

EXECUTIVE SUMMARY

INTRODUCTION

The Philippine Council for Industry and Energy Research and Development (PCIERD) was created as part of the reorganized National Science and Technology Authority (NSTA) on 17 March 1982 through Executive Order (E.O.) No. 784. On January 30, 1987, former President Corazon C. Aquino issued Executive Order No. 128 reorganizing the NSTA into the Department of Science and Technology (DOST) to make it more effective and responsive to the scientific and technological S & T needs of the country

The PCIERD is mandated to perform the following:

1. Formulate strategies, policies, plans, programs and projects for science and technology (S & T) development ;
2. Program and allocate government and external funds for research and development ;
3. Monitor and promote S & T research for applications in the industry, energy, utilities and infrastructure sectors.

The PCIERD supports the DOST S&T priority thrusts through the implementation of R&D activities in priority sectors identified as having significant contributory potential to economic development of engineering manpower and the conduct of environment-related R&D projects. In all its R&D activities, PCIERD encourages the strong participation of the private sector.

The responsibility for policy and broad management decisions of the PCIERD is vested on the Governing Council (GC) with the Council Executive Staff as its implementing and support structure. The Secretary of DOST sits as Chairman of the GC. The members include four representatives from the private sector who represent the industry and energy sectors and six from the government sector, namely the undersecretaries of Trade and Industry, Public Works and Highways, Transportation and Communication, secretary of the Department of Energy, representative of the Commission on Higher Education, and the PCIERD Executive Director.

PCIERD is supported by a Technical Advisory Committee, which makes a thorough review of research and development proposals prior to submission to the GC, and the Technical Planning and Review Committee which formulate and review sectoral action plans for the Council.

The Council Executive Staff is headed by a Executive Director (ED). Engr. Raul C. Sabularse took over as Officer-In-Charge, Office of the Executive Director upon

the appointment of former ED Dr. Graciano P. Yumul, Jr. as DOST Undersecretary for Research and Development on March 3, 2006.

Under his supervision are the four divisions which undertake the agency's policy thrusts and programs, namely: the Industrial Technology Development Division (ITDD); the Energy and Utilities Systems Technology Development Division (EUSTDD); the Industry Relations and Information Division (IRAD); and the Finance and Administrative Division (FAD). A Division Chief heads each of these divisions.

FINANCIAL HIGHLIGHTS

For CY 2005, PCIERD had a total allotment amounting to P35,456,700. It incurred total expenditures of P 35,456,700, thus, leaving an unexpended zero balance at the end of the year. In 2004, its allotment totaled P33,585,285 with expenditure amounting to P33,585,285 resulting to zero unexpended balance.

PCIERD in CY 2005 was also provided with financial assistance totaling P55,918,021.00 by the Department of Science and Technology (DOST), its attached agencies and other government institutions for the implementation of the Council's program, specific projects and undertakings. For CY 2004 total financial assistance amounted to P16,647,976.80.

As of December 31, 2005 the agency's total assets, liabilities and government equity were P78,794,026.32, P57,867,989.09 and P20,926,037.23, respectively, compared to 2004 figures of P21,260,088.66, P356,778.79 and P20,903,309.87 with increases of P57,533,937.66 or 73% in assets, P57,511,210.33 or 99% in liabilities and P22,727.36 or 0.10% in government equity. An analysis and the reason for the significant increases in assets and liabilities are shown hereunder.

Assets

Account Affected	Particular / Reason	Amount
1. Cash in Bank – Foreign Currency, Savings Account	The account maintained at Development Bank of the Philippines arising from the amount granted to PCIERD in Euro on October 18, 2005 by the European Union through the Asean Center for Energy (ACE) and the East Asean Energy Facility (EAEF) for the project "Study on the Energy Charter Treaty (ECT) for Possible Adoption by the Asean" expected to be completed in August 2006. Balance as of December 31, 2005 (Euro 114,068,55)	7,165,866.16
2. Due from National Treasury	The increase on this account consist of the following: <ul style="list-style-type: none"> • CY 2005 refund of cash advances, unexpended project fund/financial assistance, PLDT dividend, etc. total amounting to P20,949,898.81; and • Unutilized NCA amounting to P28,020,292.79 reverted back to treasury for fund MDS-Regular, MDS-Accounts Payable and MDS-Trust . 	48,970,191.60

