

## EXECUTIVE SUMMARY

### A. *Introduction*

The Supreme Audit Institution in the Philippines, the Commission on Audit (COA), was originally established as the General Auditing Office in 1935. It was re-established and renamed as such under the 1973 Constitution and its mandate re-stated in Sections 2(1) and 2(2) of Article IX-D of the 1987 Philippine Constitution, to wit:

**SECTION 2(1).** *The Commission on Audit shall have the power, authority, and duty to examine, audit, and settle all accounts pertaining to the revenue and receipts of, and expenditures or uses of funds and property, owned or held in trust by, or pertaining to, the Government, or any of its subdivisions, agencies, or instrumentalities, including government-owned or controlled corporations with original charters, and on a post-audit basis: (a) constitutional bodies, commissions and offices that have been granted fiscal autonomy under this Constitution; (b) autonomous state colleges and universities; (c) other government-owned or controlled corporations and their subsidiaries; and (d) such non-governmental entities receiving subsidy or equity, directly or indirectly, from or through the Government, which are required by law or the granting institution to submit to such audit as a condition of subsidy or equity. However, where the internal control system of the audited agencies is inadequate, the Commission may adopt such measures, including temporary or special pre-audit, as are necessary and appropriate to correct the deficiencies. It shall keep the general accounts of the Government and, for such period as may be provided by law, preserve the vouchers and other supporting papers pertaining thereto.*

**SECTION 2(2).** *The Commission shall have exclusive authority, subject to the limitations in this Article, to define the scope of its audit and examination, establish the techniques and methods required therefor, and promulgate accounting and auditing rules and regulations, including those for the prevention and disallowance of irregular, unnecessary, excessive, extravagant, or unconscionable expenditures, or uses of government funds and properties.*

The Commission Proper is composed of the Honorable Chairman Guillermo N. Carague and Commissioners Emmanuel M. Dalman and Reynaldo A. Villar. The Commission, having a total approved manpower complement of fifteen thousand two hundred nineteen (15,219), has nine (9) operating and support offices each headed by an Assistant Commissioner, fifteen (15) regional offices, and four (4) offices directly under the Office of the Chairman.

**B. Financial Highlights**

Presented below are comparative analysis relative to the financial condition, and sources and application of funds for the last two years:

	<b>CY 2005</b>	<b>CY 2004</b>	<b>Increase/ (Decrease)</b>
<b>A. Financial Condition</b>	<b>(In thousand pesos)</b>		
Assets	849,929	925,337	(75,408)
Liabilities	52,438	80,446	28,008
Government Equity	797,491	844,891	(47,400)
<b>B. Sources and Application of Funds</b>			
Allotment	4,013,027	4,010,852	2,175
Expenditures	3,988,386	3,963,258	25,128
<b>Balance</b>	<b>24,641</b>	<b>47,594</b>	<b>(22,953)</b>

**C. Scope of Audit**

The audit was focused on the Commission's accounts and financial operations for CY 2005. It was made to determine the reliability and accuracy of financial reports and adequacy of the books of accounts, in accordance with existing accounting and auditing rules and regulations. The audit was made through the conduct of selective tests on the accounts in the financial statements and accordingly included other audit techniques and procedures deemed necessary under the circumstances.

**D. Auditor's Report**

A qualified opinion was rendered on the fairness of the financial statements of the Commission on Audit as of December 31, 2005, due to the deficiencies discussed in the report proper and as mentioned in the succeeding paragraph.

**E. Observations and Recommendations**

The audit revealed some deficiencies which, together with the corresponding recommendations, are summarized as follows:

1. The accuracy, existence and proper valuation of PPE totaling P83,437,779.94 in the Central Office and Regions I, V, VIII, X and XIII was not established as these pertained to the unreconciled difference between the general and subsidiary ledgers, the

unaccounted difference per books and per count, and deficiencies in the keeping of records, thus, affecting the fair presentation of the PPE accounts in the financial statements.

We recommend that Management require the concerned accounting personnel in the Central Office, Region V and VIII to effectively strategize the reconciliation efforts so that the remaining unreconciled balances for the above-mentioned PPE accounts totaling P89,852,338.42 are eliminated/corrected within reasonable time.

We further recommend that Management direct the Accountants in Regions I, X and XIII to conduct a detailed review and analysis of the recorded PPE accounts; and for the Accountants and Supply Officers to conduct reconciliation of their records in order to identify the composition of the net variance of P6,414,558.48.

2. The Office Supplies Inventory and Construction Materials Inventory totaling P9,459,429.48 in the Central Office and Regions IX and XIII included supplies of P2,629,564.93 (27.80%) that were already issued and unreconciled amount of P2,040,791.77 (21.57%), hence, affecting the accuracy and existence of the inventories.

We recommend that Management –

- Require the Head of the Procurement Division and the Property and Supply Units to set cut-off time/period within which to issue supplies to end-users in order to give sufficient time for the Supply Officers to post daily issuances, which in effect, enable the preparation, submission and recording of RSMI on a timely manner; and
- Require the Accounting personnel concerned to continue the tracing of supporting documents to eliminate the unreconciled difference totaling P2,040,791.77 within the soonest possible time.

We also recommend that Management request assistance from the ICTC for the development of an inventory system or enhancement of an existing system, whichever is more feasible, to facilitate the preparation and submission of RSMI on a daily basis. Daily recording of RSMI will make it possible the generation of real time financial information for all inventory accounts.

We further recommend that Management conduct a thorough evaluation of the work assignments in the Property and Supply

Unit and the Accounting Unit in Region XIII to determine the need to: (a) reassign tasks to others with less workload; and (2) form a task force to reconcile the actual balance of inventories on hand against the balance per books.

3. The account Due From Officers and Employees is not fairly presented in the financial statements as it included overdue accounts of P5,182,679.75 (55.93%) which should have been reported as expense and prior year's adjustments had settlement been made and resolution to write-off been granted as of the end of the year.

We recommend that Management –

- Advise the Director of Finance in the Central Office to make follow-up from the Legal and Adjudication Office for the final resolution of the requested accounts to be written-off amounting to P435,840.46;
- Require the Chief and Regional Accountants to send demand letters to those whose accounts are over 31 days to over 3 years with the information that no cash advance shall be granted in their favor for whatever specific legal purpose/s unless and until the previous cash advances given them are first settled or a proper accounting thereof is made;
- Cause for the withholding of salary as prescribed in Sec. 5.1.3 of COA Circular 97-002, where necessary; initiate administrative and other legal remedies to recover the unsettled accounts of those who have retired, resigned, and against the estate of those who have already passed away; or to request for the write-off of accounts if possibility of recovery is nil; and
- Require the Accountant in Region VI to review prior years' schedules with negative balances to determine validity of the recorded accounts.

We likewise recommend that Management remind the officials/employees signing clearances to ensure that all money and property accountabilities of applicants are fully settled/accounted before the same are granted; otherwise, they shall be held accountable if found negligent on their actions.

We also reiterate our previous year's recommendation that Management re-evaluate existing systems or procedures to ensure

that all past due accounts are immediately liquidated/settled, in order to protect the interest of the government.

The foregoing, including other observations and recommendations contained in the report, were discussed with the concerned officials of the agency. Management's views and reactions were considered in the report, where appropriate.

***F. Implementation of Prior Year's Recommendations***

Out of the fifty five (55) audit recommendations embodied in the 2004 Consolidated Annual Audit Report, fourteen (14) were fully implemented, thirty-two (32) were partially implemented and nine (9) were not implemented.