

EXECUTIVE SUMMARY

INTRODUCTION

The National Irrigation Administration (NIA) was formally created as a government corporation under Republic Act (RA) No. 3601 on June 22, 1963 with an authorized capital of P300 million. In calendar year (CY) 1974, under Presidential Decree (PD) No. 552, its authorized capital was increased to P2 billion, and later, under PD No. 1702 dated July 18, 1980, it was further increased to P10 billion. The capital was to be subscribed and paid for entirely by the Philippine Government. Section 2, paragraph (b) of PD No. 552 provides NIA's sources of operating funds. The increase in Capital Stock is already included in the Government Equity.

The Corporation was originally attached to both the Department of Public Works and Highways (DPWH) and the Department of Agriculture (DA) and was later transferred to the Office of the President. Under Administrative Order (AO) No. 17 dated October 14, 1992, NIA was again attached to DA. On May 5, 2014, per Executive Order (EO) No. 165, s. 2014, the supervision over NIA together with the National Food Authority (NFA), Philippine Coconut Authority (PCA), and Fertilizer and Pesticide Authority has been transferred from DA to the Office of the Presidential Assistant for Food Security and Agricultural Modernization (OPAFSAM), in order to enhance and coordinate the efforts of these agencies in fulfilling their respective mandates. In view of the change in Administration in CY 2016, the OPAFSAM was abolished. Under EO No. 1, s. 2016 dated June 30, 2016, the supervision of NFA and PCA was placed under the Cabinet Secretary while the NIA was not included among the agencies listed under the supervision of the Cabinet Secretary. However, in a Memorandum dated November 3, 2016 of the Executive Secretary, the Cabinet Secretary was designated as the Acting Chairperson of the NIA Board of Directors.

The principal function of NIA was initially to develop, maintain, operate, improve and rehabilitate irrigation systems including communal and pump irrigation projects. However, with the reorganization of the government that occurred after NIA's creation, the Corporation also assumed the irrigation activities of other government agencies, including those of the Irrigation Service Unit of the then Presidential Assistance on Community Development. Thereafter, with the passage of RA No. 6978, otherwise known as "An Act to Promote Rural Development by Providing for an Accelerated Program within a Ten-Year Period of the Construction of Irrigation Projects," the activities of NIA significantly increased to cover the remaining 1.5 million unirrigated but irrigable hectares of land nationwide.

NIA has the following powers and functions pursuant to the provisions of RA No. 3601 and PD Nos. 552 and 1702:

- a. To investigate, study and develop all available water resources in the country, primarily for irrigation purposes; to plan, design, construct and/or improve all types of irrigation projects and appurtenant structures; to operate, maintain and administer all national irrigation systems; to supervise the operation, maintenance and repair;

b. To administer temporarily all communal and pump irrigation systems constructed, improved and/or repaired wholly or partially with government funds; to delegate the partial or full management of national irrigation systems to duly organized cooperatives or associations; and

c. To charge and collect from the beneficiaries of all irrigation systems constructed by or under administration such fees or administrative charges as may be necessary to cover the cost of operation, maintenance and insurances; and to cover the cost of construction within a reasonable period of time to the extent consistent with government policy; to cover funds or portions thereof expended for the construction of communal irrigation systems, which shall accrue to a special fund for irrigation development.

NIA is headed by an Administrator who is assisted by a Senior Deputy Administrator and supported by Deputy Administrator for Administrative and Finance and Deputy Administrator for Engineering and Operations. Besides the Central Office (CO), it has 17 Regional Offices (ROs), including the Upper Pampanga River Integrated Irrigation System (UPRIIS) and the Magat River Integrated Irrigation System (MARIIS), 47 Irrigation Management Offices (IMOs), and 10 Project Management Offices (PMOs). The Corporation manages 285 National Irrigation Systems (NIS) nationwide with a total service area of 836,055 hectares with firmed-up service area of 754,666 hectares. The total irrigated area was 560,052 hectares during the dry season (November to April) and 576,003 hectares during the wet season (May to October) and 89,847 hectares for the third crop (Quick Turn-Around program and Ratooning).

As of December 31, 2016, NIA had personnel complement of 6,700 composed of 3,799 monthly paid; 397 daily/contract of service/job order; and 2,504 project-based paid personnel.

