

EXECUTIVE SUMMARY

A. Introduction

National Electrification Administration (NEA)

1. NEA was originally created as a national government agency by virtue of RA Nos. 2717 and 6038 dated June 19, 1960 and August 4, 1969, respectively. On August 6, 1973, PD 269 was issued converting NEA into a government-owned and controlled corporation and declaring a national policy objective for the total electrification of the Philippines on an area coverage basis and the organization, promotion and development of viable rural electric cooperatives (ECs) to attain the said objective. Moreover, NEA is geared towards the uplifting of the standard of living in the rural areas by the service of electricity.
2. On June 8, 2001, RA 9136, better known as the Electric Power Industry Reform Act (EPIRA) of 2001, was enacted. Section 58 of the said law gave NEA an additional mandate as follows:
 - a. To prepare the electric cooperatives in operating and competing under the deregulated electricity market within five (5) years from the effectivity of the act;
 - b. To strengthen the technical capability and financial viability of rural electric cooperatives; and
 - c. To review and upgrade regulatory policies with a view to enhancing the viability of the electric cooperatives as electric utilities.
3. The EPIRA increased NEA's authorized capital from P5 billion authorized in 1979 under PD 1645 to P15 billion. However, as of December 31, 2013, the National Government made no additional subscription.
4. Administrative Order (AO) No. 112 dated December 7, 2004 directed the NEA to take full and sole authority and responsibility in the conversion of electric cooperatives into stock cooperatives. Pursuant to the AO, the NEA Board of Administrators promulgated the Guidelines in the Conduct of ECs Referendum (GCECR) to convert into either stock cooperative under the Cooperative Development Authority or stock corporation under the Securities and Exchange Commission.
5. On September 2, 2005, Memorandum Order (MO) No. 187 was issued by the Office of the President setting the guidelines on the conversion of ECs. In compliance with the MO, the NEA Board of Administrators, in its Resolution No. 116 dated October 5, 2005, approved the amendment to the NEA GCECR.
6. President Benigno S. C. Aquino III, in May 7, 2013, signed into law the National Electrification Administration Reform Act of 2013 (RA 10531) which amended the NEA charter (Presidential Decree No. 269). The law aims to:

- a. promote sustainable development in rural areas through rural electrification;
 - b. empower and strengthen NEA to pursue the electrification program, providing electricity through the ECs to the countryside and other economically unviable areas; and
 - c. empower and enable electric cooperatives to cope with the changes brought about by restructuring of the electric power industry pursuant to RA 9136, otherwise known as the “Electric Power Industry Report Act of 2001”.
7. Further, this law had increased NEA’s authorized capital stock to P25 billion divided into 250 million shares with a par value of one hundred pesos (P100).

Scope and Objectives of Audit

8. The audit covered the transactions, accounts and operations of NEA for CY 2017. The audit was conducted to determine the (a) level of assurance that may be placed on the management’s assertions on the financial statements; (b) the propriety of transactions as well as the compliance with existing rules and regulation as well as management’s policies; and (c) the extent of the implementation of prior years’ audit recommendations.

B. Financial Highlights (In Thousand Pesos)

Shown below are the financial position and financial performance including budget utilization of NEA for CY 2017.

Financial Position

Particulars	2017	2016	Increase (Decrease)
Assets	23,813,664	27,038,801	(3,225,137)
Liabilities	28,549,014	32,033,519	(3,484,505)
Equity	(4,735,350)	(4,994,718)	259,368

Financial Performance

Particulars	2017	2016	Increase (Decrease)
Gross income	675,412	631,402	44,010
Other income	32,666	35,420	(2,754)
Total income	708,078	666,822	41,256
Operating expenses	415,996	410,790	5,206
Other expenses	68,543	92,986	(24,443)
Total expenses	484,539	503,776	(19,237)
Net profit before income tax	223,539	163,046	60,493
Income tax expense	70,891	53,655	17,236
Net profit	152,648	109,391	43,257

