

## EXECUTIVE SUMMARY

### A. Introduction

The Department of Information and Communications Technology (DICT) was created by virtue of the Republic Act No. 10844, otherwise known as the Department of Information and Communications Technology Act of 2015, which was signed into law on May 23, 2016. DICT is the lead implementing agency of the government in all of its ICT related efforts such as industry development, policy formulation, ICT infrastructure development, research and development, ICT capacity building for the public sector and administration of the E-Governance Fund.

The powers and functions of the Department are Policy and Planning, Improved Public Access, Resource Sharing, Capacity Building, Consumer Protection and Industry Development, Cybersecurity Policy and Program Coordination and Countryside Development.

The following agencies are attached to the DICT for policy and program coordination and shall continue to operate and function in accordance with charters, laws or orders creating them, insofar as they are not inconsistent with RA No. 10844:

1. National Telecommunications Commission,
2. National Privacy Commission, and
3. Cybercrime Investigation and Coordinating Center.

On 01 July 2019, the President of the Republic of the Philippines appointed *ad interim* Secretary Gregorio B. Honasan as the Secretary of the DICT and has since then been performing the functions, replacing its former Acting Secretary Eliseo M. Rio.

As of December 31, 2019, the DICT had a total manpower of 1,731 consisting of 747 regular plantilla position employees, 35 presidential appointee employees, 53 co-terminus, 853 contract of service and 43 consultants.

### B. Financial Highlights

The financial condition results of operations and sources and utilization of funds of the DICT for CY 2019 with corresponding figures for CY 2018 as follows:

Group of Accounts	2019	2018 (Restated)	Increase/(Decrease)
<i>(Amounts in Pesos)</i>			
<b>Financial Position</b>			
Assets	10,278,728,339.89	9,901,231,868.27	377,496,471.62
Liabilities	1,912,578,116.69	1,915,919,102.09	(3,340,985.40)
Net Assets/Equity	8,366,150,223.20	7,985,312,766.18	380,837,457.02
<b>Financial Performance</b>			

Group of Accounts	2019	2018 (Restated)	Increase/(Decrease)
<i>(Amounts in Pesos)</i>			
Revenue	19,657,149.56	61,654,527.15	(41,997,377.59)
Current Operating Expenses	2,363,403,229.68	1,832,886,857.20	530,516,372.48
Net Financial Assistance/Subsidy	2,817,689,896.80	4,100,770,719.60	(1,283,080,822.80)
Other Non-Operating Income	6,837,390.39	3,007,062.23	3,830,328.16
<b>Surplus/(Deficit) for the period</b>	<b>480,781,207.07</b>	<b>2,332,545,451.78</b>	<b>(1,851,764,244.71)</b>

#### Sources and Utilization of Funds:

Particulars	2019	2018	Increase/(Decrease)
<i>(Amounts in Pesos)</i>			
Regular Appropriations	6,327,212,469.00	4,756,105,229.00	1,571,107,240.00
Continuing Appropriations	843,012,604.00	-	843,012,604.00
Allotments	7,111,568,235.00	4,756,105,229.00	2,355,463,006.00
Obligations Incurred	3,539,692,538.70	3,811,790,133.33	(272,097,594.63)
Disbursements	1,478,473,216.00	2,500,431,681.47	(1,021,958,465.47)
Unobligated Allotment	3,571,875,696.30	944,315,095.67	2,627,560,600.63

#### C. Scope of Audit

The audit covered on the accounts and operations of the DICT for CY 2019. The audit was conducted to: (a) ascertain the level of assurance that may be placed on management's assertions on the financial statements; (b) determine the propriety of transactions as well as the extent of compliance with pertinent laws, rules and regulations; (c) recommend agency's improvement opportunities; and (d) determine the extent of implementations of prior year's audit recommendations. Moreover, the audit was conducted in accordance with the International Standards of Supreme Audit Institutions (ISSAIs).

