



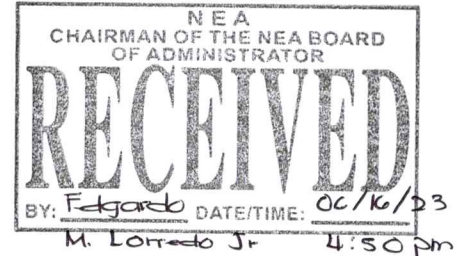
REPUBLIC OF THE PHILIPPINES
COMMISSION ON AUDIT
Commonwealth Avenue, Quezon City, Philippines

Corporate Government Audit Sector
CLUSTER 3 – PUBLIC UTILITIES

June 16, 2023

THE BOARD OF ADMINISTRATORS

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



Dear Members of the Board:

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, 2022 and 2021.

The report consists of the Independent Auditor's Report, Audited Financial Statements, Audit Observations and Recommendations and Status of Implementation of Prior Years' Audit Recommendations.

The Auditor rendered an unmodified opinion on the fairness of presentation of the financial statements of NEA for the years ended December 31, 2022 and 2021.

The significant observations and recommendations that need immediate action are as follows:

1. Subsidy funds released to various Electric Cooperatives (ECs) totaling P1.009 billion, already due for liquidation, remained unliquidated as at December 31, 2022 due to NEA's inadequate and weak enforcement of the liquidation provisions on fund transfers outlined in paragraphs 3 and 4 of the Memorandum of Agreement (MOA) between NEA and the ECs.

We recommended that Management:

- a) Instruct Accounts Servicing Division (ASD) to require the concerned Electric Cooperatives (ECs) to immediately liquidate the P423.656 million overdue subsidy funds and submit all the required documents, such as Accounting of Fund, Certificate of Final Inspection and Acceptance (CFIA), Bidding Documents (RA No. 9184), along with other supporting documents;
- b) Direct ASD to compel the concerned ECs to return the unutilized subsidy funds totaling P56.623 million;
- c) Direct Total Electrification and Renewable Energy Development Department (TEREDD) to closely monitor the implementation of the projects totaling P432.366 million which were not completed within the target date of completion and require the responsible ECs to expedite the liquidation;

- d) Instruct TEREDD and ASD to inspect and evaluate completed projects and liquidation documents to expedite the liquidation of the subsidy funds totaling P96.114 million; and
 - e) Direct ASD to validate the expenses charged against the subsidy funds to prevent fund misuse and revisit the Accounts Management and Guarantee Department's procedure manual to incorporate the validation of liquidation documents in line with COA Circular No. 2007-001.
2. The unexpended balance of subsidies amounting to P1.005 billion released to 42 Electric Cooperatives (ECs) from CYs 2013 to 2022 remained not returned/remitted to NEA contrary to paragraph 7 of the MOA between NEA and the ECs. Also, disbursements totaling P25.642 million with lacking supporting documents and non-allowable charges of P33.094 million were charged against the subsidy fund contrary to NEA Memoranda No. 2013-023 and 2015-036 dated December 9, 2015, as amended by NEA Memorandum No. 2019-042 dated August 1, 2019, and paragraph 2 of MOA, respectively.

We recommended that Management:

- a) Require the 42 Electric Cooperatives to immediately return the unexpended balance of subsidies of P1.005 billion to NEA;
 - b) Require the 5 ECs audited in CY 2022 to return the amount of P33.094 million representing non-allowable charges from the subsidy fund;
 - c) Require the 5 ECs audited in CY 2022 to submit the lacking documents to support the disbursements amounting to P25.642 million which were charged against the subsidy fund received, otherwise require the return of the amount disbursed not supported with documents; and
 - d) Institute appropriate action/s or suspend the release of subsidy fund to ECs who have failed to comply strictly with the provisions of the MOA.
3. Inclusion of Input Value Added Tax (VAT) totaling P277.390 million in the total project cost funded by the National Government's subsidy for projects liquidated and audited in 2016, 2017 and 2022, pursuant to NEA Memorandum No. 2015-036 is improper, given that it cannot be used to reduce the output VAT Payable of the ECs. Thus, resulted in excess subsidy funds given to the ECs.

We recommended that Management:

- a) Instruct the concerned ECs to promptly return to NEA the Input VAT amounting to P277.390 million that was charged in the Accounting of Funds; and
- b) Revisit NEA Memorandum No. 2015-36 and consider removing the provision that includes input tax as part of the materials for projects undertaken through force account or administration.

The foregoing audit observations and recommendations, which were discussed by the Audit Team with concerned Management officials and staff during the exit conference conducted on May 22, 2023 are presented in detail in Part II of the report.

In a letter of even date, we requested the NEA Administrator to take appropriate actions on the recommendations contained in Parts II and III of the report and to inform this Commission of the actions taken thereon.

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:


MILAGROS B. SONIDO
OIC - Director IV

Copy furnished:

The President of the Philippines
The Vice President
The President of the Senate
The Speaker of the House of 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 National Library
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