EXECUTIVE SUMMARY

INTRODUCTION

The National Grains Authority was created under Presidential Decree (PD) No. 4 dated September 26,1972 and became the National Food Authority (NFA) through PD No. 1770 dated January 14, 1981 with the original mandate to promote the integrated growth and development of the grains industry, to provide food security in the staple cereals in times and places of calamity or emergency, both natural or man-made and to promote the stabilization of supply and prices of staple cereals both at the farm gate and consumer levels.

Executive Order (EO) No. 1028, dated May 31, 1985, provided further the deregulation in the production and trading of food grains and related agricultural inputs being undertaken by all government agencies, including NFA. The Agency had to relinquish or transfer to another government entity or to the private sector, as appropriate, all its non-grain stabilization and trading activities. Under EO No. 116 dated January 30, 1987, NFA was detached from the Office of the President (OP) and was realigned under the Department of Agriculture (DA) to respond to policy changes with emphasis on private sector participation towards strengthening of a freer, market-oriented enterprise economy and trend towards liberalization, privatization and deregulation.

Pursuant to EO No. 398 dated January 31, 1997, NFA shall also undertake the procurement of sugar when necessary. Furthermore, EO No. 22 issued in September 1998, authorized NFA to include in its scope the marketing operation of other basic food items. On May 5, 2014, EO No. 165 transferred NFA together with the National Irrigation Administration, Philippine Coconut Authority and Fertilizer and Pesticide Authority from DA to the OP, to enhance and coordinate the efforts of these agencies in fulfilling their respective mandates. The oversight responsibilities over these agencies were given to the created Office of Presidential Assistant for Food Security and Agricultural Modernization (OPAFSAM) of the OP.

Under EO No. 1 dated June 30, 2016 issued by President Rodrigo Roa Duterte, NFA was among the 12 agencies formerly from the OPAFSAM that were reassigned to the Office of the Cabinet Secretary of the OP under EO No. 1 dated June 30, 2016. It is governed by a Council which is chaired by the Cabinet Secretary.

On September 17, 2018, EO No. 62 amended EO No. 1 (S. 2016) and transferred NFA together with Philippine Coconut Authority and Fertilizer and Pesticide Authority back to the DA.

Previously, the NFA was vested with the functions of ensuring the food security of the country and the stability of supply and price of the staple grain-rice. However, under Republic Act (R. A.) No. 11203 which is “An Act Liberalizing the Importation, Exportation, and Trading of Rice, Lifting for the Purpose the Quantitative Import Restriction on Rice and Other Purposes”, effective last March 5, 2019 and under Rule 3.2 of the Implementing Rules and Regulations (IRR) of the Act, NFA shall no longer issue all permits, licenses, registrations to importers, traders, warehouse operators, wholesalers, retailers, among others. Also, under Article VIII, Section 8 of the same IRR, the NFA shall, in accordance with the rules, regulations, and procedures to be promulgated, maintain sufficient rice buffer stock to be sourced solely from local farmers in response to emergencies and in support of disaster relief programs of the government.

The NFA has 15 Regional Offices (ROs) and 86 Provincial Offices (POs). It has authorized plantilla positions of 4,756 with 4,139 filled positions as of December 31, 2018. Only 517 personnel holding permanent plantilla items are assigned at the Head Office (HO) while 3,295 personnel are assigned at the Field Offices (FOs). It also has 327 co-terminus employees; 61 assigned at the HO and 266 assigned at the FOs.

FINANCIAL HIGHLIGHTS (In Million Pesos)

I. Comparative Financial Position

	2018	2017 (As Restated)	Increase (Decrease)
Assets	313,857.644	321,658.260	(7,800.616)
Liabilities	462,221.546	470,210.140	(7,988.594)
Equity deficiency	(148,363.902)	(148,551.880)	187.978

II. Comparative Financial Performance

	2018	2017 (As Restated)	Increase (Decrease)
Revenues	18,222.834	17,931.514	291.320
Current operating expenses	30,596.174	29,471.523	1,124.651
Deficit from current operations	(12,373.340)	(11,540.009)	(833.331)
Gains	160.810	92.719	68.091
Losses	(187.268)	(81.205)	(106.063)
Financial assistance/subsidy	12,785.155	5,100.000	7,685.155
Net surplus/(deficit) for the period	**385.357**	**(6,428.495)**	**6,813.852**

III. Budget and Actual Expenditures

	Budget	Utilization	Difference
Personnel services	2,838.775	2,522.942	315.833
Maintenance and other operating expenses	2,850.718	1,157.417	1,693.301
Capital outlays	1,004.058	167.696	836.362
Procurement	15,582.922	9,941.106	5,641.816
Payment of obligations	40,395.978	31,165.138	9,230.840
Bond sinking fund	–	2.550	(2.550)
Customs duties	4,762.799	4,333.450	429.349
Interest expense	5,304.197	4,338.269	965.928
Net Lending	–	1,449.055	(1,449.055)
	72,739.447	**55,077.623**	**17,661.824**

SCOPE OF AUDIT

Our audit covered the examination, on a test basis, of the accounts and financial transactions of NFA for the period January 1 to December 31, 2018 in accordance with the International Standards of Supreme Audit Institutions (ISSAI) to enable us to express an opinion on the fairness of the presentation of the financial statements for the years ended December 31, 2018 and 2017. Our audit was also made to assess compliance with laws, rules and regulations, as well as adherence to prescribed policies and procedures.

