**EXECUTIVE SUMMARY**

1. **Introduction**

*National Electrification Administration (NEA)*

1. NEA was originally created as a national government agency by virtue of RA Nos. 2717 and 6038 dated June 19, 1960 and August 4, 1969, respectively. On August 6, 1973, PD 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 June 8, 2001, RA 9136, better known as the Electric Power Industry Reform Act (EPIRA) of 2001, was enacted. Section 58 of the said law gave NEA an additional mandate as follows:
3. To prepare the electric cooperatives in operating and competing under the deregulated electricity market within five (5) years from the effectivity of the act;
4. To strengthen the technical capability and financial viability of rural electric cooperatives; and
5. To review and upgrade regulatory policies with a view to enhancing the viability of the electric cooperatives as electric utilities.
6. The EPIRA increased NEA’s authorized capital from ₱5 billion authorized in 1979 under PD 1645 to ₱15 billion. However, as of December 31, 2013, the National Government made no additional subscription.
7. Administrative Order (AO) No. 112 dated December 7, 2004 directed the NEA to take full and sole authority and responsibility in the conversion of electric cooperatives 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.
8. 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.
9. President Benigno S. C. Aquino III, in May 7, 2013 signed into law the National Electrification Administration Reform Act of 2013 (RA 10531), which amended the NEA charter (Presidential Decree No. 269). The law aims to:
10. promote sustainable development in rural areas through rural electrification;
11. empower and strengthen NEA to pursue the electrification program, providing electricity though the ECs to the countryside and other economically unviable areas; and
12. empower and enable electric cooperatives to cope with the changes brought about by restructuring of the electric power industry pursuant to RA 9136, otherwise known as the “Electric Power Industry Report Act of 2001”
13. Further, this law had increased NEA’s authorized capital stock to ₱25 billion divided into 250 million shares with a par value of one hundred pesos (₱100).

*Scope and Objectives of Audit*

1. The audit covered the transactions, accounts and operations of NEA for CY 2014. The audit was conducted 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 compliance with existing rules and regulation as well as management’s policies; and (c) the extent of the implementation of prior years’ audit recommendations.
2. **Financial Highlights (In Thousand Pesos)**

Shown below are the financial position and financial performance including budget utilization of NEA for CY 2014.

*Financial Position*

|  |  |  |  |
| --- | --- | --- | --- |
| **Particulars** | **2014** | **2013** | **Increase**  **(Decrease)** |
| Assets | 36,028 | 23,709 | 12,319 |
| Liabilities | 31,090 | 22,561 | 8,529 |
| Equity | 4,938 | 1,148 | 3,790 |

*Financial Performance*

|  |  |  |  |
| --- | --- | --- | --- |
| **Particulars** | **2014** | **2013** | **Increase**  **(Decrease)** |
| Gross income | 932 | 725 | 207 |
| Other income | 50 | 128 | (78) |
| Total income | 982 | 853 | 285 |
| Operating expenses | 365 | 331 | 34 |
| Other expenses | 29 | 28 | 1 |
| Total expenses | 394 | 359 | 35 |
| Net profit before income tax | 587 | 494 | 93 |
| Income tax expense | 172 | 120 | 52 |
| Net profit | 415 | 374 | 41 |

*Budget Utilization*

|  |  |  |
| --- | --- | --- |
|  | **Budget** | **Expenditures** |
| Personal services | **872,733** | 232,421 |
| Maintenance and other operating expenses | 132,461 |
| Financial expenses | 29,048 |
| Capital outlay | 8,553 |
| **Total** | **402,483** |

1. **Operational Highlights**

For CY 2014, NEA reported the following major accomplishments:

1. Completion of energization of 7,567 sitios out of its target of 7,073 sitios;
2. Calamity loans (from Typhoons Santi, Glenda and Yolanda) constitute 31 out of the total 84 granted financial assistance packages to 67 EC borrowers. In peso value released calamity loans amounted to ₱829 million out of which, ₱289 million will be converted into subsidy for 13 ECs; and
3. The agency initiated Task Force Kapatid, composed of 1,172 engineers and linemen from 70 volunteer ECs and 11 private organizations, was able to restore power to 33 Typhoon Yolanda-affected ECs covering 341 municipalities and 7,052 barangays benefiting 1.45 million member-consumers.
4. **Auditor’s Opinion**

The Auditor rendered an unqualified opinion on the fairness of the presentation of the financial statements of the NEA as at December 31, 2014 as stated in the Independent Auditor’s Report in Part I.

1. **Summary of Significant Audit Observations and Recommendations**

Although the Auditor rendered an unqualified opinion, there are significant audit observations that need immediate action. These, together with the audit recommendations, are presented below. Details are in Part II.

