



Republic of the Philippines
COMMISSION ON AUDIT
Commonwealth Avenue, Quezon City, Philippines

CORPORATE GOVERNMENT SECTOR
Cluster 3 – Public Utilities

August 25, 2020

THE BOARD OF ADMINISTRATORS

National Electrification Administration
57 NEA Building, NIA Road, Government Center
Barangay Pinyahan, Diliman, Quezon City 1100



Gentlemen:

Pursuant to Section 2, Article IX-D of the Philippine Constitution and Section 43 of Presidential Decree No. 1445, otherwise known as the Government Auditing Code of the Philippines, we transmit herewith our report on the results of the audit of the accounts and transactions of National Electrification Administration (NEA) for the years ended December 31, 2019 and 2018.

The report consists of three Parts: I – the Independent Auditor's Report and the Audited Financial Statements, II – the Audit Observations and Recommendations and III – the Status of Implementation of Prior Years' Audit Recommendations.

The Auditor rendered a qualified opinion on the fairness of presentation of the financial statements due to the following:

1. The balance of Loans Receivable - Power Sector Assets and Liabilities Management Corporation (PSALM) amounting to P2.155 billion as of December 31, 2019 has an unreconciled variance of P350.329 million with PSALM as disclosed in its Notes to Financial Statements which is contrary to Appendix B of IPSAS 1 – Presentation of Financial Statements. An Allowance for Impairment Loss amounting to P350.329 million was provided in CY 2019 for fair presentation in the financial statements, however, the related Impairment Loss was recognized as prior period adjustment instead of current year which is a departure from assessing financial asset for any impairment at the end of each reporting period as required by IPSAS 29 - Financial Instruments: Recognition and Measurement. This resulted in the understatement of Impairment Loss account by P350.329 million and overstatement of Prior Period Adjustment account by the same amount.
2. The validity of a prior period adjustment of P20.336 million on government equity is doubtful as it was made without supporting documents and the corresponding credit to Capital Stock account was not reflected in the Statement of Changes in Net Assets/Equity which is a departure from faithful representation of financial reporting as required under Section 3.10 of the Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities.

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

- 1.1 Follow up with the Office of the Government Corporate Counsel (OGCC) on the status of the arbitration case between NEA and PSALM after which adjust in the books upon receipt of the decision from the OGCC upon confirmation by the Secretary of Justice; and
- 1.2 Recognize provision of Impairment Loss for Loans Receivable – PSALM considering the current condition at reporting period.
- 2.1 Revert the adjusting entry made without supporting documents and to ensure that all adjustments recorded in the books are properly supported.

In addition, the following are the other significant audit observations with recommendations that need immediate action:

1. Deficiencies were noted in the grant, liquidation and recording of subsidies released to the Electric Cooperatives (ECs) covering the period from CYs 2009 to 2019 for the implementation of Sitio Electrification Program (SEP), Barangay Line Enhancement Program (BLEP), Housewiring Program, Metering Program, Installation of Transformers, Calamity Grants, Marawi Siege and Armed Conflict projects, which were not in conformity with the Memorandum of Agreement (MOA) between NEA and ECs, NEA Memorandum Nos. 2018-001 and 2019-001 and Section 4.5.6 of COA Circular No. 2007-001, indicating poor monitoring and management of the subsidy fund.

Recommendations:

- a. Require the concerned ECs to immediately liquidate the subsidy fund amounting to P740.912 million which are already due for liquidation by submitting all the required liquidation documents such as Certificate of Final Inspection and Acceptance (CFIA) and Accounting of Funds with its supporting documents to validate the charges made to the subsidy fund and such other documents to facilitate the closing of the balances in the NEA and the ECs books;
- b. Require the concerned ECs to liquidate their unliquidated balances of P406.479 million from the 90 percent initial release;
- c. Demand from the concerned ECs to return the unliquidated amount of P279.605 million for completed projects which have been long outstanding for more than three years;
- d. Require the ECs to return the unexpended amount of P50.136 million from completed projects to facilitate the closing of NEA and ECs books;
- e. Comply with Section 4.5.6 of COA Circular No. 2007-001, Item No. 6 of NEA Memorandum No. 2018-001 and Item No. 3 of NEA Memorandum No. 2019-001 by requiring the liquidation by the ECs of any prior/previous subsidy fund received before making subsequent fund releases;
- f. Verify and document the adjustments on the returns of unutilized subsidy fund reported in the Status Report of Fund Transfer and record in the books under the account Due from NGOs/POs the P1.653 million to facilitate the closing of the NEA and ECs' books;
- g. Require the ECs to submit the required documents to validate the charges made in the AFs together with the supporting schedule of the previous and the revised AFs, with hard and soft copy and properly label for verification and adjustment of the total

unexpended balances, otherwise, return to NEA the total amount of P180.121 million; and

