**PART II – OBSERVATIONS AND RECOMMENDATIONS**

1. **FINANCIAL**
2. **The** **non-recognition of interest on the long-term Financial Liabilities - Notes Payable to the Philippine National Bank (PNB) through the Omnibus Credit Line (OCL), which was transferred by the PNB to the Philippine Deposit Insurance Corporation (PDIC) by way of *dacion en pago* Agreement on July 30, 2002, understated the Interest Payable and Interest Expense accounts by P87.615 million and P5.994 million, respectively, and overstated the Accumulated Surplus/(Deficit) account by P81.621 million as at December 31, 2021, considering that the request of NTA for renegotiation on lowering the interest rate and condonation of penalties has not been approved yet by the PDIC, which is not in accord with Paragraph 7 of International Public Sector Accounting Standard (IPSAS) 1 and Paragraph 16 of IPSAS 3.** 
   1. The following are the pertinent provisions of IPSASs 1 and 3 as well as COA Circular No. 2020-002 dated January 28, 2020, relative to this audit observation:
3. Paragraph 27 of IPSAS 1 – *Presentation of Financial Statements* (FSs) discusses the requirement of faithful representation, to wit:

*Financial statements shall present fairly the financial position, financial performance and cash flows of an entity. Fair presentation requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definition and recognition criteria for assets, liabilities, revenues and expenses set out in IPSASs.*

1. Paragraph 7 of IPSAS 1 defines accrual basis as a basis of accounting wherein transactions and other events are recognized when they occur (and not only when cash or its equivalent is received or paid). Therefore, the transactions and events are recorded in the accounting records and recognized in the FSs of the periods to which they relate.
2. Paragraph 16 of IPSAS 3 – *Accounting Policies, Changes in Accounting Estimates and Errors,* requires an entity to select and apply its accounting policies consistently for similar transactions, other events, and conditions, unless an IPSAS specifically requires or permits categorization of items for which different policies may be appropriate. If an IPSAS requires or permits such categorization, an appropriate accounting policy shall be selected and applied consistently to each category.
3. Paragraphs 5.14 and 5.17 of the Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities (CFGPFRPSE) defines liability as present obligation of the entity for an outflow of resources that results from a past event. The present obligation should arise as a result of a past transaction or other event and requires an outflow of resources from the entity.
4. Annex C of COA Circular No. 2020-002 dated January 28, 2020, provides for the description of the following accounts:

|  |  |
| --- | --- |
| *Account Title* | *Interest Payable* |
| *Account Code* | *20101050* |
| *Normal Balance* | *Credit* |
| *Description* | *This account is used to recognize accrual of interest on loans/bonds or other indebtedness, whether short-term or long-term. Debit this account for payment of the interest.* |

|  |  |
| --- | --- |
| *Account Title* | *Accumulated Surplus/(Deficit)* |
| *Account Code* | *30101010* |
| *Normal Balance* | *Credit (Debit)* |
| *Description* | *This account represents the cumulative results of normal and continuous operations of a non-Government Business Enterprise (non-GBE) including prior period effects of changes in accounting policy and errors, and other capital adjustments. This account is used to close the Revenue/Income and Expense Summary account.* |

|  |  |
| --- | --- |
| *Account Title* | *Interest Expense* |
| *Account Code* | *50301020* |
| *Normal Balance* | *Debit* |
| *Description* | *This account is debited to recognize interest charges paid/incurred for the use of borrowed money. This also includes discounts on treasury bonds; premiums on bond investments; coupon payments/interests on domestic and foreign bonds issued by the government entities. This account is credited, at year end, to close to the Revenue/Income and Expense Summary account, and/or effect adjustments.* |

* 1. The NTA uses the accrual basis of accounting in the preparation of its FSs as disclosed in the summary of significant accounting policies, specifically Note 3.1 of Notes to FSs for Calendar Year (CY) 2021.
  2. Verification of records disclosed that the NTA Board of Directors (BOD), through Board Resolution No. 477-96 dated June 17, 1996, approved on June 21, 1996, the Credit Agreement with the PNB through a one-year OCL effective May 9, 1996 in an amount not exceeding P100 million. The OCL was used to finance the purchase and exportation of tobacco leaf under the NTA’s Aromatic Tobacco Trading and Export Trading Program (ATTETP) which would primarily benefit the tobacco traders whose purchase of tobacco produce was guaranteed under the said Program. Several tobacco traders availed the trading loans from the OCL and disbursements from the fund were approved pursuant to the ATTETP guidelines. The OCL was renewed on May 9, 1997 and took effect for another year starting July 16, 1997 for the same amount.
  3. On July 30, 2002, the representatives of the PNB and the PDIC entered into a *dacion* Agreement, which included the loan availed by the NTA through the OCL. Under the Agreement, the PNB ceded, transferred and conveyed thru *dacion en pago* the loan of NTA in a manner absolute and irrevocable in favor of the PDIC, its successors and assigns, and that the PDIC accepted and acquired the same for P78.729 million, consisting of principal and interest amounting to P52 million and P26.729 million, respectively, as partial settlement of PNB’s obligation.
  4. Likewise, the PNB ceded, transferred and conveyed to the PDIC all existing collaterals, in the form of mortgages mentioned in the contracts, agreements, collateral documents and papers evidencing the loan. In return, the NTA agreed and gave its consent to the transfer by the PNB of the loan accounts and the collateral in favor of the PDIC. The PNB further agreed that it shall cause the registration of the transfer of the mortgages from the PNB to the PDIC upon the latter’s written notice.
  5. Among the properties included as collateral of the NTA to the outstanding loan with the PNB is the NTA Housing Project known as the Golden Leaf Village in Montalban, Rizal with a land area of 83,513 square meters intended for its employees, which was initiated and approved by the NTA BOD under Resolution No. 220-94 dated November 4, 1994.
  6. On March 3, 2022, the PDIC billed the NTA, through a Statement of Account (SOA), for the unpaid interest of P87.615 million and penalty charges of P194.094 million, from October 1, 2001 to December 31, 2021, or more than 20 years. However, verification of the books of accounts of NTA-Central Office (CO) disclosed that the interest amounting to P87.615 million was not recorded as at December 31, 2021, thereby the Interest Payable and Interest Expense accounts were understated by P87.615 million and P5.994 million, respectively, while the Accumulated Surplus/(Deficit) account was overstated by P81.621 million, breakdown is shown in Table 1.

