



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

INDEPENDENT AUDITOR'S REPORT

THE BOARD OF DIRECTORS

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

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the National Tobacco Administration (NTA), which comprise the statements of financial position as at December 31, 2020 and 2019, and the statements of financial performance, statements of changes in net assets/equity, and statements of cash flows for the years then ended, statement of comparison of budget and actual amounts for the year ended December 31, 2020 and notes to financial statements, including a summary of significant accounting policies.

In our opinion, except for the possible effects of the matters described in the *Bases for Qualified Opinion* section of our report, the accompanying financial statements present fairly, in all material respects, the financial position of NTA as at December 31, 2020 and 2019; its financial performance, changes in net assets/equity, and cash flows for the years then ended; and comparison of budget and actual amounts for the year ended December 31, 2020 in accordance with International Public Sector Accounting Standards (IPSAS).

Bases for Qualified Opinion

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 IPSAS 29 and NTA's policy on the measurement and revaluation of Receivables.

The Service Income presented in Note 16 of the Notes to Financial Statements amounted to P111.505 million. However, we were unable to obtain sufficient appropriate evidence about the tobacco regulation related revenues collected totaling P28.912 million because the Charge Slip/Statement of Account which is used as basis in the computation and assessment of corresponding fees by the Regulation Department were not attached to the official receipts and monthly Report of Collections and Deposits. Consequently, we were unable to determine whether any adjustments to these amounts were necessary.

We expressed a qualified opinion on the 2019 financial statements due to inadequate provision for impairment losses on Receivables and other asset accounts which resulted in the understatement of Allowance for Impairment by P99.662 million and overstatement of Accumulated Surplus/(Deficit) by the same amount as at December 31, 2019, as reiterated in 2020.

The adjustments recorded in the books of accounts in 2020 with regard to the accounts affected as mentioned in the preceding paragraph amounted to P72.643 million, leaving a balance of P27.019 million. Accordingly, our present opinion on the 2019 financial statements, as presented herein is still qualified concerning these matters.

We conducted our audits in accordance with International Standards of Supreme Audit Institutions (ISSAI). Our responsibilities under those standards are described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the NTA in accordance with the Revised Code of Conduct and Ethical Standards for Commission on Audit Officials and Employees (Code of Ethics) together with the ethical requirements that are relevant to our audit of the financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of the financial statements in accordance with IPSAS and for such internal control as management determined is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management's responsibility for assessing the NTA's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the NTA or to cease operations, or has no alternative but to do so.

Those charged with governance are responsible for overseeing the NTA's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements, as a whole, are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAI will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISSAI, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the NTA's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the NTA's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosure are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the NTA to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit observations, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, related safeguards.

Report on Other Legal and Regulatory Requirements

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information in Note 30 to financial statements is presented for the purpose of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such supplementary information is the responsibility of management and has been subjected to auditing procedures applied in our audits of the basic financial statements. In our opinion, except for the effect of the information of the matters described in the Bases for Qualified Opinion paragraph,

the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

COMMISSION ON AUDIT



MARITA A. YAP

State Auditor IV

OIC-Supervising Auditor

Audit Group D – PFDA/NDA/NTA

Cluster 5 – Agricultural and Natural Resources

Corporate Government Sector

July 29, 2021