AUDITOR'S OPINION

We rendered an adverse opinion on the fairness of presentation of the financial statements in view of the following:

1. Under Note 2 to Financial Statements (FS), the FS for Calendar Year (CY) 2018 have been prepared in compliance with the Philippine Public Sector Accounting Standards (PPSAS) and are NFA's first FS prepared in accordance with PPSAS and PPSAS 33 First Time Adoption of Accrual Basis has been applied. Also, Note 6 to FS provided an explanation of how the transition from previous generally accepted accounting principles to PPSAS has affected NFA's financial position, financial performance and cash flows. However, NFA was unable to fully comply with the disclosure requirements of the PPSAS, among others, PPSAS 1 on Presentation of FS and non-disclosure of the necessary information as a result of the first time adoption of PPSAS, thus, limiting the presentation of high quality information that provides transparent reporting about the first-time adopter's transition to accrual basis PPSAS and other relevant information in understanding the NFA's financial position, performance and cash flows.

2. The balances of the Assets, Liabilities and Government Equity accounts presented in the Statements of Financial Position from the combined Trial Balances (TBs) of the NFA Regional Offices (ROs) and Central Office (CO), differed by P754.516 million, P543.101 million and P211.415 million, respectively, against the totals of the accounts in the individual TB of the NFA ROs and CO, thus, affecting the fair presentation of the affected accounts.

3. The Intra-agency Receivables and Intra-agency Payables accounts presented in the Statements of Financial Position with significant balances amounting to P300.177 billion and P300.175 billion, respectively, were not eliminated at year-end due to non-reconciliation of accounts; thus, bloating the total assets from P13.681 billion to P313.858 billion or 2,194.09 per cent and total liabilities from P162.047 billion to P462.222 billion or 185.24 per cent, thereby, providing misleading information to the users of the financial statements.

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

1.1 Require the National Accountant to:

a. Submit the documents or Journal Entry Vouchers to support and/or substantiate the effect of the transition to PPSAS to verify the reliability and/or correctness of the adjustments; and

b. Comply with the disclosure requirements of the pertinent PPSAS provisions to have fair presentation of the account balances in the FS.

2.1 Require the National Accountant to:

a. Verify and reconcile the variances between the FS and Combined TBs per Region, and adjust accordingly to come up with reliable balances of the accounts presented in the financial statements.

b. Account for the causes of the abnormal balances and thereafter, prepare adjusting entries.

3.1 Direct the concerned Accountants to prioritize the reconciliation of Intra-agency accounts in order to have reliable balances and strictly monitor compliance with NFA Standard Operating Procedures (SOP) No. FS-GP13, with emphasis on the regular preparation of schedule of inter-branch transactions and Monthly Reconciliation Statement to identify variances, if any, within the reporting period and immediately coordinate with other offices to prepare the necessary adjustments and resolve the differences;

3.2 Ensure that policies and guidelines on inter-branch transactions are strictly observed, especially the sanctions provided in NFA SOP No. FS-GP13 as deterrent to the accumulation of variances;

3.3 Consider the applicability of COA Circular No. 2016-005 dated December 19, 2016 on the guidelines and procedures on the write-off of dormant accounts; and

3.4 Consider the conduct of a nation-wide reconciliation of the Intra-agency Receivables and Intra-Agency Payables accounts by all the Accountants of CO, ROs and Provincial Offices (POs)/ Operating Units (OUs) in order to confirm and verify the existence and balances of the accounts.

OTHER SIGNIFICANT AUDIT OBSERVATIONS AND RECOMMENDATIONS

4. The rice inventory levels in NFA-National Capital Region and other POs in almost all months of CY 2018 were way below the required level of buffer stocks of 15 days in each month and 30 days in July during the year. Hence, NFA was exposed to rice supply shortages and higher prices of commercial rice in the market, thereby, affecting its ability to achieve its mandate of providing stable supply and prices at all times and could compromise its capability to effectively and immediately respond in times of disaster and emergency situations.

4.1 We recommended that Management strengthen the local procurement level to ensure at all times the availability of the required buffer stock levels to attain its mandate under R.A. No. 11203 of 2019, The Rice Tariffication Law, to respond to the rice requirements during calamities.