The sources of funds of NIA are the General Fund, the Corporate Fund and the Special Fund.

General Fund is the collective name for funds 101, 102, 161 and 171. As NIA is the implementing arm of the Department of Agriculture for Irrigation Development Program, these funds, which are provided yearly by the National Government, foreign lending institutions and foreign organizations extending grants, are used to construct, repair/rehabilitate irrigation facilities nationwide. The following are the descriptions of the composition of the funds:

a. Fund 101 - This is provided by the National Government which is included in the national budget under Budgetary Support to Government Corporations – Other Executive Offices-NIA purposely for repair, rehabilitation and restoration of existing irrigation systems. Releases of the fund to NIA are made through the Department of Budget and Management (DBM).

b. Fund 102 - This is in the form of loans by the National Government with foreign banks used to finance the construction of irrigation facilities. The Bureau of the Treasury (BTr) releases the funds also through the DBM.

c. Fund 161 - This is a trust fund from the National Government specifically intended for the Mindanao Rural Development Project.

d. Fund 171 - This represents grants from the World Bank which the National Government negotiated for Irrigation Development Project.

Corporate Fund consists mainly of collections of irrigation fees, equipment rentals, pump amortizations, interest and miscellaneous income such as the five per cent management fee, income derived from sale of electrical energy, service fee for the operation and maintenance of non-power components of Hydroelectric Power Plants, Communal Irrigation Project amortization on principal and equity contribution and proceeds from sale of property, plant and equipment.

Special Fund is a consolidation of funds received from the DBM for locally-funded projects and the Department of Agrarian Reform (DAR) for foreign-assisted projects under the Comprehensive Agrarian reform Program (CARP)-Irrigation Component.

STATUS OF IMPLEMENTATION OF NIA PROJECTS

NIA reported the following physical accomplishments of Irrigation Projects in CY 2016 funded under the General and Special Funds, expressed in terms of hectares irrigated:

I. CY 2016 Programs

A. Operations

Service Area	Target (In hectares)		Actual (In hectares)		Percentage of Accomplishment
	CY 2016	Carry-over Program	CY 2016	Carry-over Program	
Generation-New Area	7,633	373	1,697	559	28.18
Restoration	11,754	-	4,590	-	39.05
	19,387	373	6,287	559	34.65

B. Projects

B.1 Foreign-Assisted Projects

Service Area	Target (In hectares)		Actual (In hectares)		Percentage of Accomplishment
	CY 2016	Carry-over Program	CY 2016	Carry-over Program	
Generation-New Area	-	2,029	-	1,790	88.22
Restoration	2,769	9,861	-	1,345	10.65
	2,769	11,890	-	3,135	21.39

B.2 Locally-Funded Projects

Service Area	Target (In hectares)		Actual (in hectares)		Percentage of Accomplishment
	CY 2016	Carry-over Program	CY 2016	Carry-over Program	
Generation-New Area	12,027	12,887	3,406	5,996	37.74
Restoration	180	-	77	-	42.78
	12,207	12,887	3,483	5,996	37.77

II. Continuing Appropriations–Locally Funded

Service Area	Target	Actual	Percentage of Accomplishment	Actual to date (In hectares)
	In hectares			
Generation-New Area	14,481	5,546	38.30	114,233
Restored Area	15,136	9,318	61.56	91,324
Rehabilitated Area	4,254	559	13.14	217,718
	33,871	15,423	45.53	423,275

III. Convergence Projects

Service Area	Target	Actual	Percentage of Accomplishment	Actual to date (In hectares)
	In hectares			
Generation-New Area	-	517	-	5,828
Restored	-	-	-	848
Rehabilitated Area	-	58	-	5,596
	-	575	-	12,272

FINANCIAL HIGHLIGHTS (In Million Pesos)

I. Allotment Received and Obligations

	CY 2016 Irrigation Program			
	Appropriation	Allotment	Release Cash/ Non Cash	Obligation
CY 2016 Irrigation Program				
A1. Programs for Operations	18,125.360	18,125.360	11,736.804	16,573.295
B1. Locally Funded Projects	10,860.750	10,860.750	2,662.057	5,515.035
B2. Foreign Assisted Projects	3,757.074	3,757.074	542.766	362.151
Total	32,743.184	32,743.184	14,941.627	22,450.481

