

## EXECUTIVE SUMMARY

### A. Introduction

The Agricultural Credit Policy Council (ACPC), an attached agency of the Department of Agriculture, was created on December 24, 1986, by virtue of Presidential Decree No. 113 replacing the Presidential Committee on Agricultural Credit (PCAC) and the Technical Board for Agricultural Credit (TBAC).

ACPC is mandated to (a) assist the Department of Agriculture (DA) in synchronizing all credit policies and programs in support of the Department's priority programs; (b) review and evaluate the economic soundness of all ongoing and proposed agricultural credit programs; (c) receive all reports and documents of all programs with agricultural credit and financing components; and (d) undertake measures of increasing its fund base and adopt other liquidity interest stabilization and risk cover mechanisms for its various financing programs in consultation with the Monetary Board.

The mandate of ACPC expanded with the issuance of the following: (a) RA 7607 or the Magna Carta for Small Farmers in 1992; (b) R.A. 8435 or the Agriculture and Fisheries Modernization Act [AFMA] of 1997; (c) DA Administrative Order No. 6 (IRR of the AFMA) dated July 10, 1998; and (d) DA Special Order No. 605, series of 2011, dated September 21, 2011 which designated ACPC to implement Section 7 of the IRR of R.A. 10000. Thus, ACPC was tasked further to recommend policy changes on agricultural credit programs for farmers; strengthen farmers' organizations, cooperatives and credit organizations to improve credit access by farmers and fisherfolk, promote credit awareness thru training and extensive information drive in collaboration with the Land Bank of the Philippines (LBP), Bangko Sentral ng Pilipinas (BSP), and other government agencies and private organizations.

The ACPC is governed by a Council composed of the Department of Agriculture (DA) Secretary as Chairman, Bangko Sentral ng Pilipinas (BSP) Governor as Vice-Chairman, the Secretaries of the Department of Finance (DoF), Department of Budget and Management (DBM), and the National Economic and Development Authority (NEDA) Director-General as Members. The agency operation is headed by Ms. Jocelyn Alma R. Badiola, Executive Director, assisted by a Deputy Executive Director. Pursuant to EO 366, the ACPC Rationalization Plan was approved effective May 2, 2013, which abolished the former position of a Deputy Director and reduced from six to four the operating services. The present operating services each headed by a Director are renamed as (a) Policy, Planning and Program Development and Advocacy Staff (PPPAS); (b) Program Monitoring and Information Systems Management Staff (PMISMS); (c) Fund Management Staff (FMS); and (d) Administrative, Financial and Management Staff (AFMS). As of December 31, 2017, ACPC had 36 employees, out of 40 plantilla positions, with five of them holding co-terminus with the incumbent positions to be abolished once

vacated. The workforce is supported by 73 contracted services hired on a per job order basis.

## B. Financial Highlights

The Agency's financial position, performance and sources and application of funds for CY 2017 compared with that of the previous year are as follows:

Particulars	<u>2017</u>	<u>2016</u>	<u>Increase / (Decrease)</u>
<b>Financial Position</b>			
Assets	₱5,499,153,000.07	₱6,025,547,409.72	₱ (526,394,409.65)
Liabilities	<u>66,853,474.08</u>	<u>90,123,198.23</u>	<u>(23,269,724.15)</u>
Net Assets/Equity	<u>₱5,432,299,525.99</u>	<u>₱5,935,424,211.49</u>	<u>₱ (503,124,685.50)</u>
<b>Financial Performance</b>			
Revenue	₱ 50,852,029.96	₱ 22,866,241.25	₱ 27,985,788.71
Net Financial			
Assistance/Subsidy	<u>817,883,013.18</u>	<u>695,995,512.02</u>	<u>121,887,501.16</u>
Total	868,735,043.14	718,861,753.27	150,673,142.15
Current Operating Expenses	<u>1,481,197,665.04</u>	<u>78,176,403.25</u>	<u>1,403,021,261.79</u>
Surplus/(Deficit) for the period	<u>₱(612,462,621.90)</u>	<u>₱ 640,685,350.02</u>	<u>₱(1,253,147,971.92)</u>
<b>Sources and Applications of Funds</b>			
Allotments Received	₱ 814,852,651.00	₱ 50,134,928.00	₱ 764,717,723.00
Continuing Appropriations	4,823,584.04	652,243,114.45	(647,419,530.41)
Obligations Incurred	<u>(818,996,659.74)</u>	<u>(696,229,629.73)</u>	<u>(122,767,030.01)</u>
Unobligated Balance	<u>₱ 679,575.30</u>	<u>₱ 6,148,412.72</u>	<u>₱ (5,468,837.42)</u>

ACPC also received supplemental budget of ₱67,069,157.40 sourced from the Agro-Industry Modernization Credit and Financing Program (AMCFP). The additional budget augmented the regular ACPC appropriations in the administration of the AMCFP; collection of loans and consolidation of funds into the AMCFP; strengthening the capability of farmers, borrowers and credit providers; improve credit delivery through policy research and advocacy; planning, monitoring and evaluation of ongoing and proposed credit programs.

