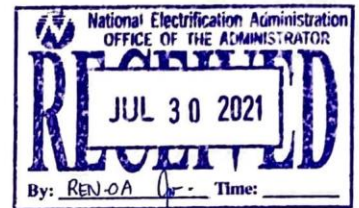




Republic of the Philippines
COMMISSION ON AUDIT
Commonwealth Avenue, Quezon City, Philippines
CORPORATE GOVERNMENT SECTOR
Cluster 3 – Public Utilities

July 30, 2021

THE BOARD OF ADMINISTRATORS
National Electrification Administration
57 NIA Road, Government Center
Diliman, Quezon City



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 the **National Electrification Administration (NEA)** for the years ended December 31, 2020 and 2019.

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

The Auditor rendered an unmodified opinion on the fairness of presentation of the financial statements of the NEA for the years ended December 31, 2020 and 2019.

Although an unmodified opinion was issued by the Auditor, the following are the significant audit observations and recommendations that need immediate action:

1. The faithful representation of Loans Receivable – Electric Cooperatives (EC) account with balance of P9.659 billion as of December 31, 2020 was not established due to unreconciled variance aggregating P53.994 million between the book balance and the confirmed balances from the ECs contrary to the Conceptual Framework for General Purpose Financial Reporting (GPFR) by Public Sector Entities.

Recommendations:

Require the Treasury Division to:

- a. Coordinate with the ECs to reconcile the variances noted and provide copies of the results of reconciliation to the Accounting Division, for adjustment of the book balances;
- b. Provide promptly copies of the necessary documents to the Accounting Division in order to record loan amortization payments and loan releases in the books in a timely manner and take up the required adjustments to come up with the correct loan balances as at year-end; and

- c. Conduct year-end reconciliation of loans receivable from ECs and submit to the Accounting Division the reconciliation statements for prompt adjustment of the balances.
2. The reliability and accuracy of the reported Cash in Bank-Local Currency Account totaling P3.853 billion as of December 31, 2020 was not ascertained due to unreconciled discrepancy of P25.523 million between the book and the bank balances caused by unrecorded savings account totaling P290.665 million, contrary to paragraph 27 of IPSAS 1 and Section 74 of Presidential Decree (PD) No. 1445. In addition, there were two dormant or inactive bank accounts for more than five years with cash balances totaling P4.136 million, contrary to DOF-DBM-COA Joint Circular No. 4-2012 dated September 1, 2012.

Recommendations:

- a. Require the Accounting Division to:
 - i. Conduct reconciliation of the P25.523 million variance between the book and the bank balance and prepare the necessary adjusting entries to properly take up the identified reconciling items, and furnish this Office the related Journal Entry Vouchers and pertinent supporting documents;
 - ii. Record the amount of P200 million and P90.665 million for the bank balances under the NEA's account in the DBP and UCPB as of December 31, 2020 and verify the recorded amount per books of P200.653 million which was not confirmed by DBP; and
 - iii. Prepare the monthly bank reconciliation statements (BRS) for each depository bank account, record cash in bank transactions and adjustments in a timely manner and submit BRS regularly to COA within 20 days pursuant to Section 74 of PD No. 1445;
 - b. Require the Treasury Division to consider closing the dormant accounts and transfer the fund to other active bank accounts of NEA.
3. A total of P1.520 billion subsidy balance covering the period from CYs 2009 to 2019 remain unliquidated by the ECs as of December 31, 2020 due to deficiencies noted in the grant, liquidation and recording of subsidies released to the ECs for the implementation of Sitio Electrification Program (SEP), Barangay Line Enhancement Program (BLEP), Housewiring Program, Metering Program, Installation of Transformers, Calamity Grants, Marawi Seige and Armed Conflict projects, which were not in conformity with Section 4.5.6 of COA Circular No. 2007-001, Memorandum of Agreement (MOA) between NEA and ECs, NEA Memorandum Nos. 2018-001 and 2019-001, indicating lack of monitoring and efficient management of the subsidy fund, to wit:
 - a. The amount of P139.161 million and P1.131 billion from the 90 percent initial releases of subsidy funds from CYs 2018 and 2019 remained unliquidated as of December 31, 2020;
 - b. Simultaneous and subsequent releases of subsidy funds despite unliquidated balances; and
 - c. Adjustments reported in the Status of Fund Transfer as of December 31, 2020 remained unadjusted in the books which could have reduced the unliquidated balance.

Recommendations:

- a. Enforce the provisions of Section 4.5.6 of COA Circular No. 2007-001, Item No. 6 of NEA Memorandum No. 2018-00 and Item No. 3 of NEA Memorandum No. 2019-001 by requiring ECs to liquidate any prior/previous subsidy fund received before making another fund release/s;
 - b. Require the concerned ECs to comply strictly with Section 4 of the MOA as agreed by NEA and ECs by compelling them to:
 - i. Liquidate immediately the subsidy fund totaling P1.520 billion 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 (AFs) with supporting documents to validate the charges made to the subsidy fund and such other documents to facilitate the closing of the books of both NEA and the ECs;
 - ii. Liquidate the unliquidated balances from the 90 percent initial release totaling P139.161 million and P1.131 billion subsidy funds releases from CYs 2018 and 2019, respectively;
 - iii. Return the unliquidated balances of P249.965 million outstanding for more than 3 years and already deemed overdue for liquidation; and
 - c. Address immediately the amounts for adjustments noted in the Status Report submitted to COA to bring the Due from NGO/POs account to its correct balance and return the unexpended balance of P6.994 million.
4. The Accounting of Funds (AF) of six ECs in Bangsamoro Autonomous Region for Muslim Mindanao (BARMM) for the implemented 65 projects under regular subsidy, SEP, BLEP, Housewiring Program, Metering Program, Calamity Grant, and Marawi Seige projects with reported unexpended/unutilized balance totaling P39.216 million were not immediately returned/remitted 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.

Also, deficiencies/discrepancies were noted on the liquidation supporting documents of six ECs, resulting in the increase of the reported unexpended balance by P499.328 million and the same was not returned/remitted to NEA, contrary to Section 4.5.6 of COA Circular No. 2007-001, Sections 2 and 7 of the MOA and NEA Memorandum No. 2013-023.

Unexpended balance aggregating P628.583 million or 69.53 percent of ECs audited in CYs 2014 to 2019 remained unreturned to NEA.

Recommendations:

- a. Enforce strictly Section 7 of the MOA by requiring the concerned ECs to return immediately to NEA the unexpended balance of P39.216 million reported in AF upon liquidation and furnish COA with a photocopy of the Official Receipt, for validation;
- b. Require the BARMM ECs to submit the required documents for validation of the charges made in the AFs together with the supporting schedule of the AFs, with soft and hard copy properly label for easy verification and adjustment of the total unexpended balance. Otherwise, require the return to NEA of the total amount of P499.328 million;

- c. Require the 42 ECs audited in CYs 2014 to 2019 to return and/or remit immediately the remaining unexpended balances of P628.583 million;
- d. Direct the ECs to ensure that only related/allowable expenses are charged in the AFs; and
- e. Monitor the timely return of the unexpended balance on the AFs submitted by ECs upon their liquidation.

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 June 2, 2021, are discussed in detail in Part II of the report.

In a letter of even date, we requested 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 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 IV

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
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