

EXECUTIVE SUMMARY

A. Introduction

National Electrification Administration (NEA)

1. NEA was originally created as a national government agency by virtue of 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 the rural areas by the service of electricity.
2. On October 8, 1979, PD No. 1645 was issued to increase the authorized capital of NEA to P5 billion in order 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 in CY 1979 under PD No. 1645 to P15 billion.
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 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 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.
7. On May 7, 2013, then President Benigno S. C. Aquino III, signed into law the National Electrification Administration Reform Act of 2013 (RA No. 10531) which amended the NEA Charter (PD 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 ECs to cope with the changes brought about by restructuring of the electric power industry pursuant to RA No. 9136.
8. 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).

B. Financial Highlights (In Thousand Pesos)

Shown below are the comparative financial position and financial performance including budget utilization of the NEA for CYs 2022 and 2021.

Financial Position

Particulars	2022	2021 (As Restated)	Increase (Decrease)
Assets	18,545,003	17,359,669	1,185,334
Liabilities	7,999,937	6,866,707	1,133,230
Equity	10,545,066	10,492,962	52,104

Financial Performance

Particulars	2022	2021 (As Restated)	Increase (Decrease)
Total Revenue	625,091	609,559	15,532
Total Expenses	(494,990)	(430,542)	(64,448)
Surplus from Operations	130,101	179,017	(48,916)
Non-Operating Income	7,699	14,548	(6,849)
Surplus Before Tax	137,800	193,565	(55,765)
Income Tax	(34,347)	(57,565)	23,218
Surplus for the Period	103,453	136,000	(32,547)

Budget Utilization

Particulars	Budget	Expenditures
Personnel Services	394,975	338,994
Maintenance and Other Operating Expenses	385,076	258,338
Capital Outlay	89,416	9,622
Total	869,467	606,954

C. Scope and Objectives of Audit

The audit covered the examination, on a test basis, of the accounts and transactions of NEA for the period January 1 to December 31, 2022, in accordance with International Standards of Supreme Audit Institutions to enable us to express an opinion on the fairness of presentation of the financial statements for the years ended December 31, 2022 and 2021. Also, we conducted our audit to assess compliance of NEA with pertinent laws, rules and regulations, as well as adherence to prescribed policies and procedures.

D. Independent Auditor's Opinion

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

E. Significant Audit Observations and Recommendations

The observations together with the audit recommendations that need immediate action are presented below.

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.

Recommendations:

- 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 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.

Recommendations:

- 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 NG'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.

Recommendations:

- 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.

F. Summary of Audit Suspensions, Disallowances, and Charges

Based on the Statement of Audit Suspensions, Disallowances, and Charges as of December 31, 2022, the unsettled audit disallowances of the NEA amounted to P133.728 million. Details are found in Part II of this Report.

G. Status of Implementation of Prior Years' Audit Recommendations

Out of the 50 audit recommendations embodied in the prior years' Annual Audit Reports, 26 were implemented and 24 were not implemented, 13 of which were reiterated in Part II of this Report.