	Carry Over Funds			
	Unobligated Balance 2015	Release Cash/Non Cash		Obligation
A1. Operations	164.349	144.049		163.145
B1. Locally Funded	6,491.402	1,549.551		3,077.904
B2. Foreign Assisted	1,755.307	3.717		563.901
	8,411.058	1,697.317		3,804.950
Continuing Appropriations			1,467.814	3,673.511
Total			9,878.872	5,370.828

II. Sources of Funds

	2016	2015
Subsidy Income from National Government-GAA	22,737.739	14,847.245
Revenue from Operations	2,381.761	2,646.168
	25,119.500	17,493.413

III. Uses of Funds

	2016	2015
Implementation of the Project	21,998.045	10,372.254
Capital Outlay	500.184	52.705
Personnel Services	1,788.260	1,650.979
Maintenance and Other Operating Expenses	953.979	789.744
Loan Repayment	1,498.870	1,588.557
	26,739.338	14,454.239

IV. Comparative Financial Condition

	2016	2015	Increase/ (Decrease)
Assets	324,978.811	300,824.933	24,153.878
Liabilities	120,602.977	114,712.924	5,890.053
Equity	204,375.834	186,112.009	18,263,825

V. Results of Operations

	2016	2015	Increase/ (Decrease)
Income (includes gain on foreign exchange)	25,119.520	17,496.766	7,622.754
Expenses (includes depreciation and loss on foreign exchange)	4,202.274	4,241.412	(39.138)
	20,917.246	13,255.354	7,661.892

SCOPE OF AUDIT

Our audit covered the operations of the NIA. The audit involved performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depended on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error.

AUDITOR'S OPINION

We rendered a disclaimer of opinion on the fairness of the presentation of the financial statements in view of the following:

1. The Prior Period Adjustments (PPAs) totaling P814.915 million and P2.653 billion in CYs 2015 and 2016, respectively, were directly presented in the Combined Statement of Changes in Net Assets/Equity instead of restating the affected accounts in which errors occurred, contrary to Philippine Public Sector Accounting Standards (PPSAS) 3. Likewise, these adjustments lacked the appropriate supporting documentation. Consequently, the fair presentation of the financial statements as a whole was adversely affected.

2. The accuracy, completeness, and reliability of Property, Plant and Equipment (PPE) account with carrying amount of P211.180 billion as at December 31, 2016 could not be established due to, among others, non-derecognition of the net carrying amount of the portion of the irrigation facilities that have undergone repairs/rehabilitations despite cost of repairs/rehabilitations already accumulated to P22.953 billion from CYs 2011 to 2016; non-reclassification of long completed irrigation projects amounting to P21.223 billion to proper asset account; insufficient provision for depreciation of depreciable assets valued at P28.290 billion; existence of variance of P13.342 billion between results of physical count and accounting records; incomplete documentations for the transfer of completed projects totaling P6.935 billion from Construction in Progress (CIP) account to appropriate PPE accounts; and inadequate accounting and property records to substantiate the P56.992 billion PPE accounts. Moreover, payments totaling P18.004 billion made to Power Sector Assets and Liabilities Management

Corporation (PSALM) for CYs 2013 to 2016 representing NIA's share in the debt service advances for the San Roque Multi-Purpose Project (SRMPP) Loan from Japan Bank for International Cooperation were recorded in the books under the PPE account without adequate documentation to confirm NIA's ownership over a tangible property.

3. The balance of the Accounts Payable account of P5.037 billion as at December 31, 2016 is doubtful due to, among others, inclusion of non-payable charges totaling P335.604 million; accounts totaling P2.381 billion have no Subsidiary Ledgers or supporting documents; and existence of accounts with abnormal balances amounting to P803.234 million.

We were unable to obtain sufficient appropriate audit evidence about the balances of the abovementioned accounts as well as other affected accounts, due to inadequacy of accounting records, schedules and working papers. Consequently, we were unable to determine whether adjustments to these accounts were necessary.