**Table 1 – Unrecorded Interest on Notes Payable with the PDIC, as at December 31, 2021**

|  |  |  |  |
| --- | --- | --- | --- |
| **Account Title** | **Amount** | **Period Covered** | **Effect in the books** |
| Interest Payable | P 87,615,000 | October 1, 2001 to December 31, 2021 | Understated |
| Interest Expense | 5,994,385 | January 1, 2021 to December 31, 2021 | Understated |
| Accumulated Surplus/(Deficit) | 81,620,782 | October 1, 2001 to December 31, 2020 | Overstated |

* 1. It was noted that the PDIC Board approved the restructuring of the loan and the lowering of interest and penalty charges on November 22, 2004, subject to a repayment period of eight years with four years grace period. However, the repayment on the fifth year up to July 2010 was not complied with by the NTA.
  2. On April 24, 2013, the NTA requested for another restructuring which was approved on July 17, 2013, but it did not materialize because the NTA was not able to settle the upfront payment of P7.872 million required by the PDIC and the monthly amortization of P4.200 million on the proposed restructured loan as of August 1, 2013 totaling P108.315 million.
  3. NTA Management subsequently requested for the restructuring of the loan on: (a) April 24, 2013 which was approved by PDIC on July 17, 2013; and (b) March 27, 2019, which was repeated twice by Management, specifically on June 20, 2019 and August 7, 2019. The latest communication received by NTA on its request for restructuring was from the PDIC Loans Management Department III on January 10, 2022, copy furnished the Office of the President of the Philippines, informing NTA that its request is still subject for approval by the PDIC Board.
  4. Inquiry with the Chief Accountant disclosed that the interest and penalty charges from CY 2006 to December 31, 2021 were not recorded in the books of NTA, pending the result of their request for the renegotiation on lowering of the interest rate and condonation of penalties. Moreover, Management manifested to surrender to PDIC the NTA Housing Project located in Brgy. San Isidro, Rodriguez, Rizal as settlement of the principal loan, including interest and penalty charges thereon.
  5. Nevertheless, the non-recording of interest on loan with the PDIC is not in accord with NTA’s accounting policy on the accrual basis of accounting and with the provisions of Paragraph 7 of IPSAS 1 and Paragraph 16 of IPSAS 3.
  6. The Audit Team would like to emphasize that the outstanding balance of the Interest Payable should be recognized in the books as the fact remains that NTA will still pay interest to PDIC, in addition to the principal amount, even if its request for restructuring of the loan and lowering of interest rate would be approved by the PDIC.
  7. **We recommended that Management:**

1. **Require the Accounting Division to recognize the interest on NTA’s Notes Payable to the PDIC amounting to P87.615 million as of December 31, 2021, pending approval of its request for the restructuring of loan and lowering of interest and condonation of penalty charges, in compliance with Paragraph 7 of IPSAS 1 and Paragraph 16 of IPSAS 3; and**
2. **Constantly follow-up with the PDIC the result/approval of NTA’s request on the proposed restructuring of the loan principal, lowering of interest and condonation of penalties.**
   1. Management commented that they will request for reconsideration from the PDIC for a lower interest and, the recognition of Interest Payable on NTA’s books of accounts will be done upon receipt of the PDIC’s reply.
   2. As a rejoinder, the Audit Team would like to reiterate its position that the interest amounting to P87.615 million be recognized in the books of accounts pending approval of NTA’s request for the restructuring of loan and lowering of interest and condonation of penalties with the PDIC, consistent with accrual basis of accounting and with the provisions of Paragraph 7 of IPSAS 1 and Paragraph 16 of IPSAS 3.
3. **The** **Property, Plant, and Equipment (PPE)-Land account with book value of P101.570 million as at December 31, 2021 is overstated by P43.075 million, due to: (a) inclusion of real properties in the books of NTA-CO amounting to P42.922 million which are not held for use in the supply of services, rental to others or administrative purposes, contrary to Paragraph 13 of IPSAS 17, while the Investment Property (IP)-Land account is understated by the same amount as these properties are held for a currently undetermined future use; and (b) double recording of a commercial lot located in La Union amounting to P153,430, which also resulted in the overstatement of the Government Equity (GE) account.**
4. The breakdown/composition of the PPE-Land account as at December 31, 2021 is presented in Table 2.

