

COMMISSION ON AUDIT CIRCULAR NO. 95-003
February 15, 1995

TO : All Heads of Departments, Bureaus, Agencies, and Offices of the National Government; Heads of Governing Boards of Government Owned or Controlled Corporations' Chief Accountants/Corporate Treasurers; Provincial Governors; City and Municipal Mayors; Local Treasurers, Accountants, and Budget Officers; COA Directors, Auditors and All Others Concerned

SUBJECT : Accounting and auditing guidelines on the release of fund assistance to Non-Governmental Organizations/People's Organizations.

1.0 RATIONALE AND OBJECTIVES

The late 80's saw the increasingly active participation of non-governmental organizations (NGOs) and/or People's Organizations (POs) in national-building. No less than the 1987 Philippine Constitution encourages such participation when it provides that "The State shall encourage non-governmental, community-based, or sectoral organizations that promote the welfare of the nation (Sec. 23, Article II)."

In compliance with this constitutional mandate, the Local Government Code, Republic Act No. 7160, institutionalized the partnership of these organizations and the local government units (LGUs) in local governance. Section 34, Chapter 4, Article 3, Book I, of the Code provides that "LGUs shall promote the establishment and operation of the people's and non-governmental organizations to become active partners in the pursuit of local autonomy". The Five Year Medium Term Philippine Development Plans (MTPDPs) encourage them to "develop and implement low-cost, innovative approaches that emphasize community participation in the building up of beneficiaries capacity for examining and solving their own problems."

To finance the development efforts, there have been instances when the government has to extend fund assistance to the NGO/PO implementing the projects. This Circular is issued to ensure that the accountability for the funds granted are adhered to and to determine the accountability relationships between the NGO/PO and the grantor Government Office (GO).

2.0 DEFINITION OF TERMS

The following terms shall be understood in the sense as hereunder defined, unless the context otherwise indicates:

- Accreditation - the acceptance by the GO of the NGO/PO to implement former's project after proper verification and validation of required documents.
- Beneficiary - the community or any of its sectors which is the recipient of the

fruits of the development efforts of the GO and the NGO/PO.

- Fund Assistance - the government funds entrusted to the NGO/PO to cover the implementation of a project which included in the Work and Financial Plan (WFP) and the Budget of the GO, not necessarily released for maintenance and operating expenses (MOE), "Grants, Subsidies and Contributions (3-10-000)."
- Government Office - any government agency whether local, national or corporate, which extends financial assistance to the NGO/PO.
- Non-Governmental Organization - a non-profit voluntary organization that is committed to the task of socio economic development and established primarily for service. Such service may involve assisting citizens or peoples organizations in various ways by educating, training, or giving financial assistance to them.
- People's Organization - independent community and/or class-based association establish to protect and advance the interest of specific causes or sectors, e.g. labor, farmer, fisherman, women, civic organizations.
- Project - activity undertaken by the NGO/PO which may cover livelihood development, manpower development, sports development, delivery of basic services, cooperative development, environmental protection, family planning and the financing, construction, maintenance, operations, and management of infrastructure projects.

3.0 GENERAL GUIDELINES

The following are the general guidelines in the extension of the fund assistance to the NGO/PO:

- 3.1 The project shall be included in the WFP and the Budget of the GO. If the fund assistance shall be charged to savings or to trust receipts received for the purpose, such utilization shall be approved by proper authorities.
- 3.2 The NGO/PO shall be accredited by the GO. In the case of non-regularly funded GOs which generate their funds out of donations, shares from other GOs, like the Presidential Management Staff with respect to the President's Social Fund, the implementing GOs shall set the minimum requirements/criteria for the selection of the NGO/PO project partners as stipulated in each program guidelines.
- 3.3 The following shall be the requirements for the NGO/PO accreditation:
 - 3.3.1 Certificates of registration with the Securities and Exchange Commission (SEC), and with either the Cooperative Development Authority (CDA), Department of Labor and Employment (DOLE), or the Department of Social Welfare and Development (DSWD), as the case may be, depending on the nature of the service required or to be rendered. This is to ensure that the NGO/PO has a legal personality, has officers who are responsible and accountable for its operations, and is based in the community where the project shall be implemented.