Budget Utilization

	Budget	Expenditures
Personal services	386,031	239,037
Maintenance and other operating expenses	309,957	245,502
Capital outlay	25,463	22,545
Total	721,451	507,084

C. Operational Highlights

For CY 2017, NEA reported the following major accomplishments:

- a. Milestone in the Rural Electrification Program
 - The NEA and its partner-ECs have lit up some 12,186 million homes as of December 31, 2017 benefiting about 60 million Filipinos in the countryside. Accordingly, during the celebration of the 8th National Electrification Awareness Month (NEAM, the 12 Millionth Consumer Connection was attained and consequently, a symbolic switch-on ceremony was conducted at the house of the 12 Millionth electricity consumer in Barangay Apokon, Tagum City under the coverage area of Davao del Norte Electric Cooperative, Inc. (DANECO) on August 25, 2017.
- b. Responsible Citizenship
 - As a result of the NEA's sustained positive result of financial operations, the Agency remitted the 2017 income tax and dividends in the amounts of P70,891,354.00 and P86,904,585.04, respectively, resulting to a total income tax and dividends payments of P1,663,541,559.49 for the last 14 years.
- c. ISO 9001:2015 Rectification.
 - Anchored on its good governance agenda, the Agency was able to hurdle the ISO 9001:2015 Rectification Audit conducted by TUV Rheimland Philippines, Inc. on November 21-22, 2017. As such, TUV Rheimland's auditors recommended the award of ISO 9001:2015 Rectification to NEA and Confirmation Letter dated December 6, 2017 was issued stating that NEA has been audited and recommended for ISO 9001:2015 Rectification covering the scope: "Provision of Financial, Institutional, Technical and Legal Assistance to the Electric Cooperatives (ECs) which in turn undertake power distribution on a coverage basis". The certificate was issued on December 18, 2017.

D. Auditor's Opinion

The Auditor rendered an unqualified opinion on the fairness of the presentation of the financial statements of the NEA as at December 31, 2017 as stated in the Independent Auditor's Report in Part I.

E. Summary of Significant Audit Observations and Recommendations

Although the Auditor rendered an unqualified opinion, there are significant audit observations that need immediate action. These, together with the audit recommendations are presented below. Details are discussed in Part II of this Report.

1. Payment of differentials on salary, mid-year bonus, year-end bonus and monetization of leave credits to NEA officials and employees for CY 2016 totaling P11,710,575.69, was not in accordance with Executive Order (EO) No. 36.

Recommendation:

Cause the refund by the NEA officials and employees of the payments made on differentials of salary, mid-year bonus, year-end bonus and monetization of leave credits computed under the first tranche of SSL 4 amounting to P11,710,575.69 to avoid issuance of Notice of Disallowance.

2. Payment of Collective Negotiation Agreement (CNA) Incentive for CY 2016 amounting to P7.054 million was not in accordance with Paragraph 4 of Department of Budget and Management (DBM) Budget Circular No. 2016-7 dated December 1, 2016 and COA Circular No. 2012-003 dated October 29, 2012.

Recommendation:

Provide a validated and agreed performance scorecard by the GCG as basis for the grant of the CNA incentive for CY 2016, otherwise, this will be disallowed in audit.

3. The accuracy and reliability of the year-end balance of Loans Receivable amounting to P10.472 billion (current and long-term) is doubtful as the results of confirmation from Electric Cooperatives (ECs) disclosed material net overstatement variance amounting to P136.570 million, attributed mainly to exclusion of loans, capitalized interest, unpaid amortization and excess payments in the EC confirmation. Likewise, inclusion of interest/surcharge and advance payment for interest in the EC confirmation and payments not posted in NEA's books as of audit date renders the balance of loans receivable per NEA books overstated.

