

EXECUTIVE SUMMARY

A. Introduction

National Electrification Administration (NEA)

1. NEA was originally created as a national government agency by virtue of the Republic Act (RA) Nos. 2717 and 6038 dated June 19, 1960 and August 4, 1969, respectively. On August 6, 1973, Presidential Decree (PD) No. 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 rural areas through the service of electricity.
2. On October 8, 1979, PD No. 1645 was issued to increase the authorized capital of NEA to P5 billion to take measures that will better safeguard government inputs in ECs and other entities that are or will be related to the total electrification effort.
3. On June 8, 2001, RA No. 9136, better known as the Electric Power Industry Reform Act (EPIRA) of 2001, was enacted. Section 58 of the said law gave NEA additional mandate as follows:
 - a. To prepare the ECs in operating and competing under the deregulated electricity market within five years from the effectivity of the act;
 - b. To strengthen the technical capability and financial viability of rural ECs; and
 - c. To review and upgrade regulatory policies with a view to enhancing the viability of the ECs as electric utilities.
4. The EPIRA increased NEA's authorized capital from P5 billion to P15 billion. However, as of December 31, 2013, the National Government made no additional subscription.
5. Administrative Order (AO) No. 112 dated December 7, 2004 directed the NEA to take full and sole authority and responsibility in the conversion of ECs into stock cooperatives. Pursuant to the said 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.
6. On September 2, 2005, Memorandum Order (MO) No. 187 was issued by the Office of the President (OP) setting the guidelines for 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.
7. On May 7, 2013, then President Benigno S. C. Aquino III, signed into law RA No. 10531, better known as the NEA Reform Act of 2013. The law aims to:

- a. Promote sustainable development in rural areas through rural electrification;
- b. Empower and strengthen NEA to pursue the electrification program, and bring electricity through the ECs as its implementing arm to the countryside and economically unviable areas; and
- c. Empower and enable ECs to cope with the changes brought about by restructuring of the electric power industry pursuant to RA No. 9136.

Further, RA No. 10531 had increased NEA's authorized capital stock to P25 billion divided into 250 million shares with a par value per share of one hundred pesos (P100).

B. Financial Highlights (In Thousand Pesos)

Shown below are the comparative financial position and financial performance including budget utilization of NEA for CYs 2021 and 2020.

Financial Position

Particulars	2021	2020	Increase (Decrease)
Assets	17,370,295	18,475,539	(1,105,244)
Liabilities	1,193,575	1,767,557	(573,982)
Equity	16,176,719	16,707,982	(531,262)

Financial Performance

Particulars	2021	2020	Increase (Decrease)
Total Revenue	596,980	643,875	(46,895)
Total Expenses	(430,542)	(438,911)	8,369
Surplus from Operations	166,438	204,964	(38,526)
Other Non-Operating Income	28,979	24,349	4,630
Surplus Before Tax	195,417	229,313	(33,896)
Income Tax	(58,120)	(67,821)	9,701
Surplus After Tax	137,296	161,492	(24,196)
Financial Assistance	(622,930)	671,134	(1,294,064)
Net Deficit for the Period	(485,634)	832,626	(1,318,260)

Budget Utilization

Particulars	Budget	Expenditures
Personnel Services	371,832	308,545
Maintenance and Other Operating Expenses	322,637	252,262
Financial Expenses	70,168	2,579
Capital Outlay	30,934	8,720
Total	795,571	572,106

C. Scope and Objectives of Audit

The audit covered the examination of the accounts and transactions of NEA for CY 2021. It was conducted in accordance with the International Standards of Supreme Audit Institutions (ISSAIs) using a risk-based audit methodology 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 laws, rules and regulations as well as management's policies; and (c) the extent of the implementation of prior years' audit recommendations.

D. Independent Auditor's Opinion

The Auditor rendered an unmodified opinion on the fairness of the presentation of the financial statements of NEA as at December 31, 2021 and 2020 as stated in the Independent Auditor's Report in Part I of this Report.

