life and therefore is not included in the summary. There is also one item of equipment¹⁹ which was received from an earlier EC project, now closed.

As of 31 December 2004 the Programme had spent euro 1,288,685 (offshore procurement plus locally purchased) of the total EC budget of euro 1,330,000 in the FA on equipment. There is no other source of funds for equipment in the FA. For 2005 the AWP&B has a nominal budget of pesos 150,000 (euro 2,381) so there is no risk of exceeding the FA category limit in the life of the Programme.

Equipment line expenditure has been reconciled to the equipment lists for 2004. The reconciliation for 2005 is ongoing.

The FA states that:

“Equipment and vehicles purchased by the project... will be handed over to the GOP at the end of the project, based on a detailed proposal prepared by the PMO in the interest of the above project objectives”²⁰. Further it states that, “All remaining assets of... SMAP Phase 1 (including facilities, equipment, vehicles and materials) will continue to be used in this Programme. Arrangements shall be made between DA and the EC regarding the transfer, disposal of vehicles, equipment and facilities after this project’s termination”²¹.

There are many inter-related government documents relating to definitions, policies, procedures, forms, clarifications and amendments relating to the disposal of property and equipment, be they non-expendable, semi-expendable, unserviceable or lost²².

¹⁹ a Renault Laguna, registration number ‘SFD 418’

²⁰ Special Conditions, point 3.3

²¹ Special Conditions, point 3.7

²² - e.g. COA Circulars such as 84-348a, 86-200B, 89-296, 91-366 and 97-005 and COA Memoranda 84-348a, 88-369, 92-769, 88-569A and 91-712 can be downloaded in Word from <http://www.coa.gov.ph/COA.htm/Rules.htm> but nowhere could the consultant find the COA-PTTAF Manual on Disposal, probably the key document for this activity as it is the most cited source in the CECAP Disposal Procedures (*ibid*)

Distribution Procedures

1. Initial proposals for distribution were requested and received from the five PPOs but many items were designated 'Keep at PPO' or 'Return to PMO'. Corrected proposals were requested and are due by 27 July.
2. It is recommended that the proposal for distribution of equipment held by the PMO will start with initial proposals from the divisions except for high value pool items such as the vehicles will be decided directly by the Co-Directors.
3. The proposal list will need to be adjusted for any additions, deletions or changes included in the equipment report from the DA inventory team.
4. Once consolidated and corrected the list should be split into two, viz. non-expendable and semi-expendable by the Finance Division. It will then be given to the Co-Directors for final review, amendment if necessary and authorisation.
5. The proposal for all non-expendable items needs to be distributed to the DA and the EC for ratification. Distribution of all such equipment will only start after the ratification of this list by both donors and if the proposal for an extension is not approved.
6. All semi-expendable items can be distributed without the prior approval of the donors but copies of the distribution list should be circulated to the DA and the EC for their information.
7. It will not be possible to predict the expendable items remaining until just prior to closure. It is recommended that these items are held for post-project operations (such as financial closure) and/or distributed to partner organisations. Some items, e.g. tyres and vehicle parts, could accompany the vehicles for which they were originally purchased. Distribution should only need to be communicated to the EC and DA if the total value of such items is material.

The order of these activities may change depending on when the report of the DA inventory team is received.

Details of the supporting documentary requirements (e.g. invoice-receipts or deeds of donation) for distribution are given in the CECAP manual²⁵.

Special Considerations for Distribution

- ?? **Phased distribution** - As much as is practicable it is recommended to phase equipment distribution over the remaining life of the Programme rather than leave it all until very near closure. Non-critical items such as items in bodegas, those on loan to LGUs and broken items should be distributed as soon as possible to minimise the potential bottle-neck later on. The distribution of some equipment has already been approved²³ so there is a precedent for phased distribution. To facilitate this it is recommended to set a proposed transfer date for each item.
- ?? **Distribution location** - Again, if practicable distribution should be made directly from the PPOs as this is cost effective (avoiding moving items to the PMO and back again) and it is questionable whether the PMO has sufficient storage space in which to keep everything so it is both secure and protected from the elements.
- ?? **Equipment with LGUs** - Equipment currently being utilised by LGUs was purchased specifically to bolster their institutional capacity and has never been used by Programme staff. Each loan is the subject of a MOA (see Appendix VI) and eventual transfer to the LGU at Programme closure is generally anticipated by all parties. It is therefore recommended that all such equipment is transferred to the LGUs as any other decision is likely to be seen as renegeing on an agreement and cause major disenchantment. As there is no material effect of transfer on the Programme it could theoretically be made immediately, regardless of the outcome of the extension proposal.
- ?? **Computers** - Special attention should be paid to all computers to be distributed. These should all be cleaned of sensitive data (ideally all of which should be backed up first), cleaned of viruses and all installed software should be reviewed to ensure that the licenses support transfer of use before handover. It is also recommended to review all software as some – e.g. anti-virus packages – become obsolete very quickly because they are superseded on a regular basis.
- ?? **Vehicle parts** - There is a considerable quantity of vehicle parts in the motor pool store, a significant proportion of which were inherited from SMAP and are therefore now more than 10 years old. The Programme has only two Landrovers from SMAP. Some parts are still usable or can be cannibalised but most are for vehicles the Programme did not inherit from SMAP, are obsolete or are low turnover items and therefore unlikely to be used even during the period of the extension. The bulk of these could be disposed of by auction but the procedure is convoluted

²³ GIS hardware and software – EC letter dated 8 December 2004, reference RB D(4) - 045

and although the demand for the parts may prove good (there are many old Landrovers in and around Davao) it is not clear that the revenue would justify the time required. The supplier has already been approached about the possibility of using them for trade-in but was not interested. It is more practical to donate the parts to the original recipients of the SMAP vehicles or possibly to other EC projects using similar vehicles.

?? **Condition** - The question of condition at the time of transfer can be a sensitive one and is understood to have caused problems with recipients at the closure of CECAP II, so the AWP&B for 2005 needs to be checked to ensure that sufficient funds are available to effect all necessary repairs and maintenance prior to transfer.

8. Documents and Records

In this context 'document' has a very wide definition, referring to:

- ?? Internally produced records²⁴ and working papers – e.g. for personnel and finance
- ?? Reports and manuals generated for donors, stakeholders and other external recipients, including Technical Assistance reports, reports commissioned to be undertaken by third parties and audit reports.