Recommendations:

- a. *Analyze and identify all possible causes of variances between book balance and ECs confirmed balances;*
- b. *Reconcile variances and upon acceptance by both parties, immediately make the necessary adjustments in the books and/or the ECs records to present the actual outstanding loan balance as of reporting date;*

- c. *Conduct regular reconciliation of loans receivable with the ECs to thresh out differences in the accounts; and*
 - d. *Prepare journal entries to adjust the incorrect posting of payments in the subsidiary ledgers of ROMELCO, INEC, CANORECO, CASURECO II, NEECO II-Area 2 and NEECO II.*
4. Deposits to NEA bank accounts made by ECs amounting to P42.751 million were not recorded in NEA's books as of December 31, 2017 due to late recording of collections by the concerned Collecting Officers, thus, understating the Cash in Bank account by the same amount.

Likewise, unclaimed/unreleased checks amounting to P93.545 million as of December 31, 2017 were not reverted/adjusted in the books, thus, understating the Cash in Bank and Accounts Payable accounts.

Recommendations:

- a. *Prepare adjusting entry to record the unrecorded deposits and unclaimed/stale checks amounting to P42,751,407.41 and P93,544,796.01 respectively, as of December 31, 2017 for proper presentation of Cash in Bank account in NEA's financial statements;*
 - b. *Identify the P5.190 million collections for issuance of official receipts and posting in the corresponding subsidiary ledgers;*
 - c. *Monitor collections regularly and ensure that all collections are recorded and official receipts are issued;*
 - d. *Require Electric Cooperatives to submit thru fax or electronic mail scanned copy of deposit slips upon payment thru bank deposits for immediate identification, recording and issuance of official receipts; and*
 - e. *Review the reconciling items in the bank reconciliation statements and examine items which have been outstanding for more than one month and prepare journal entries to adjust/correct the book balance.*
5. Subsidy releases for the Sitio Electrification Program (SEP), Barangay Line Enhancement Program (BLEP), Pantawid Kuryente: Katas ng VAT (PKKV), Transition Investment Support Plan – Autonomous Region for Muslim Mindanao (TISP-ARMM), Yolanda Recovery and Rehabilitation Plan (YRRP) and other calamity grants totaling P1.695 billion remained unliquidated as of December 31, 2017, which is not compliant with Section 4 of the MOA as agreed by NEA with various ECs.

Also, the accuracy of the subsidy fund due for liquidation as reported in the Aging Schedule of Due from NGO/POs as of December 31, 2017 cannot be ascertained due to improper aging of subsidy fund releases to various ECs.

Recommendations:

- a. *Strictly comply with Section 4 of the MOA as agreed by NEA and ECs; and*
 - b. *Require the concerned ECs to immediately liquidate the subsidy funded completed projects by submitting all the required liquidation documents such as Accounting of Funds with its supporting documents to validate the charges made to the subsidy fund; Certificate of Final Inspection and Acceptance (CFIA) and such other documents to facilitate the closing of the books of both NEA and the EC's.*
6. The Accounting of Funds (AF) for liquidated subsidies under SEP/BLEP with reported unexpended/unutilized balance totaling P29.289 million were not demanded by NEA for immediate return, hence not in conformity with Section 7 of the MOA, thereby deprived the government of funds to utilize for other projects.

Likewise, expenses not related to the project/s or without documentation were not considered, hence, the reported unexpended balance of P29.289 million per AF have increased to P63.378 million (net of amount already returned) and the same was not refunded/remitted to NEA contrary to Section 4.5.6 of COA Circular No. 2007-001 and NEA Memorandum No. 2013-023.

Further, EC's with subsidy deficit totaling P44.980 million is to be covered with the release of the 10-30 percent remaining/retention balance but not to exceed the actual disbursement pursuant to Section 4 of the MOA.

Moreover, unexpended balance amounting to P93.924 million for projects audited in CYs 2014 – 2016 remained in the possession of the ECs.