- 3.3.2 Financial statements for at least 3 years operation to ensure that:
- it has a stable financial condition so that the fund assistance shall not be its sole source of funds;
 - it has proven experience in fund management so that the grant shall be managed efficiently and economically.
- 3.3.3 For NGO/PO which has been in operation for less than 3 years, proof that it had previously implemented similar projects and a certificate from LGU concerned attesting to the credibility and capability of the officers and staff of the NGO/PO shall be submitted in lieu of financial statements.
- 3.3.4 List of projects it has previously undertaken to show its experience and expertise in implementing the project to be funded.
- 3.4 The GO and the NGO/PO shall enter into a Memorandum of Agreement (MOA) or similar document, with provisions for the following requirements.
- 3.4.1 Project statement including identification of beneficiaries;
- 3.4.2 Standards for project implementation by the NGO/PO and acceptance by the GO to include completion date;
- 3.4.3 Systems and procedures for project implementation, such as but not limited to, the procurement of goods and services by the NGO/PO and the scheduled of release of the fund assistance by the GO. In the development of the systems and procedures, the GO and the NGO/PO shall be guided by generally accepted management principles for economical, efficient and effective operations; and
- 3.4.4 Reporting, monitoring and inspection requirements.
- 3.5 In the course of implementation, and as the need demands, amendment (s) of the MOA shall be made for any change/s in the provisions.
- 3.6 During the effectivity of the MOA, the NGO/PO shall not use the funds for money market placement, time deposit and other forms of investments not related to the project.
- 3.7 For infrastructure projects, the NGO/PO shall post a performance security in the form of a surety bond callable on demand, issued by the Government Service Insurance System (GSIS) or any insurance company duly accredited by the Office of the Insurance Commission equivalent to 30% of the total fund assistance. If the project is not completed within 90 days after the prescribed completion date, the bond shall be forfeited.
- 3.8 The fund assistance shall be released as follows:
- 3.8.1 If the project is for implementation within a period of three (3) months, the assistance shall be released as follows:
- 3.8.1.1 For projects of ₱300,000.00 or less, assistance may be released in full.
 - 3.8.1.2 For projects of more than ₱300,000.00 but not more than ₱1.0M, release may be made in three tranches:
 - 15% upon approval and signing of the MOA

- 35% after 50% completion
- 50% upon completion of the project, subject to the favorable evaluation/inspection by the GO of the results of the previous release/s.

3.8.2 If the project is to be implemented within a period of more than three (3) months, the first release shall be good for two (2) months operation but not to exceed 30% of the total assistance, subject to replenishment upon submission of accomplishment reports evidenced by pictures of the accomplishments, and/or report of inspection by the GO and certifications of receipt by beneficiaries/payrolls/invoices, etc.

3.9 The NGO/PO shall keep and maintain financial and accounting records for the funds in accordance with generally accepted accounting principles. They shall be subject to the visitorial audit and examination of the GO and the Commission on Audit (COA).

3.10 Within 60 days after completion of a project, the NGO/PO shall submit financial statements. For projects of P100,000.00 and more the statements shall be certified to by an independent CPA. Splitting of a project to avoid this requirement shall not be allowed.

3.11 The NGO/PO shall return any amount not utilized or shall request authority to use the savings for activities allied to the project, e.g., purchase of additional medicines for medical services, books for manpower development, desks and chairs for school building, etc.

4.0 DUTIES AND RESPONSIBILITIES OF THE GO

The GO shall:

- 4.1 accredit the NGO/PO after proper verification and validation of required documents and statements;
- 4.2 develop standards for project implementation and acceptance;
- 4.3 release the grant as required and take it up as "Cash -Miscellaneous, Entrusted to NGOs/POs (8-70-901)";
- 4.4 require monthly or quarterly financial and physical status reports as it deems necessary;
- 4.5 monitor and inspect project implementation and verify financial records and reports of the NGO/PO;
- 4.6 issue certificates of acceptance upon completion of the project and the acceptance by its beneficiaries and take up the credit to the NGO/PO account;
- 4.7 forfeit the performance bond for non-completion and credit the proceeds as income of the GO or to the account of the NGO/PO, as the case may be;
- 4.8 request the COA for special audits of NGO/PO on case to case basis;
- 4.9 authorize the use of savings from the assistance for prosecution of related projects;
- 4.10 demand the refund of unused funds or savings after project completion;

- 4.11 demand the refund of the disallowed amounts after financial audit;
- 4.12 institute appropriate actions against the NGO/PO which violated material provision(s) of the MOA.

5.0 DUTIES AND RESPONSIBILITIES OF THE NGO/PO

The NGO/PO shall:

- 5.1 ensure project implementation in accordance with the MOA;
- 5.2 keep and maintain separate COMBO/savings account and subsidiary records for assistance received from each GO;
- 5.3 require beneficiaries to issue their acceptance of accomplishments/completed project;
- 5.4 submit the required financial and physical status reports;
- 5.5 submit certificate of accomplishment with required evidences, and for projects with an assistance of P100,000.00 or more, duly audited financial statements.
- 5.6 return to the GO any unutilized amount or request authority to use the savings for allied activities.

6.0 DUTIES AND RESPONSIBILITIES OF THE COA AND ITS AUDITORS

The COA shall:

- 6.1 audit the grant of the fund assistance, with emphasis, on the GO's monitoring and inspection systems, in accordance with laws and regulations.
- 6.2 conduct special audits of NGOs/POs upon request by proper authorities or as determined by the Chairman.

7.0 LIMITATION

No portion of the fund assistance shall be used in payment of salaries and allowance of the personnel of the GO nor for the purchase of supplies and materials, equipment and motor vehicles for the GO.

8.0 EFFECTIVITY

This Circular shall take effect immediately.

(Sgd.) CELSO D. GAÑGAN
Chairman

(Sgd.) ROGELIO B. ESPIRITU
Commissioner

(Sgd.) SOFRONIO B. URSAL
Commissioner