E. Summary of Significant Audit Observations and Recommendations

Although the Auditor rendered an unmodified opinion, there are significant audit observations and recommendations that were noted in the review of transactions. The details are presented in Part II of this Report.

1. The payments in CY 2021 totaling P5.724 million for the Program on Awards and Incentives for Service Excellence (PRAISE) benefits granted *en masse* to NEA's employees which defeats the purpose of the PRAISE benefit is contrary to the Civil Service Commission (CSC) Memorandum Circular (MC) No. 01, s. 2001 dated January 26, 2001.

Recommendations:

Management to:

- a. Stop immediately the grant of Efficient Service Delivery Award (ESDA) to all officers and employees as it constitutes additional benefits and is not in accordance with the approved NEA-PRAISE under CSC MC No. 01, s. 2001; and
 - b. Require the concerned officers and employees to refund the ESDA received totaling P5.724 million to preclude the issuance of a Notice of Disallowance (ND).
2. The guidelines and regulations on the release and liquidation of subsidy funds to Electric Cooperatives (ECs) were not complied with as evident in the following:
 - a. Of the total year-end balance of subsidy funds released to various ECs from CYs 2009 to 2020, 46.94 percent or P1.460 billion already due for liquidation remained unliquidated as of December 31, 2021, contrary to Section 4.5.6 of COA Circular No. 2007-001 and Section 4 of the Memorandum of Agreement (MOA) between the NEA and ECs; and
 - b. Subsequent releases of regular subsidy funds totaling P361.684 million to 26 ECs with unliquidated balances are not compliant with Section 2 of COA Circular No. 2012-01, paragraph 3 of NEA Memorandum No. 2016-022 dated October 11, 2016, paragraph IV(B)6 of NEA Memorandum No. 2018-001 dated December 7, 2017, and paragraph VI(B)3 of NEA Memorandum No. 2019-001 dated January 9, 2019.

Recommendations:

Management to:

- a. Require the Accounts Management & Guarantee Division (AMGD) to instruct the concerned ECs to liquidate immediately the subsidy funds amounting to P1.460 billion already due for liquidation pursuant to Section 4.5.6 of COA Circular No. 2007-001 and Section 4 of the MOA between the NEA and ECs; and
 - b. Stop releasing regular subsidy funds to ECs with unliquidated balances pursuant to Section 2 of COA Circular No. 2012-01, paragraph 3 of NEA Memorandum No. 2016-022, paragraph IV(B)6 of NEA Memorandum No. 2018-001 and paragraph VI(B)3 of NEA Memorandum No. 2019-001.
3. The non-remittance of the ECs' unexpended subsidy balance totaling P1.107 billion as of December 31, 2021, for projects implemented by 44 ECs audited in CYs 2013 to 2020, is contrary to Section 4.5.6 of COA Circular No. 2007-001 and Section 7 of the MOA between NEA and the ECs, requiring their immediate return to NEA, which deprived the government the utilization of the said funds to other important projects.

Recommendations:

Management to direct the AMGD to:

- a. Collect the total unexpended balance of P1.107 billion from the 44 ECs audited in CYs 2013 to 2020 pursuant to Section 7 of the MOA and Section 4.5.6 of COA Circular No. 2007-001; and
- b. Monitor the timely return of unexpended balances reported by the ECs in their Accounting of Funds on liquidation of subsidy releases.

F. Summary of Audit Suspensions, Disallowances, and Charges

Based on the Statement of Audit Suspensions, Disallowances and Charges as of December 31, 2021, the unsettled audit disallowances of NEA amounted to P125.568 million. The details are shown in Part II of this Report.

G. Status of Implementation of Prior Years' Audit Recommendations

Out of the 95 audit recommendations embodied in the CYs 2020 and 2019 Annual Audit Report, 56 were fully implemented, 27 were partially implemented, and 12 were not implemented. The details are found in Part III of this Report.