## C. Scope and Objectives of Audit

The audit was conducted on the transactions, accounts and operations of the ACPC for CY 2017 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 applicable laws, rules and regulations; (c) recommend agency improvement opportunities; and (d) determine the extent of implementation of prior years' audit recommendations.

#### **D. Independent Auditor's Report**

A qualified opinion was rendered on the fairness of presentation of the financial statements due to accounting errors/omissions, undetermined amount representing unrecorded building acquired through exchange transactions and deficiencies, which are summarized in **Annex C** and discussed in detail in Part II of the report.

#### **E. Other Significant Audit Observations and Recommendations**

Significant audit observations with the corresponding recommendation include the following:

1. The ACPC achieved almost all its targets for Major Final Output (MFO) 1 - Credit Support Services, markedly surpassing its collection target of ₱7.7 million by 233 percent or ₱9.5 million under terminated agri-directed credit programs with fund utilization of 99.98 percent or ₱797.29 million of its budget amounting to ₱797.45 million. However, it did not achieve its target of 90,920 loans beneficiaries which was short by two percent or 2,129 loans beneficiaries. **(Observation No. 1)**

We recommended and Management agreed to (a) conduct program promotion and information campaign through seminars and orientation workshops for potential partners and intended beneficiaries to increase their awareness and access to the PLEA credit facility; and (b) monitor the fund utilization, particularly the amount of loans granted to credit retailers/lenders and to end-borrowers to continuously achieve its annual targets.

2. The agency did not secure written authority to open deposit accounts and/or deposit Government Funds from the duly authorized official of the BTr/DOF, contrary to DOF Department Circular No. 01-2017. **(Observation No. 2)**

We recommended and Management agreed to remit to the BTr-AMCFP account of the ACPC the cash balance with the concerned PVB branches upon their closure of and henceforth strictly adhere with the provisions of DOF Department Circular No. 01-2017 dated May 11, 2017 on securing written authority to open deposit Government Funds from the duly authorized official of the BTr/DOF.

3. Property and equipment amounting to ₱51.999 million were not insured against fire or theft with the GIF of the GSIS, thus, the agency is at risk of not being indemnified in case of damage or loss of property. **(Observation No. 4)**

We reiterated our previous recommendation and Management agreed to prepare and submit without delay the list of insurable property to support the insurance of the property with the GSIS under the GIF to indemnify the

agency of losses that may arise from fire, theft and other causes. It is also recommended that the agency stop the practice of insuring government vehicles with private insurance company.

4. Two serviceable vehicles of the agency do not bear government plates and one has not been registered under the name of the agency despite its donation in CY 2010, contrary to the provision of COA Circular No. 75-6. **(Observation No. 5)**

We recommended and Management agreed to immediately (a) facilitate the conversion of the current plates of the motor vehicles to required government plates; and (b) transfer of ownership of the donated motor vehicle to ACPC.

5. Financial reports, such as DVs, JEVs, TBs and BRSs were not submitted within the prescribed period, thus, prevented the audit team from conducting a timely audit and verification of financial transactions. **(Observation No. 9)**

We reiterated our previous recommendations and Management agreed to (a) require the Accountant to observe the timeline on the submission of financial reports and supporting documents to the Office of the Auditor; (b) find ways to address the issue on lack of personnel in order to timely submit the financial reports; and (c) follow-up with the Department of Agriculture's representative for the immediate implementation of the e-NGAS.

6. The agency withheld and remitted the employees' and government contributions and payment of loans of ₱3.619 million to the GSIS within the required period, leaving a zero balance as at year-end, except the loan amortizations amounting to ₱0.692 million of three of its employees. **(Observation No. 13)**

We recommended and Management agreed to (a) instruct the concerned employees to update their accounts in-default with the Accounts Management Unit of the GSIS to avoid further accumulation of interests and penalties; and (b) comply with the GSIS Act of 1997 in the withholding and remittance of employees' consolidated loans pending the approval of the request of the concerned employees to defer their monthly amortizations and to extend payment terms.

The observations and recommendations were discussed with agency officials in an exit conference on March 15, 2018. Management views and reactions were considered in the report, where appropriate.

**F. Enforcement of Audit Suspensions, Disallowances and Charges**

The total audit suspensions and disallowances of ₱504,591.03 and ₱142,022.21, respectively, issued during the year were all settled as of December 31, 2017.

**G. Implementation of Prior Years' Audit Recommendations**

Of the 19 audit recommendations embodied in the prior years' Annual Audit Reports, eight were implemented, nine were partially implemented and two were not implemented by management as of December 31, 2017, which were reiterated with modifications, where applicable.