GOP Storage Requirements

A very useful guide²⁵ covering, *inter alia*, the GOP requirements for the archiving and disposal of documents²⁶ was received from CECAP II, a former EC project now closed. This lays out in detail what type of records should be kept for what period – ranging from one year to 25 years, with some documents being required to be kept in perpetuity. The documents requiring the longest period of storage are generally those relating to staff and property²⁷. It also details the relevant procedures for the disposal of 'valueless records',²⁸.

EC Storage Requirements

EC requirements for the storage of financial regulations are:

“The management systems and procedures concerning the keeping of original supporting documents shall provide for... such documents to be kept for at least five years from the date on which the European Parliament grants discharge for the budgetary year to which the documents relate”²⁹.

“Supporting documents for the accounting system and for the preparation of the accounts referred to in Article 121 of the Financial Regulation shall be kept for at least five years from the

²⁴ The Records Management and Archive Office in Reorganisation Plan No. 8-A defines a 'record' to mean, “Any paper, book, photograph, motion picture film, microfilm, sound recording, drawing, map or other document of any physical form or character whatsoever, or any copy thereof, that has been made by any entity or received by it in connection with the transaction of public business, and has been retained by that entity or its successor as evidence of the objectives, organisation, functions, policies, decisions, procedures, operations or other activities of the Government, or because of the information contained therein”.

²⁵ "Transfer and Disposal Procedures - CECAP Assets and Properties and Valueless Records" by Alice Fontanilla-Catiling (8 March 2002)

²⁶ A comprehensive listing of recent rules, circulars, memoranda, resolutions and executive orders can be found on the COA website, <http://www.coa.gov.ph/COA.htm/Rules.htm>, although this does not seem to go far enough back to cover the requirements for storage of documents

²⁷ Full details are given in Article III of DECS Department Order No. 13-A of 3 February 1988

²⁸ See Executive Order 301 at http://www.lawphil.net/executive/execord/eo1987/eo_301_1987.html

²⁹ Commission Regulation (EC, Euratom) No 2342/2002 of 23 December 2002, article 49 - Keeping of supporting documents by authorising officers, section D

date on which the European Parliament grants discharge for the budgetary year to which the documents relate.”³⁰

In practice the European Court of Auditors publishes its annual report in November of the year following the year of any given transaction and the European Parliament grants its discharge in the year following that. Therefore storage is recommended for seven years after the final payment³¹ so that the European Court of Auditors, or any other authorised EC body, can have access to the documents for its mandated period.

Personnel records are complete for all UDP staff, past and present, as are all equivalent records for SMAP staff. Similarly all finance records to date are already filed, labelled and ready for archiving.

In practice it is difficult to adhere to the letter to the procedures cited above because they are bureaucratic and time-consuming so discussions should be undertaken with DA/COA to determine an acceptable ‘middle path’ which ensures all important documents are archived and accessible. The primary requirement is to store financial and personnel papers for therefore there should be a formal determination of requirements for each and the identification of a suitable storage location. One possibility which should satisfy both donors is for all key documents to be archived at the archive office in the central DA office in Manila. In this way the European Court of Auditors can also have access to the documents after the Programme has closed. As there is a significant bulk of documents at the PMO and PPOs it is recommended that the general approach adopted is to sift them for any that may require a storage period longer than seven years under GOP regulations and then pack these separately by ‘expiry date’ ensuring that all boxes are meticulously labelled.

EC Delegation

The EC Delegation requires hard copies of all Programme technical reports on an ongoing basis. For project closure it also requires the following reports and documents in electronic form³²:

1. The approved Overall and Annual Workplan and Budget
2. Quarterly and Annual progress reports
3. Project Completion Report
4. Reports prepared by Technical Assistants
5. Minutes of Steering Committee Meetings
6. Other important documents such as the project’s approved Credit Strategy

³⁰ Previous footnote, Article 65, Keeping of supporting documents by the accounting officer

³¹ Raymond Claudel, External relations, European Court of Auditors – personal communication, 4 July 2005

³² EC Delegation letter, undated, reference GP/DP D(03)

It is recommended that of the options for storage outlined in the EC Delegation all requested files should be converted to Adobe Acrobat (PDF files) and burned to CD. As most are already downloadable in Acrobat for the UDP website³³ this is a simple task.

Global Imaging System (GIS)

The Programme operates an active GIS unit. Although raw data is free – downloaded free from a public signal – considerable value has been added through field trips to collect data using Global Positioning (GPS) readings and subsequent processing and analysis at the PMO. Total data, including generated map files, is estimated to be approximately 700 mb.

As a result of past institutional capacity building by the Programme the DA, the Department of Environment and Natural Resources (DENR) plus approximately 50% of LGUs are actively using this data for formalisation of maps, delineation of boundaries and land use classification. Some have been provided with the necessary hardware by the Programme but most of the others have purchased it under their own respective budgets. For the LGUs not currently using it the main constraint has been obtaining the necessary budget to purchase necessary hardware and Arc View software.

All data has been written to CD (two burnt CDs contain all data) and is in the process of being distributed to these users. Now updates are made by the users with copies of incremental files being given to the Programme.

GIS data has a value far exceeding its intrinsic cost and is especially useful for ongoing and future work. For this data the distribution is already in hand and no further action is required.

Library

There is a library on the third floor of the PMO which has some 2,600 items, mostly publications but also including audio-visual materials. These include assessment reports, training manuals, reports and theses from SMAP plus a number of published books relevant to Programme activities. This is clearly too valuable a resource to waste.

An ideal repository for copies of these reports and documents would be the Foreign Assisted Projects (FAP) library currently being set up in the central DA office in Manila. The sorts of documents this is planning to hold for projects are “technical documents, consultants' reports, manuals, publications, work plans, annual reports, MTR and PCR mission reports, etc.”³⁴

³³ <http://www.udpmindanao.org/>

³⁴ Brenda Saquing, personal communication, 22 July 2005

As well as LGUs senior management may also wish to identify local libraries, educational establishments, etc. to be given additional hard copies of manuals, other pertinent documents and some of the contents of the library to promulgate the Programme's findings and achievements so that they are still accessible to as many beneficiaries as possible after closure. The Programme website offers many of these documents as downloads, something that could be continued after closure, perhaps through the EC Delegation website. These actions could only serve to promote EC visibility.

