



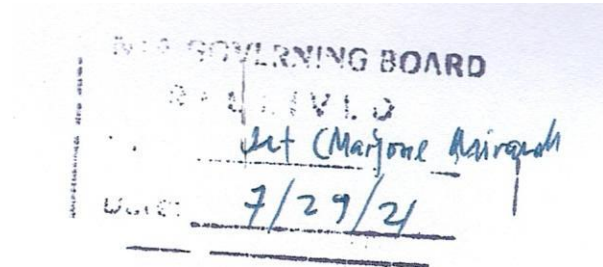
Republic of the Philippines
COMMISSION ON AUDIT
Commonwealth Avenue, Quezon City, Philippines

CORPORATE GOVERNMENT SECTOR
Cluster 5 – Agricultural and Natural Resources

July 29, 2021

THE BOARD OF DIRECTORS

National Tobacco Administration
Ben-Lor Building, Quezon Avenue
Quezon City



Gentlemen:

Pursuant to Section 2, Article IX-D of the Philippine Constitution and Section 43 of Presidential Decree (PD) 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 Tobacco Administration (NTA)**, for the years ended December 31, 2020 and 2019.

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

We rendered a qualified opinion on the fairness of the presentation of the financial statements in view of the following:

1. The Allowance for Impairment of Receivables, Investments and Other Non-Current Asset accounts was understated by P11.728 million while Accumulated Surplus/(Deficit) was overstated by the same amount as at December 31, 2020, contrary to Paragraphs 67, 68 and 72 of International Public Sector Accounting Standard (IPSAS) 29 and NTA's policy on the measurement and revaluation of Receivables.
2. The correctness and reliability of tobacco regulation related revenues collected totaling P28.912 million cannot be verified and validated because the Charge Slip/Statement of Account (SOA) as basis in the computation and assessment of corresponding fees by the Regulation Department, were not attached to the Official Receipts (ORs) and monthly Report of Collections and Deposits (ROCD), since this matter was not included in the NTA's Manual of Operations. Hence, we were unable to determine whether any adjustments to these amounts were necessary considering that sufficient appropriate evidence were not obtained to support the amounts indicated in the ORs and monthly ROCD.

For the above-mentioned audit observations which caused the issuance of a qualified opinion, we recommended that Management:

1.1 Instruct the Central Office (CO) and Branch Offices (BOs) Accountants to recalculate and adjust the Allowance for Impairment to fairly present the Receivables, Investments and Other Non-Current Assets accounts in the financial statements, in compliance with the pertinent provisions of IPSAS 29 and NTA's policy on impairment losses.

1.2 Require the Accounting Division of CO and its BOs to regularly monitor evidence of impairment that may affect Management's estimates on the recoverable amount of assets based on its expected future cash flows to provide adequate provision for impairment losses.

2.1 Instruct the Division Chief of the Budget and Cash Management Division to:

- a. Ensure that the monthly ROCD are supported with complete documentation to include among others, Charge Slip/SOA and Order of Payment, in addition to the ORs and validated deposit slips;
- b. Verify the amount collected as shown in the monthly ROCD vis-à-vis corresponding ORs, Order of Payment and Charge Slip/SOA, before affixing signature in the "Reviewed by" portion of the monthly ROCD;

2.2 Direct the Accounting Division to:

- a. Check the correctness of the amount assessed by the Tobacco Product Regulation Officer (TPRO) as shown in the Charge Slip/SOA before issuing Order of Payment to the client/applicant;
- b. Coordinate with the concerned TPRO for any errors noted in the computation of tobacco regulation related fees, and request that the amount indicated in the Charge Slip/SOA be corrected with signature affixed therein above the amount, otherwise, cancel the Charge Slip/SOA and issue a new Charge Slip/SOA;
- c. Ensure that transactions recorded in the books of accounts are supported with complete documentation;

2.3 Amend and update the NTA's Manual of Operations to include among others, procedures that will strengthen internal control measures relating to: (i) check and balance within and among Division/Department and NTA as a whole; (ii) correctness of the assessed and collected fees; and (iii) procedures presently performed but not mentioned in the manual.

2.4 Require the Regulation Department to submit to the Audit Team copies of the Charge Slip/SOA for the period January to July 2020, as basis in verifying and validating the correctness and reliability of the amount collected and assessed by the TPROs.