Recommendations:

- a. *Require the 10 EC's audited in CY 2017 for the return/refund of the unexpended balances amounting to P63.378 million;*
- b. *Direct the ECs that only related/allowed expenses are charged in the AF;*
- c. *Require the concerned EC's to submit the required documents for the release of the remaining balances amounting to P44.980 million but not to exceed the actual disbursements pursuant to Section 4 of the MOA;*
- d. *Require the EC's to submit the required documents to validate the charges made in the AF together with the supporting schedule of the previous and the revised AF, for verification and adjustment of the total unexpended balances, otherwise, return to NEA the total amount of P93.924 million;*
- e. *Monitor the timely return of the unexpended balance based on the AF submitted by EC on their liquidation; and*

f. Ensure that the submitted liquidation documents are tallied/verified with the reported amounts in the AF and the disbursements made was in accordance with the MOA to avoid rising of unexpended/unutilized fund.

7. The accomplished 34,209 sitios under 2011-2016 Sitio Electrification Program (SEP) were not among the 32,441 sitios priority as identified in the Inventory as of December 31, 2016, which criteria were not strictly complied pursuant to NEA Memorandum No. 2011-021.

Likewise, of the 8,268 sitios or 25.49 percent implemented from the 32,441 SEP priority, 708 sitios were not energized as of December 31, 2017, thus, depriving the intended prioritized beneficiaries of the electrification program that could uplift their social and economic living.

Further, the total allocated cost of P18.47 billion for the 32,441 sitios was not reliable since only 7,403 were covered with allocated cost of P6.270 billion of which 24 sitios were duplicate amounting to P22.615 million.

Recommendations:

- a. Strictly comply with the criteria on selection and prioritization of SEP project and give priority to sitios/puroks that are specifically identified in the target list, so as not to deprive the beneficiaries of the electrification program that could uplift their social and economic living;*
- b. Require ECs to energize the 708 sitios completed projects so as to maximize the benefits of the program and encourage prospective program beneficiaries to have their household energized;*
- c. Conduct immediate inspection of the 82 sitios completed subsidized funded projects which will serve as the basis of EC's liquidation and closed-out of books of both NEA and EC's; and*
- d. A thorough review of the report is enjoined to ensure reliability of the information/data reported.*

8. The status of project implementation of the approved realignment of funds of various electric cooperatives (ECs) from CYs 2013-2017 aggregating P225.338 million was not monitored and inspected contrary to Items 5.1 and 5.2 of COA Circular No. 2017-001 and Item 6, Section 4 of P.D. No. 1445. Further, no terms and conditions were provided in the Memorandum issued to the ECs pertaining to the realigned subsidy funds.

Recommendations:

- a. Create a system for the monitoring and inspection on the status of implementation of realigned projects such as keeping and maintaining a sub account to ensure accountability and transparency;*

- b. *Require the ATEO to conduct inspection of the realigned projects to ensure existence and serve as basis for liquidation;*
- c. *Require the 57 ECs to submit the Accounting of Funds and the necessary liquidation documents for the 104 projects with a total realigned project cost of P225,338,448.68 and the three ECs – CENECO, BOHECO II and NORECO II; and*
- d. *Henceforth, include in the Memorandum a provision on the terms and conditions for the approved realigned project to include the time frame within which the project are to be undertaken and other conditions necessary in the monitoring of the realigned project.*

F. Summary of Total Disallowances, Suspensions and Charges as of December 31, 2017

Based on the Notice of Disallowances issued, total audit disallowances found in the audit of various transactions of NEA, as of December 31, 2017, after the effectivity of the Rules and Regulations of Settlement of Accounts (RRSA) amounted to P108,613,266.97. There was no Notice of Suspension and Notice of Charge issued as of December 31, 2017. Details are found in Part II of this Report.

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

The status of audit recommendations contained in the AAR for CY 2017, is presented in Part III of this Report. Out of the 102 audit recommendations, 39 were implemented, 41 were partially implemented and 22 were not implemented.