5. The inability to undertake the necessary legal actions on shortages of Stock Accountable Officers (SAOs) by NFA Management as required in NFA existing policies and guidelines resulted in the accumulation of the stock shortages to P2.931 billion, that includes P0.960 billion pertaining to shortages of SAOs who were no longer connected with NFA. In addition, there are shortages amounting to P1.669 billion without

computation of final Tolerable Allowance (TOLA) due to missing/incomplete warehouse/ stock reports and the absence of prescribed time frame to complete stock examination in NFA policy on stock examination and TOLA computation. Hence, the final amount of shortages for collection could not be determined, thus, depriving NFA on the use of uncollected shortages to finance its programs and operations.

5.1 We recommended that Management:

a. Require the Legal Affairs Department (LAD) of the CO to fast track the resolutions of the cases filed against SAOs; enforce collection of their shortages; and for SAOs no longer connected with NFA, continuously send demand letters to their last known addresses and follow up cases filed at the Ombudsman;

b. Instruct the District/Provincial Offices to exert utmost efforts to enforce/hasten the collection of the final shortages of SAOs still connected with NFA; and

c. Revisit SOP No. GM-WH13 and prescribe appropriate timeframe so that the final shortages could be established within a reasonable period and immediate collection of shortages could be facilitated.

6. NFA constantly increased its approved reference price without consideration of the continuous decline in the price of rice in the world market. Thus, it had not obtained the most advantageous price in the purchase of 1.250 million Metric Tons (MT) well-milled long grains white rice through Government-to-Government (G-to-G) and Government-to-Private (G-to-P) or Open Tender procurement schemes.

6.1 We recommended that Management cause the submission of the detailed breakdown of reference price for the procurement of the 750,000 MT through G-to-G and G-to-P procurement scheme and the copy of bidding documents of the losing bidders.

7. The completion of the contract amounting to P5.041 million for the Construction of NFA Records Center Extension Building was delayed due to unwarranted issuance of suspension order equivalent to 55 calendar days and additional delay of 294 calendar days. The Certificate of Completion was already issued and the retention money was released to the contractor, although the construction defects were not rectified by the contractor, thus depriving the Agency of the intended use of the project. Moreover, the delay due to unwarranted issuance of suspension order and additional delay resulted in imposable liquidated damages amounting to P66,861 which was not deducted from the final payment to the contractor.

7.1 We recommended that the Management:

a. Impose additional liquidated damages to the contractor in the total amount of P66,861; and

b. Direct the LAD and the Internal Audit Service Department to:

b. 1 File appropriate charges against NFA personnel who issued Certificate of Completion and release the retention money despite the defects to be rectified by the contractor; and

b.2 Demand the Contractor to correct all the defects noted at no extra cost to NFA or file appropriate charges for non-completion of the contract in a proper and workmanlike manner.

8. The grant, utilization, disbursement and recording of fund transfers amounting to P3.650 million from the NFA Corn Development Fund (CDF) to the Philippine Maize Federation Inc. (PHILMAIZE) from CYs 2007 to 2018 was not in accordance with COA Circular No. 2007-001 dated October 25, 2007 and NFA SOP No. TS-ES22, thus rendering the fund transfers of doubtful regularity due to: (*i)* the non-submission of eligibility documents and non-liquidation of the previous cash advance; (*ii)* the fund transfer treated as direct expense instead of receivables from PHILMAIZE; and *(iii)* conflict of interest.

8.1 We recommended that Management:

a. Strictly comply with the provisions of COA Circular 2007-001 on the transfer of government funds to Non-Government Organization (NGO)/Civil Society Organization (CSO);

b. Instruct the NFA-CDF Accounting Services Department to recognize in the NFA CDF books of accounts the fund transfer to PHILMAIZE as receivable from NGO/CSO to establish the accountability of the beneficiary to liquidate the funds and to require the submission of accomplishment and liquidation reports; and

c. Ensure that only qualified NGO/CSO shall be the recipient of government funds.

UNSETTLED AUDIT SUSPENSIONS, DISALLOWANCES AND CHARGES

As of December 31, 2018, NFA had total consolidated unsettled Notices of Suspension (NSs) of P12.609 million, Notices of Disallowance (NDs) of P196.303 million and Notices of Charge (NCs) of P1.770 million. The details and status are shown in Annex B, Part IV of this Report.

STATUS OF IMPLEMENTATION OF PRIOR YEARS' AUDIT RECOMMENDATIONS

Of the 313 audit recommendations embodied in the prior years' Annual Audit Reports (AARs), 52 were fully implemented while 17 were no longer doable, hence, deleted from this Status. Notices of Disallowance for four recommendations were issued, thus, deleted from this Status and included in Annex B (Details and Status of Unsettled Disallowances). Sixteen (16) recommendations in Calendar Year (CY) 2017 which were reiterations of CY 2016 recommendations were also excluded from this Status. Lastly, 168 recommendations were partially implemented; 21 were not implemented; and 35 were revised and reformulated to be more specific, doable and measurable. Details are presented in Part III of this Report.