Website

The UDP website is an invaluable source of materials as it offers many reports and documents as downloadable soft copies. It would be a great shame if such a resource – accessible worldwide – was lost after closure. In deed senior management has expressed the wish that it should remain active and accessible for ten years. This could be achieved by funding its charges after closure or transferring responsibility for it to the FAP library or the EC Delegation. The support of a website has been included as a component of the full FAP library³⁴ proposal but had not been finalised at the time of writing.

9. Manpower Planning

At its peak UDP directly employed 148 staff (excluding staff employed by BCEOM and Local TAs). It closed 2004 with 145 staff. 75 were retained for 2005 against an approved Plantilla of 78. Since then two have left so the number currently employed is 73. There are two vacant positions in the Plantilla for which recruitment is underway and three that are being held open but not actively recruited for.

The five PPOs will close at the end of October 2005 but the staff based at them are planned to be retained until the end of December 2005.

Manpower planning for 2006 has been decided internally and a Plantilla maintaining the existing 78 positions for 2006 submitted to the Department of Budget and Management (DBM). All staff currently employed will be retained if the extension is approved but only 23 – 25 if not. These are the staff needed to achieve project closure. Hence manpower plans are prepared for both eventualities.

There are eleven Local TAs employed by the Programme, all of whom have contracts of employment that terminate during 2005, three of which run to the end of December 2005. There are no plans to renew these contracts unless the outcome of the extension decision is favourable. The FA limit for Local TA is proposed to be increased by euro 110,000 in Amendment No. 1 to the FA.

Currently there are four European TAs working at the Programme, although this is expected to reduce to one by the close of 2005. Adequate additional funds have been proposed in Amendment No. 1 to the FA to maintain sufficient European TA input for the extension.

There are also a number of seconded LGU staff who will return to their respective LGUs when the Programme closes.

10. Project Reports

There are a number of routine reports that need to be submitted regardless of the decision on the extension plus a number that will be required only if the extension is not approved. A provisional list of such reports is given in Table A with some equally provisional deadlines.

Table A: Project Reports Required Prior to Programme Closure

Report	Deadline
Audit report for the semester ending 30 June 2005 ³⁵	26 September 2005
Audit report for the semester ending 31 December 2005 (annual audit) ³⁵	1 March 2006
Report on expenditure 1 – 17 January 2006	17 January 2006
Quarterly technical progress report to 30 June 2005 ³⁶	31 July 2005
Quarterly technical progress report to 30 September 2005 ³⁶	31 October 2005
Annual technical progress report to 31 December 2005 ³⁶ (incorporating the fourth quarter technical progress report)	10 January 2006
Executive quarterly report to 30 June 2005 (European Co-Director)	31 July 2005
Executive quarterly report to 30 September 2005 (European Co-Director)	31 October 2005
Executive quarterly report to 31 December 2005 (European Co-Director)	15 January 2006
Annual and/or end of project report to the public ³⁶ (1999 – 2006)	15 January 2006
AWP 2006 ³⁶ (first draft) - unless extension not approved	14 October 2005
End of mission reports for all short-term Technical Assistants ³⁷	Various
Final project completion report ³⁶ (European Co-Director)	29 December 2005
Exit report ³⁸ (European Co-Director)	31 May 2006

It must be emphasised that this list is tentative and needs to be discussed by the Co-Directors with the EC Delegation, and probably DA, before it can be finalised.

³⁵ FA, section 2.8.2 Financial Procedures, bullet point 6

³⁶ FA, section 2.11, Reporting

³⁷ TA contract

³⁸ Thierry Delobel, BCEOM, personal communication, 27 June 2005

The Quarterly technical progress report has been maintained in spite of a provision in the FA allowing the Programme to move to semi-annual technical progress reports after the first year. This is because the donors and the executing agency are more comfortable with this frequency of reporting.

The Executive quarterly report is an additional report prepared to accompany the quarterly TA invoice.

This list is based partly on formal requirements stated in documents such as the FA and TA contract and partly on the consultant's past experience. Such requirements vary regionally depending on the donors' needs.

11. Financial Closure

From the audited financial statements as at 31 December 2004 cumulative expenditure against the total budgeted EC grant was 51.55% with no Budget Category exceeding or coming close to exceeding its FA euro limit. The highest was Local TA at 89.54% utilisation. An amendment – Number One – to the FA has been submitted to the EC and this covers the reallocation of funds both for 2005 and the proposed extension.

The programme operates eight bank accounts – a euro account, a current account and a GOP account (for receipt of salaries) at PMO plus five current accounts, one per PPO.

It is anticipated that a reimbursement against first semester 2005 expenditure will be required in the final semester and this will be based on reimbursement of expenditure for first semester of 2005.

The following financial/finance-related areas were identified for special examination prior to Programme closure:

Issues carried forward from SMAP

- ?? Equipment received is dealt with separately in the section on Equipment
- ?? Funds received are all accounted for in the books of UDP
- ?? Deposits transferred to UDP have all been collected
- ?? Pesos 3 million of Credit Funds transferred to UDP could not be recovered as the holder, the Co-operative Bank of Davao City, went bankrupt. Similarly the pesos 100,000 balance of a loan to Davao del Sur Business Center for Development and Progress was found to be irrecoverable. A written request was submitted to the EC Delegation³⁹ to write these off and correspondence is ongoing to provide further details of the steps taken to effect recovery before a final decision will be made
- ?? No other outstanding issues arising from issues carried forward from SMAP were identified.

Bank accounts

- ?? The five PPO bank accounts will be closed on 31 October 2005. No cheques will be drawn on the bank accounts after 21 October. After this date all payments can be made from the PMO

³⁹ UDP letter dated 11 September 2002, reference FAD/MCS/02-073

- ?? The PMO peso account will be closed on 29 December 2005 with any remaining balance transferred to the euro account. No cheques will be drawn on the account after 16 December
- ?? Signatory rights to the euro account will be transferred to the EC Delegation on 29 December 2005
- ?? The GOP account will be closed in June/July 2006 in consultation with DA.

Termination notices to suppliers

- ?? All ongoing contracts and standing arrangements for the supply of goods and services (e.g. rent, security, and telephone) should be reviewed for termination notice requirement clauses. Failure to comply with such clauses may incur financial penalties and/or loss of deposits.