3. Motor Vehicles	The increase is due to the acquisition of one (1) unit 2004 161 Hi-Lander Crosswind Sporty (XTRM) MT worth P849,000.00 and one (1) unit Asian Utility Vehicle Isuzu Crosswind XUV MT amounting to P956,800.00	1,805,800.00
4. Due from NGAs	Net amount after taking up the transactions for 2005, thus <ul style="list-style-type: none"> • Total releases/additions/adjustments ... P4,691,342.96 • Less total liquidations/deductions/ Adjustments..... <u>4,340,985.45</u> Net Amount..... <u>P 350,357.51</u>	350,357.51
5. Various Current Assets	Increase in Petty Cash Fund; Inventories and Property, Plant and Equipment (PPE) ...P253,883.07 Less Decrease in Due from Officers & Employees; and Prepayments..... <u>(66,575.76)</u> Net Increase..... <u>P 187,307.31</u>	187,307.31
6. Accumulated Depreciation – PPE	Increase in Accumulated Depreciation - PPE	(945,584.92)
Significant Increase in Assets Accounted for		57,533,937.66

Liabilities

Account Affected	Particular / Reason	Amount
1. Other Payable	Other Payable is credited for the account maintained at Development Bank of the Philippines arising from the amount granted to PCIERD in Euro on October 18, 2005 by the European Union through the Asean Center for Energy (ACE) and the East Asean Energy Facility (EAEF) for the project “Study on the Energy Charter Treaty (ECT) for Possible Adoption by the Asean”. This account is debited for releases / expenses disbursed for CY 2005. Balance as of December 31, 2005 follows.	7,809,012.25
2. Other Payable	Net increase of the accounts credited to Other Payable, other than those maintained in DBP and mandatory payroll deductions, thus, like deductions for employees’ association dues; dues for employees’ credit/loan association; deductions/payment for employees’ health care, etc.	684,250.13
3. Due to Other NGAs	Net amount after taking up the transactions for 2005, thus <ul style="list-style-type: none"> • Total receipts/additions/adjustments.....P78,258,058.50 • Total disbursements/deductions/ Adjustments..... <u>29,441,031.76</u> Net Amount..... <u>P48,817,026.74</u>	48,817,026.74
4. Various Current Liabilities	Increase in accounts Due to Officers & Employees; Due to BIR, GSIS and PhilHealth..... P 391,970.44 Less Decrease in accounts Accounts Payable; and Due to Pag-ibig..... <u>(191,049.26)</u> Net Increase..... <u>P200,921.18</u>	200,921.18
Significant Increase in Liabilities Accounted for		57,511,210.30

OPERATIONAL HIGHLIGHTS

Several activities, programs and projects were undertaken by the agency for CY 2005. Highlights of its operation for the CY 2005 in comparison with CY 2004 are presented in Annex 1..

SCOPE OF AUDIT

The audit covered the financial transactions of the PCIERD for CY 2005 with the objective of ascertaining the fairness and reliability of the Council's financial position and results of operations. We also conducted compliance audit to check the regularity, validity and propriety of transactions.

AUDITOR'S REPORT

The Auditor rendered a qualified opinion on the fairness of presentation of the financial statements because failure by the Accounting and Property Sections to reconcile their records precluded responsible officials to immediately clear or correct the discrepancies noted amounting to P149,766 as well as the misclassification of equipment, the non-updated property ledger cards and stock cards and such other deficiencies rendered the validity and correctness of the balance of the Property, Plant and Equipment (PPE) accounts amounting to P23,080,676.19 as of December 31, 2005 doubtful.

Management officials should require the reconciliation of the property and accounting records.

SUMMARY OF OBSERVATIONS AND RECOMMENDATIONS

The following are the other significant observations and recommendations:

1. Laxity of Management to enforce compliance with PCIERD Guidebook on the Implementation of PCIERD S & T Projects and the Revised M&E-IRR resulted in completed but financially open and outstanding projects totaling P1,514,053.64 and the overstatement of the account Due From NGAs. Management officials should strictly enforce compliance with PCIERD Guidebook on the Implementation of PCIERD S & T Projects and the Revised M&E-IRR and the DOST AO 006 Series of 2004 re: Guidelines for the Grants-In-Aid funds.
2. Non- inclusion/recording of the equipment purchased out of PCIERD GIA fund in the physical inventory report as well as in the books of accounts resulted in the understatement of Property, Plant and Equipment(PPE) account amounting to P1,774,514.97 as of December 31, 2005. Management is required to comply with the Memorandum of the Secretary of DOST dated November 27, 2003 and the 2nd Indorsement dated May 17, 2004 of COA GAFMIS and make adjustments corresponding to the affected accounts.

The auditor has discussed the above observations and recommendations with the Auditee and the comments were incorporated in the report.

**STATUS OF IMPLEMENTATION BY THE COUNCIL OF PRIOR YEAR'S
AUDIT RECOMMENDATIONS**

The two audit recommendations contained in the 2004 Annual Audit Report, were both partially implemented.