SUMMARY OF SIGNIFICANT AUDIT OBSERVATIONS AND RECOMMENDATIONS

For the above-mentioned observations which caused the issuance of disclaimer of opinion, we recommended that Management:

1.1. Require the Accounting Division to:

- a. Strictly comply with PPSAS 3 in presenting correction of prior period errors by restating the comparative amounts for the period(s) presented in which errors occurred and provide adequate disclosure in the Notes to the Financial Statements; and
- b. Submit list/schedules showing the details of the PPAs supported with complete/appropriate documentation.

2.1 Instruct the Accounting Division/Section to:

- a.1 Comply with PPSAS 17 and recognize impairment of assets and devise policy guidelines relative thereto;
- a.2 Conduct analysis and inventory of the recorded irrigation systems under CIP or PPE account to determine the actual cost of the existing assets (net of the impairment);
- a.3 Provide depreciation for all assets capitalized;
- a.4 Maintain and regularly update Subsidiary Ledgers (SLs) for all PPE accounts, and conduct a continuous analysis of the accounts to ensure that the totals of the SLs and the balances of the corresponding controlling accounts are equal at all times;
- a.5 Require the Engineering and Operations Department (EOD) to regularly submit project completion report and turnover documents of all completed projects to the Accounting Division/Section for proper recording in the books;

- b. Direct the Project Management Office (PMO), Accounting Division/Section and EOD to jointly exert effort to complete the documentation necessary to transfer completed CIP to proper asset account;
- c. Instruct the Inventory Team to conduct complete physical inventory of all properties and reconcile result thereof with the accounting records and thereafter, submit copy of the Report on the Physical Count of PPE (RPCPPE) to the respective auditors on or before January 31 of the ensuing year;
- d. Require both the Accounting Division/Section and Property Section to exhaust all efforts to unfailingly reconcile their records on a regular basis so that discrepancies thereon are immediately corrected;
- e. Secure from National Power Corporation (NPC)/PSALM complete documents to establish the extent of NIA's legal ownership over SRMPP to substantiate the booking of the payment as PPE-Public Infrastructure Irrigation, Canals, and Laterals, in compliance with PPSAS 17 on the recognition of property, plant and equipment and to ensure its legal rights over the asset; and
- f. Coordinate with the NPC relative to the legal rights/ownership over the dam facilities taking into consideration the following: (a) the facilities were built under Build-Operate-Transfer agreement covered by Power Purchase Agreement, (b) the Memorandum of Agreement (MOA) provided that in exchange for the US\$400 million, the Consortium agreed to the early transfer of the dam and other structure to NPC, and (c) the NPC just advance the payments to the consortium which were later reimbursed by NIA, Department of Public Works and Highways (DPWH) and Department of Environment and Natural Resources (DENR).

3.1 Direct the concerned Accountants of the CO and ROs to:

- a. Analyze the transactions, review all pertinent documents, make the adjustments, where necessary and comply with the existing accounting rules and regulations on the recognition of Accounts Payable;
- b. Adhere to the guidelines and procedures on reversion of accounts payable without supporting schedule and/or has been outstanding for two years or more;
- c. Investigate the cause of the variance between the General Ledger (GL) and the schedule of Accounts Payable; and
- d. Make the necessary adjustment relative the erroneous recording of the settlement of Accounts Payable.

The other significant observations and recommendations that need immediate action are as follows:

- 4. Despite considerable amount of government funds provided for irrigation, the reported status of irrigation development is still relatively low as 1,272,649 hectares or 40.68 per cent out of the estimated total irrigable area of 3,128,631 hectares remain to be developed as of December 31, 2016. There was no significant increase in irrigable

areas developed as the generation of new areas for development was not given precedence in NIA's Irrigation Development Program aggravated by the shortfall in the accomplishments in the generation of new areas, thereby affecting the attainment of increasing agricultural productivity to improve the socio-economic welfare of farmer-beneficiaries.

4.1 We recommended that Management exert all efforts to achieve its target in the generation of new areas for irrigation development to increase agricultural production and productivity thereby improving the socio-economic welfare of farmer-beneficiaries.