1. Observations on the audit of Loans Receivable account.
   1. Of the ₱8.347 billion balance of the Loan Receivable account, the amount of P1.576 billion which represents 18%, disclosed a variance of P167.155 million compared with the results of confirmation from 13 electric cooperatives aggregating ₱1.410 billion.
   2. Management provided an allowance for doubtful accounts or impairment of only ₱2,443,634 for the year on outstanding loan arrears totaling ₱244,363,419 due to its current policy of recognizing provisions of only one percent of the estimated uncollectible receivable as of year-end. However, analysis of the Aging of Receivable as of December 31, 2014 revealed that the average period of arrears of the outstanding loan receivables are between 3 months to 30 years.

*Recommendations:*

1. *Analyze all possible cause/s of the variance between per book balance and the confirmation replies and to reconcile the same immediately to determine their actual balance as of reporting date; and*
2. *Revisit its existing policy in the computation of the allowance for doubtful accounts or impairment and consider adopting scalar rates to present the receivable accounts to its net realizable value at year end.*
3. Payments of CNA Signing Incentive, Anniversary Incentive and PRAISE Incentive to NEA officials and employees totaling ₱20.563 million were made in CY 2014 without legal basis. For the year, NEA granted the following incentives to its personnel:

| **Incentives** | **Amount** |
| --- | --- |
| CNA Signing Incentive | ₱ 7,525,000 |
| Anniversary Incentive | 5,783,485 |
| PRAISE Incentive | 7,254,167 |
| **TOTAL** | **₱20,562,652** |

*Recommendations*:

1. Discontinue the grant of the abovementioned incentives without the requisite legal basis; and
2. Require its immediate refund to preclude the issuance of a Notice of Disallowance.
3. Subsidy releases for the Sitio Electrification and Barangay Line Enhancement Program (SEP/BLEP) totaling ₱8.362 billion remained unliquidated as of December 31, 2014 in violation of Item No. 2 of the COA Circular 2012-001 and Sections 3 and 4 of the MOA entered into by NEA with various Electric Cooperatives.

*Recommendations:*

1. *Strictly comply with Section 2 of COA Circular 2012-001 and the Sections 3 and 4 of the MOA as agreed by NEA and ECs;*
2. *Require the ECs to immediately submit the required liquidation reports to facilitate the closing of the books of both ECs and NEA pertaining to the subsidy funds and to reflect the accurate amount in the financial statements; and*
3. *Expedite the inspection of completed and energized project and the issuance of CFIA which is a necessary document to be submitted by the EC for the final liquidation of the subsidy pursuant to Section 4 of the MOA.*

1. Simultaneous and subsequent release of subsidy funds to 95 Electric Cooperatives for CY 2014 amounting to ₱5.502 billion was not in conformity with Section 2 of COA Circular No. 2012-001.

*Recommendations:*

1. *Strictly comply with Section 2 of COA Circular 2012-001 and Section 4 of the MOA; and*
2. *Require the ECs to immediately liquidate the completed and energized project before releasing a new project/s.*
3. Of the ₱3.929 billion received for the Yolanda Recovery and Rehabilitation Plan (YRRP) intended for the rehabilitation and reconstruction works of 33 Electric Cooperatives (ECs), the amount of ₱141.932 million were found unallocated; the amount of ₱579.099 million was not released to ECs; the amount of ₱53.332 million was not liquidated by the ECs and the amount of ₱1.019 million remained unreleased to BOHECO I.

*Recommendations:*

1. *Submit explanations/justifications for the following:*

* *Unallocated fund amounting to ₱141.932 million;*
* *Non-release of the remaining balance to ECs in the amount of ₱579.099 million;*
* *Non-liquidation of ₱53.332 million by the concerned ECs and see comments on Part 2 paragraph 3.3.3.2; and*
* *Non-release of ₱1.019 million to BOHECO I;*

1. *Require the concerned ECs to promptly submit liquidation reports of completed projects in compliance with the MOA; and*
2. *Adjust the books to reflect the correct balance of the Due from NGOs/POs (Account Code 139) and the Loans Receivable (Account Code 126) as of December 31, 2014.*

1. Unexpended balance amounting to ₱42.955 million for the 70 projects of 13 ECs and interest earned of ₱1.974 million from 11 ECs were not refunded/ remitted to NEA pursuant to Section 7 of the MOA and NEA Memorandum Nos. 2009-026 and 2013-022.

*Recommendations:*

1. *Require the EC to return/refund to NEA the amounts of ₱42.562 million representing the unutilized/unliquidated balance of the subsidy received and interest earned amounting to ₱1.974 million in accordance with Section 7 of the MOA and Memoranda No. 2009-026 and 2013-022; and*
2. *In case of realignment, see to it that the unexpended balance and interest earned accruing to the fund are requested for activities allied to the project, within one month after final Inspection of NEA, otherwise, the same should be refunded to NEA*
3. **Status of Implementation of Prior Year’s Audit Recommendations**

Of COA’s 14 audit recommendations embodied in the 2013 Annual Audit Report, eight were fully implemented and six were partially implemented. Details were presented in Part III of this Report.