**Table 2 – Composition of Land Account of NTA as at December 31, 2021**

| **Location** | **Land Area (in square meters)** | **Classification** | **Amount** |
| --- | --- | --- | --- |
| ***NTA-CO:*** |  |  |  |
| Golden Leaf Village, Montalban, Rizal | 83,513 | Housing | P 26,144,147 |
| Brgy. Pugad Lawin, Las Piñas | 94,802 | Residential | 9,480,200 |
| Paco, Manila | 5,236.7 | Residential | 4,428,190 |
| Diliman, Quezon City | 2,800 | NTA Office | 966,620 |
| Malinta, Valenzuela | 2,003 | Warehouse | 803,000 |
| Angadanan, Isabela | 10,522 | Commercial | 651,210 |
| Murtha, San Jose, Occidental Mindoro | 7,500 | Office | 549,890 |
| Quezon District, Naguilian, Isabela | 1,873 | Residential | 294,060 |
| Tumauini, Isabela | 72,148 | Tobacco Farm | 279,320 |
| Sultan Kudarat, Maguindanao | 9,461 | Warehouse | 248,824 |
| Payocpoc Norte Este, Bauang, La Union | 1,725 | Commercial | 153,430 |
| Larinab, Cauayan, Isabela | 30,000 | Tobacco Farm | 43,210 |
| Adjustments on: |  |  |  |
| 1. Unidentified Sale of Land |  |  | (105,500) |
| 1. Sale of NTA Property by LGU Alubijid, Misamis Oriental | |  | (895,750) |
| ***Sub-total NTA-CO*** |  |  | **43,040,851** |
| ***NTA Provincial Branch Offices (PBOs)*** |  |  |  |
| Brgy. Amlang, Sto. Tomas, La Union | 31,456 | Industrial | 20,762,280 |
| Ilagan, Isabela | 25,107 | Residential | 14,760,030 |
| Nanguneg East, Narvacan | 14,399 | Industrial | 8,221,164 |
| Sulvec, Narvacan | 9,659 | Special | 5,793,635 |
| Jones, Isabela | 12,682 | Residential | 2,790,040 |
| Echague, Isabela | 4,365 | Residential | 1,833,300 |
| Tabug, Batac, Ilocos Norte | 30,340.4 | Residential | 1,610,808 |
| Tumauini, Isabela | 51,763 | Agricultural | 1,214,362 |
| Sinapangan, Zone 6, Bangued | 1,761 | Residential | 440,250 |
| Ugac Norte, San Gabriel, Tuguegarao | 7,098 | Commercial | 359,400 |
| Tumauini, Isabela | 11,635 | Agricultural | 201,053 |
| **Payocpoc Norte Este, Bauang, La Union** | **1,725** | **Commercial** | **153,430** |
| Villasis, Pangasinan | 600 | Commercial | 150,000 |
| Poblacion, Bantay, Ilocos Sur | 406 | Residential | 142,100 |
| Tumauini, Isabela | 300 | Residential | 102,000 |
| ***Sub-total NTA-PBOs*** |  |  | **58,533,852** |
|  |  |  | **P101,574,703** |

1. Audit of the PPE-Land account with book value of P101.570 million as at December 31, 2021 disclosed several deficiencies, as discussed below.

*Inclusion of real properties in the books of NTA-CO amounting to P42.922 million which are not held for use in the supply of services, rental to others or administrative purposes, but held for a currently undetermined future use*

1. Paragraph 13 of IPSAS 17 defines PPE as tangible items that: (a) are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and (b) are expected to be used during more than one reporting period.
2. Meanwhile, Paragraph 12(b) of IPSAS 16 – *Investment Property* illustrates the following as example of investment property, to wit:

*Land held for a currently undetermined future use. (If an entity has not determined that it will use the land as owner-occupied property, including occupation to provide services such as those provided by national parks to current and future generations, or for short-term sale in the ordinary course of operations, the land is regarded as held for capital appreciation).*

1. The description of IP-Land account per Annex C of COA Circular No. 2020-002 dated January 28, 2020, which prescribes the adoption of the updated Revised Chart of Accounts (RCA) for Government Corporations (GCs), is as follows:

|  |  |
| --- | --- |
| *Account Title* | *Investment Property - Land* |
| *Account Code* | *10501010* |
| *Normal Balance* | *Debit* |
| *Description* | *This account is debited to recognize the cost of land or part of a land held by owner (or by the lessee under a finance lease) to earn rentals on a commercial basis or for capital appreciation or both. This account is credited upon sale, losses, reclassification/transfer to other property, plant and equipment or inventory account, other disposals, and/or adjustments.* |

1. Analysis of the PPE-Land account of NTA-CO as at December 31, 2021 showed that real properties totaling P42.922 million (Table 3) which are not held for use in the supply of services, rental to others, or administrative purposes were recorded under PPE-Land account, contrary to Paragraph 13 of IPSAS 17.
2. As these properties are held for a currently undetermined future use, the appropriate classification of these parcels of land would be IP-Land based on the illustration under Paragraph 12(b) of IPSAS 16. As a result, the PPE-Land account was overstated by P42.922 million, while the IP-Land account was understated by the same amount as at December 31, 2021.