IMPLEMENTATION OF PROJECTS/CONTRACTS

5. Unsatisfactory performance of ineligible Contractors, inadequate planning, and inefficient execution of surveys, investigation and engineering design, resulted in significant delays, ranging from 11 to 1,438 days, in the implementation of 82 irrigation contracts/projects with total contract cost of P4,535.968 million. In addition, 25 contracts with total cost of P6.002 billion incurred negative slippages from 0.90 per cent to 62.80 per cent, while 5 contracts with total cost of P458.547 million were terminated due to, among others, fault of the contractors. Thus, the farmer-beneficiaries are not able to timely benefit from the said irrigation projects, and could result in wastage of government resources when the unfinished/uncompleted contracts would be terminated. Moreover, liquidated damages were not imposed on Contracts that incurred delays due to grant of contract time extensions, validity of which could not be ascertained due to inadequate evaluation and incomplete documentation.

5.1 We reiterated our previous year's recommendations that Management:

a. Require the Managers of the Implementing Units to:

a.1 Act with dispatch in resolving the existing issues/problems that are currently hampering/delaying the completion of the projects;

a.2 Strictly comply with the provisions of the General Conditions of the Contract (GCC) and Revised Implementing Rules and Regulations (IRR) of RA No. 9184 in the grant of contract time extension;

a.3 Ensure that the grants of contract time extensions are completely supported with documents;

a.4 Immediately enforce liquidated damages for projects that incurred negative slippages without valid justification and approved time extensions;

b. Direct the Bids and Award Committee (BAC) and BAC Technical Working Group (TWG) to ensure that the requisites for the bidding of infrastructure contracts provided in Section 17.6 of the Revised IRR of RA No. 9184, such as the detailed engineering investigations, surveys and designs, including the acquisition of the Right-of-Way (ROW), are complied with to ensure that all the undertakings are economically and efficiently carried out to protect the interest of the government; and

- c. Consider rescinding/terminating the contracts and forfeit the contractor's Performance Security for projects with negative slippages of more than 15 per cent resulting from contractor's fault or negligence.

5.2 We likewise recommended that Management require the Legal Department and the Internal Audit Services Department to: (a) conduct investigation to determine persons responsible for (i) not imposing liquidated damages, (ii) approving/ granting of contract time extensions without proper evaluation and documentation, and (iii) not terminating the contracts that incurred huge negative slippage due to Contractor's fault; and (b) file appropriate case, if warranted.

6. Full mobilization of equipment, actual deployment/replacement of key project personnel, and progress of projects' activities on site could not be ascertained in the implementation of 19 civil works contracts with total cost of P3.262 billion due to poor monitoring of contractors' compliance with the equipment and key personnel requirement of the contract and submission of reports required under the GCC, Special Conditions of the Contract (SCC) and Technical Specifications of the Contract (TSC), thereby contributing to the delay in the implementation of irrigation projects as potential problems that might occur might not be immediately identified and resolved.

6.1 We recommended that Management require:

- a. The Construction Management Division (CMD) and the PMO to strictly comply with the GCC, SCC and TSC to ensure adequate supervision and monitoring of the implementation of the Contracts;

- b. The Internal Audit Services Department in coordination with the concerned units of NIA to formulate policy guidelines on the supervision and monitoring of the contract to include, among others: (i) the responsible person, (ii) activities to be done, (iii) the timelines and (iv) the reports/documentation to be submitted covering all phases of the contract implementation; and

- c. Require the IMO and the PMO to submit to the Auditor for review the pre-final inspection report, punch list, final inspection report and final firmed up contract quantity and cost of the contracts reported to have been substantially completed.

7. Inadequate/poor execution of the validation procedures in the conduct of post qualification by the BAC and its TWG resulted in the award by NIA CO and NIA RO No. VIII of 32 contracts with total cost of P1.760 billion to bidders with the lowest calculated bid who did not pass the eligibility requirements as they have: a) no similar completed contracts to the Contract to be bid, b) questionable availability of pledged project personnel and equipment as these are likewise pledged to on-going projects with NIA and to contracts bid on the same date and with almost the same period of implementation, c) doubtful claimed similar work experiences, and d) deficient legal, technical and financial eligibility documents, contrary to the Revised IRR of RA No. 9184 and Government Procurement Policy Board (GPPB) Manual of Procedures for the Procurement of Infrastructure Projects.