- h. Closely monitor the timely return of the unexpended balance on the AF submitted by EC on their liquidation.
2. The Accounting of Funds (AFs) of the 16 ECs in CAR, Regions III, IV-A, V, VIII, XI and BARMM for the implementation of the SEP, BLEP, Housewiring Program, Metering Program, Calamity Grant and Marawi Seige projects with reported unexpended/unutilized balance totaling P126.735 million were not immediately returned/remitted to NEA upon liquidation due to NEA's non-enforcement of Section 7 of the MOA, hence, deprived the government of funds to utilize for other projects.

Likewise, deficiencies/discrepancies were noted on the ECs liquidation supporting documents, which was not in conformity with Section 4.5.6 of COA Circular No. 2007-001 and Sections 2 and 7 of the MOA and NEA Memorandum No. 2013-023.

Further, MAGELCO's AFs for nine SEP and BLEP projects were not reported on a per project basis which was not compliant with Section 4.a of the MOA and NEA Memorandum No. 2013-023, resulting in the difficulty of tracing and verifying the actual disbursements utilized per project.

Recommendations:

- a. Strictly enforce the provision of Section 7 of the MOA specifically the return of the unexpended amount reported in AF upon liquidation to NEA amounting to P126.735 million and furnish immediately the COA Office a photocopy of the official receipt, for monitoring purposes;
 - b. Require the ECs to submit the required documents on a per project basis to validate the charges made in the AFs together with the supporting schedule in hard and soft copy, properly labeled for verification and adjustment of the total unexpended balances, otherwise, return to NEA the total amount of P386.230 million (net of total amount to be returned to NEA as indicated in Item a above);
 - c. Direct the ECs to ensure that only related/allowable expenses are charged in the AFs; and
 - d. Closely monitor the timely return of the unexpended balance on the AF submitted by EC on their liquidation.
3. The grant and liquidation of the subsidy fund amounting to P25.112 million released in 2015 to the Cagayan de Sulu Electric Cooperative, Inc. (CASELCO) for the implementation of expansion of lines to 26 sitios under the 2011 Disbursement Acceleration Program (DAP) - Transition Investment Support Program (TISP) were with deficiencies, thus, not in accordance with the NEA Memorandum No. 2013-008, NEA guidelines on documentary requirements and MOA between NEA and CASELCO, indicating poor monitoring and management of the subsidy fund.

Recommendations:

- a. Henceforth, stop the granting and one-time release of subsidy fund, otherwise, the same would be disallowed in audit for lack of supporting documents required under NEA Memorandum No. 2013-008 and NEA guidelines on documentary requirements;

- b. Demand from CASELCO the immediate return of the total amount of P22.006 million corresponding to the approved allocated cost of 23 unimplemented sitios, otherwise, a Notice of Disallowance will be issued to NEA/CASELCO including the officials and employees responsible in the approval and release of the subsidy fund;
- c. Enforce the immediate liquidation by CASELCO of the total amount of P25.112 million considering that the projects are already more than four years since subsidy fund was deposited to its account, and requiring them to submit all the required liquidation documents including the Accounting of Fund with its supporting documents to validate the charges made against the subsidy fund; and
- d. Institute legal action against the officials who favorably approved the implementation by other government agency but failed to fully complete the project and liquidate the fund covered by the MOA, if warranted.

The foregoing audit observations together with the recommended courses of action which were discussed by the Audit Team with concerned Management officials and staff during the exit conference conducted on July 20, 2020, are discussed in detail in Part II of the report.

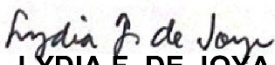
In a letter of even date, we request the NEA Administrator to implement the recommendations contained in the report and to inform this Office of the actions taken thereon within 60 days from the date of receipt.

We acknowledge the support and cooperation that the NEA Management extended to the Audit Team, thus facilitating the completion of the report.

Very truly yours,

COMMISSION ON AUDIT

By:


MA. LYDIA F. DE JOYA
Director III
Officer-in-Charge

Copy furnished:

The President of the Republic of the Philippines
The Vice President
The President of the Senate
The Speaker of the House Representatives
The Chairperson – Senate Finance Committee
The Chairperson – Appropriations Committee
The Secretary of the Department of Budget and Management
The Governance Commission for Government-Owned or Controlled Corporations
The UP Law Center
The National Library