**Table 3 - Land not Used for Operations, Rental to Others**

**or Administrative Purposes**

| **Location** | **Land Area (square meters)** | **Classification** | **Amount** |
| --- | --- | --- | --- |
| Golden Leaf Village, Montalban, Rizal | 83,513.0 | Housing | P26,144,148 |
| Brgy. Pugad Lawin, Las Piñas | 94,802.0 | Residential | 9,480,200 |
| Paco, Manila | 5,236.7 | Residential | 4,428,190 |
| Malinta, Valenzuela | 2,003.0 | Warehouse | 803,000 |
| Angadanan, Isabela | 10,522.0 | Commercial | 651,210 |
| Murtha, San Jose, Occidental Mindoro | 7,500.0 | Office | 549,890 |
| Quezon District, Naguilian, Isabela | 1,873.0 | Residential | 294,060 |
| Tumauini, Isabela | 72,148.0 | Tobacco Farm | 279,320 |
| Sultan Kudarat, Maguindanao | 9,461.0 | Warehouse | 248,824 |
| Larinab, Cauayan, Isabela | 30,000.0 | Tobacco Farm | 43,210 |
|  | **317,058.7** |  | **P42,922,052** |

1. Considering that the above-mentioned real properties do not fall within the definition of PPE under Paragraph 13 of IPSAS 17, said properties must be reclassified under IP-Land account, in accordance with Paragraph 12(b) of IPSAS 16 and the description of said account as provided under Annex C of COA Circular No. 2020-002.

*Double recording of a commercial lot located in La Union amounting to P153,430 in the books of both the NTA-CO and La Union PBO overstated the PPE-Land and GE accounts*

1. The commercial lot presented in Table 2 valued at P153,430 with an area of 1,725 square meters, located in Payocpoc Norte Este, Bauang, La Union, was recorded by both the NTA-CO and La Union PBO in their books and likewise included in the property records of these two Offices. It is worthy to mention, however, that the NTA La Union PBO is situated in the subject property, hence, it is appropriate that the said PBO would record the subject land.
2. In view of the double recording, the balances of the PPE-Land and GE accounts as at December 31, 2021 were both overstated by P153,430.

**Other Observations on the PPE account**

*NTA-CO did not conduct physical inventory or ocular inspection of the parcels of Land in CYs 2020 and 2021 with book value of P43.041 million, instead the General Services and Procurement Division (GSPD) included in the CY 2021 Report on the Physical Count of PPE (RPCPPE) the Land account based on the CY 2019 RPCPPE with total balance of P252.982 million, by forwarding the said balance and excluding some properties valued at P209.941 million in the CY 2021 RPCPPE to jibe with the balance per accounting records even without supporting documents, contrary to Sections 38 and 42 (g), Chapter 10 of the Government Accounting Manual (GAM) for National Government Agencies (NGAs), Volume I and Sections 5.8, 5.12 and 6.3 of COA Circular No. 2020-006*

1. Section 38, Chapter 10 of the GAM for NGAs, Volume I, provides that:

*The entity shall have a periodic physical count of PPE, which shall be done annually and presented on the Report on the Physical Count of Property, Plant and Equipment (RPCPPE) (Appendix 71) as at December 31 of each year. This shall be submitted to the Auditor concerned not later than January 31 of the following year. Equipment found at station and losses discovered during the physical count shall be reported to the Accounting Division/Unit for proper accounting/recording.*

1. Likewise, Section 42(g), Chapter 10 of the same GAM, states that:

*Report on the Physical Count of Property, Plant and Equipment (Appendix 73) – this form shall be used to report the physical count and condition of PPE by type as at a given date, including those which are unrecorded and those which could not be accounted for. It shows the balance of PPE per property cards and per count and the shortage/overage, if any. It shall be rendered by the Inventory Committee, on its yearly physical count of properties owned by the entity.* (Underscoring supplied)

1. Further, pertinent provisions of COA Circular No. 2020-006 dated January 31, 2020 relative to the guidelines and procedures in the conduct of physical count of PPE, recognition of PPE items found at station, and disposition for non-existing/missing PPE items, for the one-time cleansing of PPE account balances of government agencies, state as follows:

*5.8 The Inventory Committee shall be responsible for the actual count to ascertain the existence, completeness and condition of all PPEs owned by the government agency.*

*5.12 Property records shall be updated based on the results of the physical inventory and reconciled with accounting records to come up with the reconciled balances of PPE accounts to be considered as the correct balance of the agency’s PPEs.*

*6.3 Reconciliation of inventory count per RPCPPE* *with property and accounting records -*

*The Property and Accounting Units shall undertake collaborative procedures to ensure that all PPEs included in the RPCPPE are duly recorded in their respective records and that the Property Cards (PCs) maintained by the Property Unit and the PPELCs* [PPE Ledger Cards] *maintained by the Accounting Unit are reconciled. The reconciliation shall be completed within ten (10) days from rendition of the RPCPPE by the Inventory Committee. Xxxx*