#### D. Independent Auditor's Report

An adverse opinion was rendered on the fairness of presentation of the Financial Statements of the DICT as of 31 December 2019 for the misstatements in Asset accounts amounting to ₱520,536,558.66 which represents 5.06 percent of the total assets, while the Liabilities and Net Assets/Equity accounts were misstated by ₱108,308,724.27 or 5.66 percent and ₱429,340,803.25 or 5.13 percent, respectively. Moreover, unaccounted balances were found in Asset accounts totaling ₱5,160,558,384.55 representing 50.21 percent of the total assets and in liabilities accounts of ₱453,951,759.31 or 23.74 percent of total liabilities. Further, the lack of updated GLs and SLs as at year-end prevented the preparation of the detailed Financial Statements, which cast doubts on the veracity of the reported account balances.

#### E. Summary of Significant Audit Observations and Recommendations

The significant audit observations and recommendations, discussed in detail in Part II of this report, are as follows:

1. Cash in bank accounts which had remained idle and unutilized for several years totaling ₱1,343,828.76 and excess balances of training fees collections which had accumulated over the years that amounted to ₱18,919,251.37 remained unremitted to Bureau of Treasury (BTr) despite previous year's recommendation.

**We recommended that Management: (a) cause the immediate remittance of the balances of Land Bank of the Philippines Account Nos. 0232-1055-93, 0252-1034-57, 0232-1141-00 and 0702-1053-66 totaling ₱20,263,080.13 to the Bureau of the Treasury (BTr) in compliance with the applicable laws, rules and regulations; and (b) direct the Accountant to prepare and submit to the Department of Budget and Management (DBM) a report on the fees collected and expenses relative to all the trainings conducted by the DICT and, henceforth, regularly submit such report upon the conclusion of every seminar or training and promptly remit excess balances of training fees to the BTr.**

2. The receipt of program funds totaling ₱398,000,000.00 by the DICT based on invalid obligation of the source agency and the utilization of ₱10,001,503.00 for operating expenses sans approval required under Republic Act No. 10651 or FY 2015 General Appropriations Act and DBM National Budget Circular No. 559 dated June 26, 2015 resulted in irregular disbursement of public funds. Moreover, the ₱489,566.00 expended for kick-off meetings is deemed unnecessary while the use of the fund to pay performance security refunds for other projects in the total amount of ₱403,689.35 is deemed irregular.

**We recommended that Management: (a) direct the Finance Service to stop payment of expenditures related to the project and immediately return the remaining unused funds to the source agency Department of Science and Technology (DOST)-Philippine Atmospheric, Geophysical and Astronomical Services Administration (PAGASA); (b) require the Project Manager and Finance Service Director to submit a written explanation/justification on the legal basis in the use of program funds for Maintenance and Other Operating Expenses (MOOE), the necessity of expenses for the kick-off meetings, and the use of program's trust fund bank account for the refund of performance security to suppliers/contractors of other DICT projects not related to the PAGASA program/project; and (c) direct the Project Manager and/or concerned official/s to submit the lacking documents.**

3. Only ₱2,971,488,439.00 or 47.77 percent out of the allotments totaling ₱6,219,951,162.00 received by the DICT in CY 2019 was obligated during the year while only ₱1,213,618,378.00 or 19.51 percent was disbursed indicating very low fund utilization rate. Similarly, its continuing allotments totaling ₱843,012,604.00 were not fully utilized during the year as only ₱520,319,390.00 or 49.77 percent were obligated therefrom while ₱223,176,595.00 or 26.47 percent were disbursed, resulting in the inevitable reversion of the unobligated continuing allotment in the amount of ₱322,693,214.00. The low rates of utilization of current year and continuing allotments

indicates the DICT's inability to maximize the utilization of the budget provided to it which could directly affect its delivery of services to the public.

**We recommended that Management:** (a) submit explanation stating the causes/reasons for the low utilization of the CY 2019 allotments and the DICT's strategies/courses of action to utilize/disburse the remaining unobligated allotments by end of CY 2020, the low utilization of its continuing allotments, and the very low disbursement rate of obligated funds for the *Free Internet Wi-Fi Connectivity* program; (b) provide the Audit Team with certified copies of Obligation Request and Status (ORS) pertaining to the total obligated amount for the *Free Internet Wi-Fi Connectivity* program, for its verification; (c) require the Accountant to check the accounting entries made to record the disbursements for the *ICT Systems and Infostructure Management and Services Project* and effect the necessary correcting entries to be able to report the correct amount of disbursements for the said project; (d) institute measures to ensure timely implementation of projects/activities and utilization of funds within the year they were budgeted; and (e) exercise judicious budget planning to rationalize the provision of funds/allotments for the DICT's program/projects/activities for each budget year to the amount which it can efficiently utilize/implement.