Tenders

- ?? The only tender currently in process is the one for audit services for 2005 which will terminate after closure. Final payment will be made by the EC Delegation after acceptance of the final audit report.
- ?? Two other service tenders are planned in the remaining period of 2005 and final payments will be made on acceptance of their respective reports, due in December. It is probable that final payment for each will be made by the EC Delegation once the Programme has formally accepted the reports.
- ?? There is one ongoing tender due for completion and final payment in December.

Deposits

- ?? Deposits have been made for various items totalling pesos 440,717.98. Of this sum pesos 20,670.00 should be recovered when the PPOs are closed and the balance of pesos 420,047.98 when the PMO is closed. (See appendix III for details).

Advances

- ?? Any outstanding advances in the TAMAs will be liquidated and/or recovered by the end of September 2005
- ?? All outstanding advances to staff and third parties relating to the PPOs will be liquidated and/or recovered by the end of October 2005

- ?? All outstanding advances to staff and third parties relating to the PMO will be liquidated and/or recovered by the end of November 2005.

Accruals

- ?? The Finance Division produces a monthly schedule of accounts payable which will form the basis of accruals to be made at 31 December 2005 - and probably also 17 January 2006 (see section 2006 Expenditure)
- ?? Specific accruals will also need to be calculated for utilities (telephone, electricity, water and internet services). Historically some charges for telephone calls have been received three or four months after the actual call was made so this needs to be considered in the calculation of the accruals.

Prepayments

- ?? All vehicles (cars and motorcycles) are insured with the Government Service Insurance System (GSIS), each vehicle having a separate policy. Although insurance policy prepayments can normally be recovered there is a specific clause in the GSIS policy excluding this, therefore it is planned that the remaining insurance cover for each vehicle is transferred to the recipient with the vehicle
- ?? Rent is paid monthly therefore there should be little or no prepayment at the end of the Programme. It may even be possible to offset the deposit against monthly rent as the Programme nears closure
- ?? No other prepayments were identified.

Co-operative Bank of Davao Oriental (CBDO)

- ?? CBDO was declared bankrupt and placed into receivership on 17 October 2003. UDP funds totalling pesos 3,836,460 were held by the bank at that time, comprising 2,040,000 in the Upland Development Loan Fund (UDLF), 1,380,000 in the Seed Capital Fund (SCF) and 416,460 in the Motorcycle Loan Fund. Recovery of funds deposited is limited to the ceiling set by the Philippine Deposit Insurance Corporation (PDIC), pesos 100,000 per account. In this instance PDIC interpreted the different accounts as being one account because they had the same signatories so total compensation to the limit for one account was offered. This issue was being dealt with by the local TA for Rural Finance⁴⁰. He is due to return to the Programme later this year so an update on recovery should be

⁴⁰ Virginio Jamon

requested. As it is extremely unlikely that the balance of the funds will be recovered it is recommended to request authorisation from the EC Delegation to write them off.

Other GOP offices

- ?? It is anticipated that VAT should be fully recovered within the first half of 2006, if not before
- ?? Withholding tax (both EWT and GMP) is a tax withheld by the Programme and paid to the Bureau of Internal Revenue and is reconciled on a monthly basis. This will need to be paid before closure
- ?? There are several other GOP offices with which data relating to UDP activities must be lodged and reconciled, such as the Non-cash Availment Authority (NCAA). These are probably not critical path activities as they can only be completed once the Programme is closed as it is planned that some staff will be retained until mid-2006.

2006 Expenditure

If the extension proposal is not approved then there will be 17 days in January 2006 for which there is no formal AWP. In order to perform closure activities it is recommended that this period is covered by a modest petty cash based on any accrued expenses for 2005 due to be paid during this period (e.g. utilities) plus budgeted expenses for 2006 (e.g. operating costs such as despatch of documents to the EC Delegation). It is further recommended that these transactions should not be recorded in the General Ledger accounting system but in a simple petty cash book.

This petty cash can be liquidated at the Legal Closure date with any remaining cash balance deposited into the euro account (by then under the control of the EC Delegation). The petty cash book, plus all relevant supporting papers, can be sent to either the EC Delegation or the auditors depending on what is agreed between the donors.

Trying to achieve Liability Closure produces many logistical difficulties with utility bills, etc. – such as phone bills for January that may not be received until mid-February. Although the EC Delegation will settle these outstanding bills some staff are still needed at the Programme to verify the bills, prepare the supporting papers and despatch them to the EC Delegation for payment. It is planned to make a request to DBM for financial support to cover personnel and operating costs up to the end of June 2006 to facilitate this.

For the final accounting period there are a number of options:

1. Cut off at 31 December 2005. This is consistent with the principle of cash accounting and ties in with the final semester audited but will understate project expenditures by not including expenditures made in 2006. The final audit report could include a separate schedule listing accruals or actual payments made in 2006.
2. Cut off at 17 January 2006. This could be achieved by passing the cashbook and supporting papers for expenditures during the period 1 – 17 January to the auditors so an ‘off-site’ audit can be conducted. Again this leaves open the issue of liabilities incurred this period but paid after it.
3. The third and most accurate option is to adopt a modified cash accounting approach, cut off at 17 January 2006 as in option 2 and include accruals for all expenditures outstanding at that date.

If the audit tender is awarded as recommended by the Audit Tender Evaluation Committee there will be sufficient funds remaining in AWP 2005 to extend the proposed audit period (1 January to 31 December 2005) to include the additional period in 2006.