1. The Inventory Committee of the NTA-CO created under Special Order (SO) No. 0311-0312 dated November 18, 2021 conducted a physical count of PPEs for CY 2021 and submitted to the Audit Team the corresponding RPCPPE on March 14, 2022.
2. Perusal of the RPCPPE disclosed a notation of the Chief Accountant and the representative of the COA Team that there was no actual physical count of the real properties, particularly on parcels of land.
3. According to the Chief of the GSPD, the non-conduct of physical inventory on the real properties in CYs 2020 and 2021 was due to prior years’ practice of the Agency and reliance to the evidence of ownership maintained by the NTA on these real properties.
4. Despite the non-conduct of the actual physical count, the parcels of land were included in the CY 2021 RPCPPE. Analysis revealed that the GSPD, based on the CY 2019 RPCPPE where the land account had a total balance of P252.982 million, incorporated the parcels of land in the CY 2021 RPCPPE by merely forwarding the said balance in the CY 2021 RPCPPE and excluding some properties valued at P209.941 million to jibe with the balance per books of the PPE-Land account of P43.041 million as at December 31, 2021, even without supporting documents, contrary to afore-mentioned Sections 38 and 42 (g), Chapter 10 of the GAM for NGAs, Volume I and Sections 5.8, 5.12 and 6.3 of COA Circular No. 2020-006.
5. Further perusal of the CY 2021 RPCPPE revealed that information, such as, unit of measure or number of square meters (sq.m.) of the land, quantity per PC, quantity per physical count, quantity and value of shortage/overage, if any, and remarks/whereabouts were not indicated in the said Report.
6. In the CY 2019 RPCPPE of NTA-CO, furnished to the Audit Team by the GSPD, it was observed that the total amount of Land account of P252.982 million indicated therein, had no data or information on the columns provided in the Report.
7. However, review of previous years’ RPCPPE showed that the balance of the Land account per CY 2019 Report totaling P252.982 million is the same as the balance of Land account in CY 2016 RPCPPE, which contained information as to land area, classification of land, name of registrant, transfer certificate of title/original certificate of title, location, year of acquisition, acquisition cost, among others.
8. The composition of the significant decrease/reduction of P209.941 million or 82.99 per cent in the balance of PPE-Land, from P252.982 million in the CY 2019 RPCPPE to P43.041 million in CY 2021 RPCPPE in order to jibe with the balance of the Land account per accounting records is presented in Table 4.

**Table 4 – Composition of the Decrease/Reduction on the Balance of PPE-Land per Property Records**

| **Particulars** | **No. of Real Properties** | **Land Area**  **(in sq.m.**  **or hectares)** | **Amount** |
| --- | --- | --- | --- |
| ***Real Properties Excluded in the Property Records:*** | | | |
| 1. Real properties with Transfer Certificates of Title (TCTs) registered under the name of NTA | 4 | 46,624 sq. m. | P 7,406,550 |
| 1. Real properties with Tax Declaration (TDs) under the name of NTA | 3 | 48,536 sq. m. | 22,970,795 |
| 1. Real properties with TCTs registered under the name of then Philippine Tobacco Administration (PTA) | 4 | 51,541 sq. m. | 3,658,540 |
| 1. Real properties located in various areas | 6 | 1,007 hectares | 135,000,000 |
|  | 110 | 436,866 sq. m. | 18,271,797 |
|  | **127** |  | **187,307,682** |
| ***Reduction/Adjustments in the PPE-Land*** | | | |
| 1. Decrease in cost of land per property records to tally with the accounting records | 5 | 124,623.70 sq.m. | 1,672,844 |
| 1. Adjustments on real properties to tally with accounting records | 2 | Not identified | 1,001,250 |
| 1. Real property deleted in the property records but recorded in the books of NTA TDPP | 1 | 31,458 hectares | 20,762,280 |
| 1. Addition of real properties in Malinta, Valenzuela | 3 | 2,003 sq.m. | (803,000) |
|  | **11** |  | **22,633,374** |
|  | **138** |  | **P209,941,056** |