4. The Free Wi-Fi Program of the DICT had activated 3,251 or a mere 15 percent of the target 22,034 public Wi-Fi hotspots as of December 2019 despite the provision of a total amount of ₱6,702,835,661.39 thereby resulting in the non-activation of 18,783 public Wi-Fi hotspots, which substantially delayed the full realization of the intended benefit of providing free Wi-Fi access to the public.

**We recommended that Management:** (a) submit a plan of action of the DICT to enable the provision of internet to those locations/places affected by the partially suspended and terminated contracts as well as the delayed procurement of the Philippine International Trading Corporation (PITC) and United Nations Development Programme (UNDP) in order to cope with the internet needs of the country, especially in consideration of the "new normal"; (b) submit a proposed remedy and the plan of action and/or actions already being undertaken by the DICT to: (i) address the causes of delays in the delivery and installation of projects by the DICT suppliers, challenges in securing Local Government Unit (LGU) permits and non-mobilization of suppliers, among others; (ii) address the causes of delays in procurement and contract implementation of the PITC, particularly those which are the responsibilities of the DICT such as revision or updating of Terms of Reference (TOR), and those encountered during the implementation stage of the contract, such as suspension due to lack of IP Transport Municipal (IPTM), challenges in securing LGU permits or non-mobilization of supplier; and (iii) enforce timely implementation and delivery from the PITC and UNDP; (c) consider crafting a joint circular, memorandum or any issuance with the Department of the Interior and Local Government (DILG) reinforcing the role of the Local Government Units (LGUs) under Section 15 of RA 10929 for the purpose of expediting the approval of permits by the LGUs in relation with the

Free Wi-Fi projects; (d) coordinate with the PITC to consider inclusion in the Memorandum of Agreement (MOA) or supplemental MOA a provision concerning the period of procurement or delivery of goods or services to the DICT; (e) submit information on the reasons/causes of delayed issuance of Notice to Proceed (NTP) by the PITC and the courses of actions undertaken by the DICT thereon; (f) direct the Project Board of the DICT-UNDP partnership and/or the Project Management Office (PMO) to submit additional explanations on the causes of the delays in the procurement timelines and its failure to efficiently monitor procurement activities and project implementation of the UNDP that led to the failure to meet the target of 4,000 sites or public Wi-Fi hotspots as of 31 December 2019; (g) cause the inclusion in the PD of the specific activities to be undertaken by the Project Board in monitoring the progress of project implementation and the measures to be taken if milestones/timeframes are not met as well as the required documentations to evidence the actual conduct of such activities and measures; (h) Direct the Project Board to closely monitor the implementation of the project and take necessary measures to prevent further delays in project completion; and (i) submit to the Audit Team the suspension order issued by the DICT to UNDP on 01 August 2019 and the corresponding notice or letter to proceed again with the project activities.

#### F. Status of Suspension, Disallowance and Charges

Shown below is the status of audit suspensions, disallowances and charges issued as of 31 December 2019:

Particulars	Beginning Balance (as of 31 December 2018)	This Period 01 January to 31 December 2019		Ending Balance (As of 31 December 2019)
		NS/ND/NC	NSSDC	
		(Amounts in PhP)		
NS	13,481,712.53	530,729,369.10	3,203,230.88	541,007,850.75
ND	257,558,018.32	331,922.84	59,840.91	257,830,100.25
NC	-	-	-	-
<b>Total</b>	<b>271,039,730.85</b>	<b>531,061,291.94</b>	<b>3,263,071.79</b>	<b>798,837,951.00</b>

#### G. Status of Implementation of Prior Year's Audit Recommendations

Of the 149 audit observations and recommendations in the CY 2018 Annual Audit Report, 81 were implemented while the 68 remained not implemented, the details of which are shown in Part III of the Report. The recommendations which were considered partially implemented during the year, were reiterated in Part II of the Report.

We enjoin Management to ensure full implementation of all audit recommendations to improve the financial and operational efficiency of the DICT as well as reliability of financial statements of the agency.