Project Extension

If the project is granted the extension as proposed it will run for an additional 18 months. It is to be hoped that the decision is notified to senior management before any irreversible steps to closure are taken. In such a situation the actions recommended to be taken for the issues above are:

- ?? **Issue carried forward from SMAP** – The only action is to complete the correspondence with the EC Delegation so that the irrecoverable funds for the Co-operative Bank of Davao City and Davao del Sur Business Center for Development and Progress can be written off
- ?? **Bank accounts** – No bank accounts will need to be closed. Any bank accounts closed will have to be reopened, assuming the Programme maintains the same PPOs
- ?? **Termination notices to suppliers** – All such notices can be delayed until the appropriate date(s) in 2007. This will depend on the timing of notification and may result in the withdrawal of notifications given should the extension notification come after the process has started

- ?? **Tenders** – No action will be required for ongoing or planned tenders and the Programme will make all relevant payments as they fall due
- ?? **Deposits** – No deposits will be recovered
- ?? **Advances** – There will no longer be a need to liquidate and/or recover all deposits but it is consistent with the principle of sound financial management to do this anyway and hence start the extension with zero balances
- ?? **Accruals** – No accruals beyond the routine monthly schedule of accounts payable will need to be produced
- ?? **Prepayments** – No action required
- ?? **Co-operative Bank of Davao Oriental** - The correspondence with the EC Delegation should be completed so that these irrecoverable funds can be written off
- ?? **Other GOP offices** – No specific action is required for VAT or Withholding tax and the submission of data to other GOP offices can continue as usual
- ?? **2006 Expenditure** – No action is required for the 17 days of January 2006 as the Programme will be working to an approved AWP as normal. Therefore no special arrangements for reporting or auditing expenditures need to be considered as it should continue using the General Ledger accounting system and audit will again be by semester commencing 1 January 2006, on the basis of a tender to be launched during the year.

Additionally, it is recommended to complete the reconciliation and closure of the TAMAs so that the extension can be started with no outstanding issues brought forward; to transfer the loan equipment to the LGUs; and dispose of any unserviceable equipment, equipment no longer used and all surplus vehicle parts. Documents and records from SMAP can be archived or disposed of as appropriate as they are now all a minimum of eight years old.

12. Conclusion

Overall the Programme is in a good state of preparedness for closure with a comprehensive 'Finance and Administration Plan for Closure' included in the 2005 AWP, equipment already audited by DA, steady progress being achieved on the closure of projects and reconciliation of TAMAs and manpower plans prepared for either outcome of the extension proposal. All staff involved in closure activities are competent and well-trained and all underlying systems and procedures are good. It is only to be hoped that the decision on the extension proposal will be made before any irreversible steps for closure have to be undertaken.

The only caveat to this was an apparent lack of awareness/acceptance by the PPOs of the timing and activities required of them for closure. This was addressed immediately by senior management. However there will be logistical issues to determine to support the completion of ongoing and planned activities after each PPO is closed.

Given the current focus on pre-closure activities the Programme should achieve a complete and timely technical and financial closure and avoid leaving behind it the type - and number - of problems that have followed the closure of some earlier EC projects.

The key areas that will require closest attention from senior management are:

1. Ensuring the donors are satisfied with the approach of the proposals in this report and the steps detailed to achieve them
2. Agreeing the financing and subsequent recording for the 17 days in January 2006.
3. The timely donor approval and distribution of equipment
4. The physical and financial completion of projects and project-type activities.

13. Recommendations

Framework Agreement

?? A review of the Framework Agreement should be made in case any clauses within it are contrary to the above recommendations. The consultant was unable to access this document during his input.

Verification of Proposals

?? This report contains a number of proposed procedures and deadlines that will need prior ratification by the EC and DA – plus possibly COA – before they are implemented. It is therefore recommended that it is circulated to all parties for review and ratification prior to implementation.

?? Specifically it is recommended to verify the proposed regulations for distribution plus underlying procedures in the CECAP²⁵ manual in case any have been superseded since it was written.

Projects

?? There are certain types of projects (e.g. diversified farming systems) and project-type activities (e.g. road maintenance, forest protection and barangay development planning) which are not processed through the TAMAs. These are under the control of the PMO division heads and the PPO sections. Some of these have relatively late planned completion dates. It is recommended that the Monitoring and Evaluation division returns to monthly reporting of these, ideally by status (as described in the TAMA/projects section). This should be supported by a monthly progress meeting with the Co-Directors to ensure the necessary impetus is exerted to ensure all such projects are completed and the required completion reports are submitted in a timely manner. Nearer closure, depending on progress, it may be necessary to consider calling this meeting on a fortnightly basis.

PPO Planning Meeting

?? Even given current communications with the PPOs on closure issues it may be necessary to hold a dedicated meeting, especially as the logistics for completing activities after PPO closure need to be clarified (see Appendix VI).

Project Reports

?? The list of reports proposed in Section 9 is provisional. As report writing is a time-consuming process it is recommended to agree the required reports and their schedule as soon as possible.

Non-Critical Path Activities

?? Holding pre-closure activities such as an ESC⁴¹ meeting and provincial and central closure/handover ceremonies is important but not on the critical path for closure so should be scheduled at least a couple of months before closure. They can result in a significant additional workload pulling staff away from essential closure activities and mean that the Co-Directors will be out of the office for significant periods resulting in a loss of access to decision-making and signatory power (for closing bank accounts, etc.) and significantly reducing their ability to monitor closure and enforce deadlines.

Equipment

?? By contrast the distribution of equipment is almost certain to become a critical path activity and should be addressed as a priority.

?? The formal transfer of the equipment at the LGUs should be effected immediately (see Equipment – Special Considerations for Distribution).

Irrecoverable Credit Funds

?? The irrecoverable Credit Funds with the Co-operative Bank of Davao City, the Davao del Sur Business Center for Development and Progress and the Co-operative Bank of Davao Oriental need to be written off. The history and details of attempts to recover these funds should be provided to the EC Delegation so that authority to do this can be given.

Audit

?? Tendering for audit services on an annual basis is inefficient as it ties up key Programme staff for a considerable period of time in the administration required by the tender procedures. If different firms win in different years then the commencement of the initial audit by a new firm will require it to start from scratch, documenting systems and creating a perm file. It may also need to communicate with the previous auditors. All this takes time and will be reflected in its fees. It is therefore recommended that if the extension is approved the contract for

⁴¹ Executive Steering Committee

audit services should be either an extension to the current audit contract or a new tendered contract to run for the full 18 months not a combination of 12 plus six.

?? The EC Delegation might wish to consider addressing the absence of a Balance Sheet and statement on equipment in the audit requirements for future EC funded projects.

AWP 2006

?? As the extension request now looks as though it could well be approved senior management should now consider allocating the necessary resources for preparation of the AWP for 2006. - Usually submission of the first draft is around the 15 October but preparation takes an average of two months.

Project Closure Guidelines

?? It would have been useful for this Programme - and will undoubtedly be helpful for the closure of future EC projects - if the EC Delegation produced some general guidelines on project closure. The GOP procedures for disposal of equipment and documents and records are especially convoluted so a simplified set of procedures agreed between the EC and the GOP could be considered overdue.