OTHER SIGNIFICANT AUDIT OBSERVATIONS AND RECOMMENDATIONS

3. The collectability of dormant Receivable accounts aged more than 10 years totaling P304.620 million, representing 25.31 per cent of the total Receivable accounts of P1.204 billion is already remote as these accounts remained inactive or non-moving in the books of accounts due to, among others: (a) absence of subsidiary ledgers/loan documents/schedules; (b) no proper turn-over of loan documents between the outgoing and incoming Branch Accountants; and (c) financial capacity to pay of the tobacco farmers not objectively assessed. Thus, the NTA is deprived of the resources which could have been used to finance programs, activities and projects (PAPs) in pursuit of its mandate.

3.1 We recommended that the Management:

- a. Institute all measures to locate the supporting documents or schedules to establish actual balances and validity of receivable accounts for the collection of the loans;
- b. Require the former Branch Accountants to submit or turn-over all the documents in his/her possession to the incumbent Accountant;
- c. Require the Administrative Department to ensure that proper turn-over of documents is made by retiring, resigning or reassigned/transferring employees before clearance is issued;
- d. Objectively assess the financial capacity of the tobacco farmers to pay for the amount of loans to be granted; and
- e. Stop granting new loans to farmer borrowers with unpaid past due accounts from other PAPs to avoid accumulation of dormant receivable accounts and set maximum limit of the overall amount of loan to be granted to the farmer borrowers to avoid over exposure to various loan programs.

3.2 We further recommended that the Management direct the Accountants and other concerned officials/employees of the CO and BOs to gather the required documents enumerated under COA Circular No. 2016-005 dated December 19, 2016, to support the request for authority to write-off dormant Receivable accounts aged more than 10 years, but after exerting all efforts and possible means to collect, to be properly documented thereof.

4. Of the P493.141 million due for collections for the loans granted to farmer-beneficiaries in NTA Abra, Candon, Isabela and Vigan BOs on CY 2020, only P115.153 million or 23.35 per cent were collected during the year, showing low collection efficiency, which decreased by 10.65 per cent compared to the collection efficiency rate in CY 2019 of 34 per cent. Thus, the NTA was deprived of additional funds to support its operations and implement the PAPs related to its mandate that would benefit the tobacco farmers.

4.1 We reiterated our recommendation that the Management:

- a. Intensify collection efforts by sending regular SOA, then demand letters, either personally or through registered mail with return card;
- b. Initiate legal action against defaulting farmer-beneficiaries with long overdue accounts, if no settlement made despite demand letters sent;
- c. Ensure that accounting procedures and control measures are in place in the BOs and monitor that they are implementing said accounting procedures and control measures, to attain a higher collection efficiency rate on Loans Receivable;
- d. Provide incentives to farmers to settle their monthly amortization or accounts on or before the deadline; and
- e. Restructure the loans of the tobacco farmers affected by calamities.

4.2 We also recommended that the Management issue a memorandum to the Branch Managers, directing them to: (i) adopt the collection strategy of Isabela BO; (ii) set collection targets on all PAPs with outstanding balances and not only on PAPs monitored by the Governance Commission for GOCCs; and (iii) submit justification why collection targets are not met, indicating therein the proposed plan of action to address the problems encountered, and reasons which caused the non-attainment of the collection targets.

The audit observations together with the recommended courses of action are discussed in detail in Part II of the Report. We also invite your attention to the prior years' unimplemented and partially implemented audit recommendations embodied in Part III of the Report.

In our transmittal letter of even date, we request the Administrator of NTA to implement the recommendations contained in the Report and to inform this Commission of the actions taken thereon within 60 days from receipt of the Report.

We acknowledge the support and cooperation that Management extended to the Audit Team, thus facilitating the completion of the report.

Very truly yours,

COMMISSION ON AUDIT

By:



MARY S. ADELINO

Director IV

Cluster Director

Copy furnished:

The President of the Republic 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

The UP Law Center



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COMMISSION ON AUDIT
Commonwealth Avenue, Quezon City, Philippines

CORPORATE GOVERNMENT SECTOR
Cluster 5 – Agricultural and Natural Resources

July 29, 2021

Mr. ROBERT VICTOR G. SEARES, JR.