- 7.1 We reiterated our previous year's recommendations that Management require the:
- a. BAC and its TWG to ensure that the procedures in the Revised IRR of RA No. 9184 and GPPB Manual of Procedures for the Procurement of Infrastructure Project in the conduct of post qualification are strictly followed so as to assure Contractor's compliance with the eligibility requirements;
 - b. BAC and the PMO to see to it that the Contracts are adequately covered by a Performance Security valid up to the final acceptance of the project;
 - c. Legal Department to:
 - c.1 Conduct investigation to determine liability of the Contractors for submitting deficient documents to support compliance with the eligibility requirements of the Contract;
 - c.2 Take appropriate action against Contractors found to be guilty of submitting eligibility requirements that contain false information and falsified documents that led to the awarding of the Contracts to them instead of disqualification and impose corresponding sanctions as provided in the Revised IRR of RA No. 9184, if warranted; and
 - d. Internal Audit Services and the Legal Department to conduct investigation to determine the extent of the participation of NIA officials, members of the BAC and its TWG in the award of Contracts to non-compliant Contractors and file appropriate charges, if warranted.

8. Claims for Progress Billings totaling P486.898 million were processed and paid without complete and reliable documentations, contrary to Section 4(6) of PD No. 1445 and casting doubt on the regularity and propriety of the expenditures.

8.1 We recommended that Management:

- a. Require the Legal Department and the Internal Audit Services to conduct investigation to determine persons liable and file appropriate charges if warranted for:
 - a.1 Payment of Progress Billings without complete documents;
 - a.2 Reporting complete delivery of steel gates that were not actually delivered;
 - a.3 Payment of the overhaul without the required testing for the excavated materials, classified the excavated materials as 100 per cent waste materials that require hauling, and the non-evaluation of the actual volume of materials hauled;
 - a.4 Payment of the Reinforced Steel Bars (RSB) without the Mill Certificate;
 - a.5 Non-installation of RSB within the prescribed period; and

b. Consider revising the future Contracts to include in the cost of reinforced concrete pipes the supply and delivery of RSB, instead of a separate pay work-item to ensure that payment will not be made without its installation. This method is being adopted by the DPWH.

9. Increase in quantity of various items of work totalling P 23.811 million and decreases in quantity due to deletion of work totalling P18.761 million in two Participatory Irrigation Development Project (PIDP) Contracts were not covered with approved change orders/variation orders, contrary to the GCC, thus payment relative thereto are without legal basis. Moreover, Contract PIDP2-NVBISN-1R with revised contract amount of P79.364 million due to change in design to suit actual field condition resulted in an overrun amounting to P17.988 million, equivalent to 24.15 per cent of the original contract amount of P74.478 million, contrary to GCC 27 and 43 limiting the cumulative amount of variation orders to 10 per cent of the original contract cost.

9.1 We recommended that Management require the:

a. PIDP PMO to impose sanctions on the persons responsible for the preparation and approval of detailed engineering and designs of the Project due to cumulative variation orders exceeding more than 20 per cent of the contract amount; and

b. Legal Department and the Internal Audit Services to conduct investigations to determine persons liable and file appropriate charges, if warranted, for:

b.1. Implementing and payment of additional works/variation order of more than 20 per cent and without approved change order; and

b.2. Deletion of work items without evaluation and approval.

SUMMARY OF UNSETTLED SUSPENSIONS, DISALLOWANCES AND CHARGES

As of December 31, 2016, for all funds, i.e. General, Corporate and Special, unsettled audit disallowances amounted to P1.170 billion, audit charges totalled P1.440 million and audit suspensions of P1.599 billion and US\$3.864 million. The details and status are presented in Annexes A, B and C, Part IV of this Report.

STATUS OF IMPLEMENTATION OF PRIOR YEARS' AUDIT RECOMMENDATIONS

Of the 250 audit recommendations embodied in the previous years' Annual Audit Reports (AARs) on General Fund (F101, 102, 161 and 171), Corporate Fund (F501) and Special Funds (F158), 25 were fully implemented, 109 were partially implemented and 116 were not implemented. Details are presented in Part III of this Report.