?? For most projects there is inevitably a gap between financial and legal closure (see section on project closure) of the project resulting in uncertainty concerning how it should be financed, reported and verified (audited?). It is recommended that the EC Delegation also issues some specific guidelines to cover this.

Both CECAP II⁴² and CASCADE⁴³ were completed in July 2004 but apparently have yet to achieve technical and financial closure. Similar – and reputedly worse - problems were reportedly experienced with AURORA⁴⁴ in 2000 which suggests an ongoing systemic problem that the proposed guidelines should go some way to solving.

⁴² CECAP II experienced a major handover problem between its auditors in which the new firm required the EC Delegation to confirm, *inter alia*, the closing balances for the original seven years of the project which had been audited by its predecessor

⁴³ CASCADE (ALA/96/27) was completed on 17 July 2004 but apparently left a significant number of vouchers for outstanding payments still to be processed. These were passed to DA, which operates under different procedures, which significantly delayed their payment. There were other problems reported with its closure, including the distribution of equipment. To date it has yet to be closed.

⁴⁴ Aurora Integrated Area Development Project - Phase II (AIADP-II) 1994 – 2000. “The main project activities ended in December 1999. During 2000, the project completed a limited number of commitments that had not been completed during 1999.” Annual Report 2000 – Delegation of the European Commission in the Philippines.

Websites

?? Currently the EC Delegation website seems to contain the wrong dates for the commencement and completion of the Programme. This apparent discrepancy was brought to the attention of its officers and will be corrected in the fullness of time.

?? The UDP website is recommended to be kept up and running after closure. This could be achieved by funding its charges after closure or transferring responsibility for it to DA through the FAP library or to the EC Delegation

Rural Finance

?? All monies distributed under rural finance are not anticipated to be returned to the Programme but ultimately to go to either of two trusts funds established during the life of the project to be operated after its closure. However the current state of record keeping for the Upland Development Loan Fund is less than ideal. It is planned that bookkeepers will be recruited temporarily to bring them up to date and auditors to verify them. At this time no additional action looks necessary but senior management, especially within finance, should maintain a watching brief and be prepared to assist in the interpretation of the records and audit reports once received and advise on any remedial action that may be deemed necessary.

TA Input

?? Whilst the expedience of employing intermittent TA is recognised, the price to be paid for this is a lack of management continuity for the project and fragmented focus from the TA. It is not recommended to use intermittent input for the Finance and Administration Specialist except as a last resort. It is fortunate that for UDP that project closure had been planned and considerable progress already achieved by the national staff.

?? Synchronising the TA contract to the project life such that both terminate on the same day encourages the TA to depart at project closure. To stay after closure in order to assist with outstanding closure issues the TA must work on a voluntary basis, with no legal authority and quite possibly without any basis of support for visas. It is therefore recommended that the TA contract is amended so that key TA personnel can continue in place for, for instance, one month after closure.

Project Closure Workshop

?? Many staff have been with UDP for a significant time and a number were even with SMAP previously. For such staff making the transition to life after the Programme is already causing concerns. A number requested a workshop to help them prepare for project closure/life after UDP as was held for CECAP staff. Such a workshop would be beneficial to staff, reward them for their service and could also be used to ensure they stay until closure.

Appendix I – Project Background

The Upland Development Programme in Southern Mindanao (UDP) – EC project ALA/97/68 - is a seven-year partnership Programme sponsored by the European Commission (EC) and the Government of the Philippines (GOP) and executed by the Department of Agriculture (DA). It has its foundation in the Southern Mindanao Agricultural Programme (SMAP)⁴⁵. Both Programmes focus on upland development although the area covered by UDP differs from that of SMAP as well as the objectives, concepts and strategies as a result of the lessons learned.

It was established under Financing Agreement PHI/B7-3000/IB/ALA 97/68 signed for the European Community on 29 September 1998 and countersigned for the government of the Philippines on 20 October 1998. It operates under the Framework Agreement signed on 8 November 1984.

The official start date of UDP is 18 January 1999, being the date of signing of the Technical Assistance contract between the EC and a consortium including RDI and BCEOM⁴⁶. The lead company was previously RDI but is now BCEOM.

It has total budgeted funding of euro 48.65 million, consisting of EC – 18.3 million; GOP – 7.68 million; Local Government Units (LGUs) – 9.6 million; Partner Financial Institutions (PFIs) – 550,000; and Beneficiaries – 12.52 million (as contribution in kind).

The UDP aims to develop a replicable model for sustaining the upland resource base and improving the living conditions and prosperity of communities which derive most of their income from upland farming. The programme will also assist the upland communities address their subsistence needs and produce new marketable surpluses through market-led agricultural development.

The programme covers approximately 150,000 hectares with a Project Management Office and five Provincial Project Offices – PPO 1, Compostela Valley (seven Municipalities); PPO 2, Davao Oriental (nine Municipalities); PPO 3, Davao del Sur (six Municipalities); PPO 4, Sarangani (seven Municipalities); and PPO 5, South Cotabato (four Municipalities). Davao del Norte (four more Municipalities) has been added to this coverage as a replication area but has no PPO as it is covered by the PMO.

The Programme has six components:

1. Community and Institutional Development & Extension (CIDE) which endeavours to strengthen upland communities and community-based

⁴⁵ EC project ALA/89/18 - commenced 1990 and completed 1997

⁴⁶ As defined in FA, section 2.4

organizations' capabilities to implement sustainable resource management systems, and to intensify the capacities of local government units (LGUs) and other support agencies to support and promote watershed development and management.

2. Resource Management (RM) which is designed to develop a model for sustainable management of natural resources, which will be adopted and supported by LGUs and actively participated in by the communities.

3. Sustainable Agriculture Development (SAD) which aims to secure food production and increase income of upland farmers through diversified on-farm integrated farming systems while safeguarding and improving the watershed resource base.

4. Rural Financial Services (RFS) which seeks to address the problem of poor access to financial services by upland communities. It is designed to implement this by setting up a savings-based credit delivery system in partnership with rural financial institutions.

5. Marketing and Enterprise Development (MED) which is charged with generating information and developing marketing strategies and plans, which will enable the upland communities to address their subsistence needs and produce new marketable surpluses.