Administrator
National Tobacco Administration
Ben-Lor Building, Quezon Avenue
Quezon City



Dear Mr. Seares:

Pursuant to Section 2, Article IX-D of the Philippine Constitution and Section 43 of Presidential Decree (PD) 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 Tobacco Administration (NTA)**, for the years ended December 31, 2020 and 2019.

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For the above-mentioned audit observations which caused the issuance of a qualified opinion, we recommended that Management:

1.3 Instruct the Central Office (CO) and Branch Offices (BOs) Accountants to recalculate and adjust the Allowance for Impairment to fairly present the Receivables, Investments and Other Non-Current Assets accounts in the financial statements, in compliance with the pertinent provisions of IPSAS 29 and NTA's policy on impairment losses.

1.4 Require the Accounting Division of CO and its BOs to regularly monitor evidence of impairment that may affect Management's estimates on the recoverable amount of assets based on its expected future cash flows to provide adequate provision for impairment losses.

2.5 Instruct the Division Chief of the Budget and Cash Management Division to:

- a. Ensure that the monthly ROCD are supported with complete documentation to include among others, Charge Slip/SOA and Order of Payment, in addition to the ORs and validated deposit slips;
- b. Verify the amount collected as shown in the monthly ROCD vis-à-vis corresponding ORs, Order of Payment and Charge Slip/SOA, before affixing signature in the "Reviewed by" portion of the monthly ROCD;

2.6 Direct the Accounting Division to:

- a. Check the correctness of the amount assessed by the Tobacco Product Regulation Officer (TPRO) as shown in the Charge Slip/SOA before issuing Order of Payment to the client/applicant;
- b. Coordinate with the concerned TPRO for any errors noted in the computation of tobacco regulation related fees, and request that the amount indicated in the Charge Slip/SOA be corrected with signature affixed therein above the amount, otherwise, cancel the Charge Slip/SOA and issue a new Charge Slip/SOA;
- c. Ensure that transactions recorded in the books of accounts are supported with complete documentation;

2.7 Amend and update the NTA's Manual of Operations to include among others, procedures that will strengthen internal control measures relating to: (i) check and balance within and among Division/Department and NTA as a whole; (ii) correctness of the assessed and collected fees; and (iii) procedures presently performed but not mentioned in the manual.

2.8 Require the Regulation Department to submit to the Audit Team copies of the Charge Slip/SOA for the period January to July 2020, as basis in verifying and validating the correctness and reliability of the amount collected and assessed by the TPROs.

OTHER SIGNIFICANT AUDIT OBSERVATIONS AND RECOMMENDATIONS

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- g. Require the former Branch Accountants to submit or turn-over all the documents in his/her possession to the incumbent Accountant;
- h. Require the Administrative Department to ensure that proper turn-over of documents is made by retiring, resigning or reassigned/transferring employees before clearance is issued;
- i. Objectively assess the financial capacity of the tobacco farmers to pay for the amount of loans to be granted; and
- j. Stop granting new loans to farmer borrowers with unpaid past due accounts from other PAPs to avoid accumulation of dormant receivable accounts and set maximum limit of the overall amount of loan to be granted to the farmer borrowers to avoid over exposure to various loan programs.

3.2 We further recommended that the Management direct the Accountants and other concerned officials/employees of the CO and BOs to gather the required documents enumerated under COA Circular No. 2016-005 dated December 19, 2016, to support the request for authority to write-off dormant Receivable accounts aged more than 10 years, but after exerting all efforts and possible means to collect, to be properly documented thereof.

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The audit observations together with the recommended courses of action are discussed in detail in Part II of the Report. We also invite your attention to the prior years' unimplemented and partially implemented audit recommendations embodied in Part III of the Report.

We respectfully request that the recommendations contained in Part II of the Report be implemented and that this Commission be informed of the actions taken thereon by accomplishing the Agency Action Plan and Status of Implementation Form (copy attached) and returning the same to us within 60 days from the date of receipt hereof.

We acknowledge the support and cooperation that Management extended to the Audit Team, thus facilitating the completion of the report.

Very truly yours,

COMMISSION ON AUDIT

By:



MARY S. ADELINO

Director IV

Cluster Director

Copy furnished:

The President of the Republic of the Philippines

The Vice President

The President of the Senate

The Speaker of the House of Representatives

The Chairperson – Senate Finance Committee

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