6. Agricultural Infrastructure Support (AIS) which aims to respond to infrastructure needs for resource management and market-led production in beneficiary communities by providing appropriate, sustainable and replicable structures.

Programme closure is scheduled for 17 January 2006⁴⁷ although a proposal for an extension is currently being processed that would put this back to 31 July 2007.

⁴⁷ This date has been confirmed by BCEOM for the TA contract, although other sources – notably the EC website <http://www.delphi.cec.eu.int/index.cfm?pagename=devtdetails&devtID=5> – give 15 February 1999 (the date of TA mobilisation?) as the start date and 15 February 2006 as the completion date

Appendix II: Restructuring of Original Terms of Reference

Terms of Reference (by point)		Relevant Report Section		Main Activities
1	Assist the PPOs in ensuring that TAMA account balances of the LGUs are returned by the end of the 3 rd quarter of 2005	4	TAMAs /Projects	?? Completion of projects
2	Assist the PPOs in ensuring that closure of projects implemented are completed as planned in the 2005 AWP&B			?? Reconciliation and settlement of TAMAs
3	Assist the Programme in preparation for the coming of the pre-completion review mission and external audit team	5	External Monitoring	?? External audit ?? Pre-completion review mission ?? Other monitoring
4	Assist the Programme in preparing for a smooth and effective closure of the Programme accounts, transfer of credit funds and other Programme assets	10	Financial Closure	?? Closure of PPOs
6	Arrange final payments and closure of the Programme accounts for presentation to the auditors			?? Closure of bank accounts ?? Review of outstanding balances ?? Return of funds to EC ?? Quantify post-project liabilities
5	Arrange the hand over of all programme equipment in a manner acceptable in to the GOP and EC	6	Equipment	?? Reconciliation ?? Proposal for distribution ?? Actual distribution
-	Activities not specified in original terms of reference	7	Documents and Records	?? Storage of documents and records
		8	Manpower Planning	?? Staff-related issues
		9	Project Reports	?? Reports to be produced

Appendix III – EC Project Closure Definitions

“Closing a project or an action is the procedure by which Financial Unit verifies receives (*sic*) an assurance from the operational unit (or the Delegation) that the technical closure of the project is complete and that all the legal and financial obligations of the concerned parties have been fulfilled in order to decommit the eventual outstanding balance of the underlying commitments(s).

Project: The action as defined in the technical documents/commitment, generally covering actions with several actors.

Activity: In principle a single action executed by a single actor.

Concerned parties: The Commission: Operational unit managing the technical aspects, the competent Delegation responsible for the follow up on the spot and Financial Unit.

The actors: The technical consultancy, the suppliers, the local administration, the project management units...⁴⁸

The EC defines two stages⁴⁹ to project closure, Technical Closure and Financial Closure.

“For technical closure, the operational units must check that all contracts related to the project were executed completely, and that all contractual obligations were fulfilled. Consequently, the technical closure of a project can only be carried out after all relevant contracts have been completed and individually closed. This individual contract closure should also make it possible to identify any amounts still to be paid and/or recovered.

Project closure must achieve the three following goals:

1. To determine the destination and to officially transfer the project assets (technical achievements, equipment and perhaps any credit funds). In theory the destination of the “final results” of the project should have been envisaged in the Financing Agreement or in individual contracts.
2. When applicable, to release the PMU of its responsibility for the operational implementation of the project.

48 Extract from EC document DRP/Guidclo4/prt 05/05/1997.

49 “EuropeAid Finance Guide” (December 2001) - page 74 sections 9.1 and 9.2. No equivalent text was found when examining the subsequent “Council Regulation (EC, Euratom) No 1605/2002 of 25 June 2002 on the Financial Regulation Applicable to the General Budget of the European Communities”.

3. To release the European Commission of its contractual obligations.

The Finance Unit can close a project financially as soon as the technical closure is complete and as soon as all the legal and financial obligations of the parties concerned were completely fulfilled.

Before proceeding with closure, the financial unit must:

1. Check that the technical closure of the project took place
2. Check the overall financial implementation of the project;
3. Check that there are no contracts open under the project (i.e. final invoices have been paid, there is no risk of requests for late payment interest, any possible recovery orders have been sent, any certificates of final acceptance have been issued, any financial guarantees have been released except for those covering any recovery orders, etc).

As soon as all these checks have been completed and all possible complementary steps finalised, the Finance Unit decommits the amount not used by the project and project files are archived.

For projects managed by Project Management Units, within the framework of the closure of their activities, Project Management Unit must:

1. Send the balance of the project accounts to Headquarters (the transfer includes both the principal balance and the interest).
2. Close the accounts.
3. Inform the financial authorising service of the closure of the accounts and the amount of the transfer.
4. Transfer the ownership of the equipment acquired, in conformity with any contractual obligations.

The Head of Delegation's mandate does not permit him/her to become the signatory of project accounts after operational responsibility of the Project Management Unit is taken over by the beneficiary country. The Project Management Unit must therefore close the project account before this transfer of responsibility.”

Appendix IV: Breakdown of Equipment Purchased and Retained by the Programme as at 31 December 2005

Year	Vehicles and Equipment	Computers and Peripherals	Other Equipment	Furniture and Fixtures	Renovation	Total
1999	755,000.00	600,158.18	0.00	0.00	0.00	1,355,158.18
2000	14,176,362.80	5,392,747.28	1,661,033.10	227,309.05	835,629.93	22,293,082.16
2001	6,223,645.53	1,659,122.13	815,331.86	19,454.54	83,615.70	8,801,169.76
2002	0.00	39,863.64	22,914.56	0.00	51,359.09	114,137.29
2003	0.00	14,814.54	27,385.23	5,262.72	0.00	47,462.49
2004	0.00	36,454.54	83,513.63	0.00	0.00	119,968.17
Total	21,155,008.33	7,743,160.31	2,610,178.38	252,026.31	970,604.72	32,730,978.05

Note: The above summary excludes 15 Landrovers plus spare parts acquired in July 2001 through offshore procurement at a total cost of euro 501,477.

Appendix V – Deposits Made by the Programme

Office	Item	Supplier	Amount
PMO	Rent	Davao Akasya Ventures	338,500.00
	Transformer	Davao Light & Power Co	58,947.98
	Telephone	Mati Telephone Corp	1,800.00
	Fuel	Mindanao Ave Petron	20,000.00
	Telephone	Philippine Long Distance Telephone	800.00
PPO1	Electricity	Daneco	2,400.00
PP02	Electricity	Davao Oriental Electric Co-operative	3,000.00
	Fuel	Dupa Petron	10,000.00
	Telephone	Mati Telephone Corp	3,270.00
	Telephone	Philcom	2,000.00
TOTAL			440,717.98

Appendix VI – Field Visits to PPOs

- 5 July PPO 2, Mati, Davao Oriental
- 6 July San Isidro municipal office
Barangay Lapu-Lapu road maintenance project
Mati municipal office
Taguibo Upland Barangay Extension Centre plus 3 Taguibo water projects
- 7 July UDP Davao del Norte liaison office
Maragusan municipal office
Gemelina Farming System Application Model and water system at Pamintran Barangay
PPO 1, Nabunturan, Compostela Valley
Laak municipal office
Santa Rosario road rehabilitation project
Malig-ot Learning Centre, Calipusan Farm, Kilagding
- 8 July PPO 1, Nabunturan, Compostela Valley
- 13 July PPO 5, Koronadal, South Cotabato
Tunghaan Samga Mag-uuma (farmers learning site), communal forest management project and single lane steel bridge project at Melina, Lampitak, Tampakan
- 14 July PPO 5, Koronadal, South Cotabato
PPO 4, Alabel, Sarangani
- 15 July PPO 4, Alabel, Sarangani

General observations:

- ?? PPOs were generally running well with skilled personnel who and showed a good understanding of the procedures of the Programme and were well integrated into local government and worked routinely with LGU counterpart staff.
- ?? Budget utilisation was low, averaging under 19% cumulative year to date. This was ascribed to a focus of activities on those charged to the PMO. Operational costs for the same period were just under 90% of budget. The main area where expenditure was exceeding budget was logistical – mainly motorcycle running costs but also vehicle running costs and travel at some PPOs.
- ?? The visits provided an opportunity to progress and, in many cases, complete a significant number of outstanding projects.

- ?? Some PPOs had copies of the full AWP 2005 but most worked from an extract based on their specific activities. Awareness of the 'Finance and Administration Plan for Closure' was low.
- ?? Most seemed unaware of the proposed closure of PPOs at the end of October 2005 and expected to close in December 2005.
- ?? The PPOs have activities in AWP 2005 which run until December 2005.
- ?? Overall there was an apparent lack of preparedness for closure and the tasks it entails so the issue is to be raised at the next Management Committee meeting in July. PPO staff requested clear instructions and deadlines for each stage of closure.

A qualitative review of equipment was undertaken during and the key findings were:

- ?? **PPOs:** All equipment surveyed was correctly recorded and labelled. A significant proportion of furniture was inherited from SMAP. Most PPOs have a bodega (store room) containing at least some unutilised equipment. No problems were reported occurring during or arising from the recent DA equipment audit.
- ?? **Equipment Lists:** Listing of equipment was generally thorough and often included items with a unit cost in the pesos 500 – 600 range, far below the limit for non-expendable items.
- ?? **LGUs:** All equipment (motorcycles, computer, printers, etc.) on loan through the PPO to the LGU - generally but not limited to Municipal Offices - was in working order, regularly used and correctly labelled. Maintenance levels were good and funded from the LGU budget.
- ?? **MOAs:** Although it was reported that there would be no problem recovering equipment currently on loan to LGUs the provision of "logistical support" is specified in each TAMA MOA⁵⁰ and it has been generally interpreted that the provisions of the FA⁵¹ provide for this to be transferred to the LGU at the end of the Programme.
- ?? **Equipment Distribution:** PPO staff generally seemed to be unaware of the procedures for distribution of equipment and there is a possibility that equipment will be transferred before ratification of the lists submitted to the donors.

⁵⁰ Annex A, Implementing Guidelines, Policies, point a (example from TAMA MOA with the Municipal Government of Laak)

⁵¹ See cited sections under Equipment

Appendix VII – Operation of the Closure Plan Worksheet

The Closure Plan is an Excel worksheet based on the original 'Finance and Administration Plan for Closure'. This has been updated to remove activities completed, include new activities required for closure and amend the dates for some activities. The individual sheets are:

- ?? 'Key dates' sets the parameters for all calculations – today's date, the closure date and the closure date with the extension. All calculations are automatic
- ?? 'Original' is the original closure plan as included in AWP 2005
- ?? 'Activities' is the latest view of closure activities and deadlines
- ?? 'Analysis' is a pivot table giving a summary of the number of activities by deadline for review purposes. To see the relevant activities double click on the relevant number under "Total" next to the desired date.

In 'Activities' each activity identified for closure is detailed, giving "Location" (PMO or PPO), "Section" (finance, personnel, administration, etc) and "Category" (finance, audit, documents, etc.) plus a completion "Deadline" for closure on 17 January 2006. The "Category" relates to the relevant section of this report.

It also projects equivalent deadlines for closure on 31 July 2007. These should only be taken as indicative as they are produced by calculating the number of days before current closure a specific deadline is planned ("Days") and projecting it to the equivalent number of days before closure given an extension ("Deadline2").

The worksheet can be filtered to produce sub-plans by location, section or category or sorted to produce, for instance, a chronological list. Before filtering or sorting it is advisable to take a copy of the sheet or create a back up of the file.

- ?? To filter the worksheet for a sub-plan – Select Data/Filter/AutoFilter from the top menu whilst the cursor is somewhere in the table of data. This will result in grey boxes with downward pointing arrow in the top right hand corners of the column title. To filter for, say, a specific "Category" click the arrow next to the title and select the desired activity from the drop-down list. To remove the filter repeat the very first three steps used to select it above
- ?? To change the deadline for an activity – simply type new date over the old date under "Deadline"
- ?? To delete an activity – select the row and delete it. This will only affect the summary table in 'Analysis'

- ?? To update the table in 'Analysis' - if activities have been added, deleted and/or deadlines changed it is necessary to place the cursor somewhere in the pivot table and select Data/Refresh Data from the top menu to update the table
- ?? To insert an activity – insert a row anywhere before the final activity in 'Activities' and add the details for the new activity. The calculation for "Days" and "Deadline2" can be copied from the row above.