1. Further verification of records showed that the 127 properties excluded by the GSPD from the property records represent parcels of land formerly recorded in the books of accounts of the eight defunct tobacco agencies which were merged into the NTA pursuant to Executive Order (EO) No. 245 dated July 24, 1987. However, these properties were not recognized in the books of accounts of the NTA-CO.
2. The Chief of the GSPD verbally informed that they do not know the status of the 138 properties that they excluded/adjusted in the property records and, relied on the schedule/list of properties maintained by the Accounting Division of NTA-CO. Thus, the GSPD merely reduced the balance of the Land account in the CY 2021 RPCPPE by P209.941 million even without supporting documents just to match the balance per property records with the balance of the Land account per accounting records.
3. The action taken by the GSPD defeated the purpose of the conduct of annual physical inventory taking and reconciliation of records. In addition, the principle of check and balance was set aside or dispensed with.
4. In effect, the existence and reliability of the balance of the PPE-Land account amounting to P101.570 million as at December 31, 2021 could not be established due to non-conduct of physical inventory or ocular inspection of Land in CYs 2020 and 2021 totaling P43.041 million, contrary to Section 38, Chapter 10 of the GAM for NGAs, Volume I.
5. It is emphasized that the conduct of physical inventory, or ocular inspection in the case of Land, is essential to verify the existence, condition and status of the real properties owned by the NTA.
6. **We recommended that Management require the:**
7. **Accounting Division to reclassify the real properties amounting to P42.992 million from PPE-Land account to IP-Land account, and provide adequate disclosures in the Notes to FSs regarding these properties;**
8. **Accounting Division and GSPD to:**
9. **Derecognize from the accounting records of NTA-CO and exclude from the property records the commercial lot located in Payocpoc Norte Este, Bauang, La Union costing P153,430 as the property is already recorded in the books of NTA-La Union PBO;**
10. **Reconcile the accounting and property records on the PPE-Land account in accordance with Item 6.3 of COA Circular No. 2020-006 dated January 31, 2020, determine cause(s) of variances noted, and adjust/correct affected records to come up with reliable and reconciled balances of PPE-Land account;**
11. **Submit the reconciliation working paper on the PPE-Land account, duly supported with relevant documents, to the Audit Team, for audit/verification purposes; and**
12. **Coordinate with the concerned NTA PBOs Accounting and Property Divisions to ascertain whether the real properties that were excluded in the NTA-CO property records are recorded/included in the PBOs’ accounting and property records so that appropriate adjustments/ corrections will be effected accordingly;**
13. **GSPD to: (i) determine the persons responsible for the safekeeping of documents related to PPE-Land account; and (ii) locate the TCTs, TDs, and other documents to establish NTA’s ownership of the 138 real properties (Table 4), which were excluded/adjusted in the CY 2021 RPCPPE; and**
14. **Moving forward, Inventory Committee to conduct complete annual physical inventory/count of properties of NTA-CO and PBOs pursuant to Section 38, Chapter 10 of the GAM for NGAs, Volume I.**
15. Management gave the following comments:

The Accounting Division made adjusting entries on the following: (i) reclassification of real properties amounting to P42.922 million to IP-Land account under Journal Entry Voucher (JEV) No. 2281363 dated April 2022; (ii) sale of property amounting to P0.896 million under JEV No. 2281312 dated January 2022; and (iii) derecognition of the commercial lot in Payocpoc, Bauang, La Union amounting to P153,430 under JEV No. 2281310 dated January 2022.

The properties valued at P33.564 million (Table 5) were already recorded in the books of the PBOs and deleted in the property records of NTA-CO.

**Table 5 – List of Properties Recorded by the NTA-PBOs that were deleted**

**in the Property Records of NTA-CO**

| **Location** | **Recorded in PBOs Books** | **Amount** |
| --- | --- | --- |
| Osmeña, Ilagan, Isabela | Isabela | P14,760,030 |
| Agri Pinoy Food Processing | Kadiwa ni Ani at Kita | 7,999,445 |
| Agri Pinoy Milling Complex | Kadiwa ni Ani at Kita | 5,312,450 |
| Cabanuagan, Jones, Isabela | Isabela | 2,790,040 |
| Centro, Echague, Isabela | Isabela | 1,833,300 |
| San Gabriel, Tuguegarao, Cagayan | Cagayan | 354,900 |
| Bangued, Abra | Abra | 273,600 |
| Maggayu, Tumauini, Isabela | Isabela | 240,000 |
|  |  | **P33,563,765** |

There are on-going actions undertaken by the concerned personnel which include: (i) coordination between the GSPD and Accounting Division on the reconciliation and adjustment of records to reflect the correct and reliable balances; and (ii) determination of the persons responsible for the safekeeping of property documents and the whereabouts of said documents, particularly those deleted from the property records.

The NTA Administrator issued Memorandum No. 047-2022 dated May 10, 2022, requiring the NTA PBOs to submit proof of recording of the properties in the books of the PBOs as basis in dropping from the property records of NTA-CO.

NTA commits to conduct the annual physical inventory of NTA-CO properties after the election period.

1. The following are the Audit Team’s rejoinders:
   1. Management’s initial actions and commitment to address the issues on the PPE-Land account are appreciated. Nevertheless, their full compliance with the recommendations will be monitored in the CY 2022 audit.
   2. With regard to the adjustments made in CY 2022 by the Accounting Division on the noted overstatement on the PPE-Land account, **we further recommended that the CY 2021 FSs be restated to reflect the correct balance of the PPE-Land account as at December 31, 2021**.
   3. It is requested that the supporting documents on the adjustments made in the books of accounts and the corrections in the property records be submitted to the Audit Team, for audit/verification purposes.
2. **In NTA Ilocos Norte PBO, the unreleased checks as of December 31, 2021 for approved loans and assistance to farmers/beneficiaries and payments to creditors totaling P12.639 million were not reverted back to the Cash in Bank account, thereby understating the said account by the same amount and the Financial Liabilities-Accounts Payable (A/P) account by P0.695 million, while overstating the Receivables - Loans Receivable, Service Income - Other Service Income, and Maintenance and Other Operating Expenses (MOOE) - Financial Subsidy accounts in the amounts of P7.239 million, P120,650 and P4.826 million, respectively, contrary to Paragraph 27 of IPSAS 1 and Section 56, Chapter 19 of the GAM for NGAs, Volume I.**
   * + - 1. Paragraph 27 of IPSAS 1 – Presentation of FSs states that:

*Financial statements shall present fairly the financial position, financial performance and cash flows of an entity. Fair presentation requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definition and recognition criteria for assets, liabilities, revenues and expenses set out in IPSASs. Xxx.*

* + - * 1. Likewise, Section 56, Chapter 19 of the GAM for NGAs, Volume I, provides that:

*All unreleased checks at the end of the year shall* ***be reverted back to the cash accounts.*** *A JEV shall be prepared to recognize the restoration of the cash equivalent to the unreleased checks and the recognition of the appropriate liability/payable account.* [Emphasis supplied]

* + - * 1. As at December 31, 2021, the balance of the Cash in Bank account recorded in the books of NTA Ilocos Norte PBO amounted to P7.534 million consisting of two bank accounts maintained with the Land Bank of the Philippines (LBP).
        2. Review of the Bank Reconciliation Statements (BRSs) provided by the NTA Ilocos Norte PBO Management showed that checks totaling P12.639 million were not released to the concerned payees as at December 31, 2021 and still in the custody of the Cashier at year-end. These checks were for the approved loans and assistance to farmers/beneficiaries and, payments to creditors.
        3. However, there was no entry/adjustment made by the NTA Ilocos Norte PBO to revert back the unreleased checks to the Cash in Bank account, contrary to Section 56, Chapter 19 of the GAM for NGAs, Volume I. As a result, the Cash in Bank account and the Financial Liabilities-A/P accounts were understated by P12.639 million and P0.695 million, respectively, while the Receivables - Loans Receivable, Service Income - Other Service Income, and MOOE - Financial Subsidy accounts were overstated in the amounts of P7.239 million, P120,650 and P4.826 million, respectively, respectively, summary of the misstatements is shown in Table 6.

**Table 6 – Summary of Misstatements Due to Non-reversion of the Unreleased Checks**

**to the Cash in Bank account**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Particulars** | **Accounts Affected - Understatement/(Overstatement)** | | | | |
| **Cash in Bank** | **Financial Liabilities – A/P** | **Loans Receivable** | **Service Income – Other Service Income** | **MOOE – Financial Subsidy** |
| Loans extended to farmer-beneficiaries | P7,118,350 | P - | P(7,239,000) | P(120,650) | P - |
| Financial Assistance/ Subsidy/Contribution | 4,826,000 | - | - | - | (4,826,000) |
| Payment to creditors | 695,054 | 695,054 | - | - | - |
|  | **P12,639,404** | **P695,054** | **P(7,239,000)** | **P(120,650)** | **P(4,826,000)** |

* + - * 1. **We recommended that top Management instruct the Branch Manager of Ilocos Norte PBO to direct the Accountant of the Branch to: (i) prepare appropriate accounting entry to revert back the unreleased checks as of December 31, 2021 to the Cash in Bank account to faithfully present the affected accounts in the FSs at year-end; and (ii) henceforth, ensure that unreleased checks at year-end be reverted back to the cash account(s) pursuant to Section 56, Chapter 19 of the GAM for NGAs, Volume I.**
        2. NTA Ilocos Norte PBO Management informed that the unreleased checks dated December 13 to 29, 2021 represent assistance granted to tobacco/farmer borrowers under the 2021-2022 Curing Barn Assistance Project (CBAP) and 2021-2022 Tobacco Contract Growing System (TCGS) which will be released to the farmer-cooperators anytime. These checks will be cancelled in case the financial assistance will not be released to the concerned farmer-cooperators and the Accountant will prepare a JEV to revert the same to the Cash in Bank account.
        3. As rejoinders, the Audit Team acknowledged the commitment of NTA Ilocos Norte PBO to revert the unreleased checks to the Cash in Bank account, which will be monitored in the CY 2022 audit. Moving forward, **we further recommended that the Ilocos Norte PBO Management instruct the Cashier of the Branch to submit to the Accountant the list of unreleased checks at the end of the year, as basis of the latter in preparing a JEV to revert back the same to the Cash in Bank account.**

1. **The** **Allowance for Impairment Losses on Receivables, Investments and Other Non-Current Assets accounts as at December 31, 2021 was net overstated by P9.791 million, while the Accumulated Surplus/(Deficit) account was net understated by the same amount, due to: (a) inconsistent/ incorrect rates used in the computation of Allowance for Impairment on Loans Receivable of NTA Isabela PBO and Kadiwa ni Ani at Kita; and (b) different period observed by the PBOs in aging Loans Receivable subject to impairment loss; thus, resulted in over provision of Allowance for Impairment on Loans Receivable, and Other Non-Current Assets accounts totaling P25.293 million; under provision of Allowance for Impairment on Trade Receivables, Due from Officers and Employees, and Other Receivables accounts totaling P1.808 million; and non-provision of Allowance for Impairment on Due from NGAs/Government Owned and Controlled Corporations (GOCCs) and Investments accounts totaling P13.694 million, contrary to Paragraphs 67 and 68 of IPSAS 29, Paragraph 16 of IPSAS 3, and NTA’s policy on the measurement and revaluation of Receivables.**
   1. This is a reiteration with updates of prior years’ audit observations because Management was not able to implement the audit recommendations.
   2. Pertinent provisions of IPSAS 29 – Financial Instruments: *Recognition and Measurement,* provide that:

*Paragraph 67. An entity shall assess at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired. Xxxx*

*Paragraph 68. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Xxxx*

*Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the holder of the asset about the following loss events:*

* 1. *Significant financial difficulty of the issuer or obligor;*
  2. *A breach of contract, such as default or delinquency in interest or principal payments;*

*Xxxx*

* 1. Likewise, Paragraph 16 of IPSAS 3 – *Changes in Accounting Policies, Changes in Accounting Estimates and Errors* states that:

*An entity shall select and apply its accounting policies consistently for similar transactions, other events and conditions, unless an IPSAS specifically requires or permits categorization of items for which different policies may be appropriate. If a Standard requires or permits such categorization, an appropriate accounting policy shall be selected and applied consistently to each category.*

* 1. Under Note 3.14(a) to FSs, the NTA’s policy on the measurement of uncertainty as well as the determination of Allowance for Impairment Losses provides as follows:

*3.14 Measurement of Uncertainty*

*Xxxx*

*Items requiring the use of significant estimates include, but not limited to the following:*

*a. Allowance for impairment losses*

*In assessing impairment, Management estimates the recoverable amount of each asset based on expected future cash flows. Estimation uncertainty relates to assumptions about future operating results.*

*In the case of trade receivables, allowance for impairment losses shall be provided in an amount based on collectability of receivable balances and evaluation of such factors as aging of accounts, collection experiences of the agency, expected loss experiences and identified doubtful accounts as required under Section 10, Chapter 7 of Government Accounting Manual for National Government Agencies (NGAs) xxx. The provision for allowance for doubtful accounts of NTA, approved through Board Resolution No. 620-2017 dated January 13, 2017, are computed as follows:*

|  |  |
| --- | --- |
| ***Age of account*** | ***Percentage of allowance*** |
| *Above 10 years* | *100%* |
| *Above 5 years to 10 years* | *40%* |
| *Above 1 year to 5 years* | *5%* |

* 1. As at December 31, 2021, the balances (gross) of the Receivables (excluding Other receivables-disallowances and charges) and the Non-current assets accounts totaled P1.424 billion, while the Allowance for impairment losses amounted to P563.073 million or carrying amount of P861.133 million, as presented in Table 7.

**Table 7 – Carrying Amounts of Receivables and Non-Current Assets Accounts**

**As at December 31, 2021**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Accounts Classification** | **Note** | **Gross Amount** | **Allowance for Impairment Losses** | **Carrying Amount** |
| Loans and Receivables | 6.1 | P1,275,960,668 | P 438,953,315 | P837,007,353 |
| Inter-agency Receivables | 6.2 | 693,525 | - | 693,525 |
| Other Receivables (excluding Disallowances and Charges) | 6.3 | 17,469,162 | 10,286,591 | 7,182,571 |
| Non-Current Assets (Investments and Other non-current assets) | 8, 10.2 | 130,081,696 | 113,832,637 | 16,249,059 |
|  |  | **P1,424,205,051** | **P 563,072,543** | **P861,132,508** |

* 1. Results of the test of reasonableness performed to determine the adequacy of the Allowance for Impairment Losses on Receivables and Non-Current Assets accounts as at December 31, 2021 [computed by multiplying the balance of accounts indicated in the aging of receivables and schedules of non-current assets with the corresponding rates of Allowance for Impairment as disclosed under Note 3.14(a) to FSs] revealed that the Allowance for Impairment Losses provided for the Receivables and Non-Current Assets accounts presented in Table 7 was net overstated by P9.791 million, summary of the computation per audit vis-a-vis per books is shown in Table 8.

**Table 8 – Comparison of Allowance for Impairment**

**per Books vis-à-vis per Audit as at December 31, 2021**

| **Account Title** | **Note** | **Balance as at 12/31/2021** | **Per Books** | **Per Audit** | **Under/(Over) Provision** |
| --- | --- | --- | --- | --- | --- |
| **Over provision of Allowance for Impairment:** | | | | | |
| Loans Receivable | 6.1 | P1,048,067,914 | P265,714,695 | P240,607,870 | P(25,106,825) |
| Other Non-Current Assets | 10.2 | 115,959,263 | 113,832,637 | 113,646,486 | (186,151) |
|  |  | **P1,164,027,177** | **P379,547,332** | **P354,254,356** | **P(25,292,976)** |
| **Under provision of Allowance for Impairment** | | | | | |
| Trade Receivables | 6.1 | P 49,187,378 | P 9,321,122 | P 10,278,869 | P 957,747 |
| Due from Officers and Employees | 6.3 | 4,236,035 | 280,599 | 723,858 | 443,259 |
| Other Receivables | 6.3 | 13,233,127 | 10,005,992 | 10,413,002 | 407,010 |
|  |  | **P 66,656,540** | **P 19,607,713** | **P 21,415,729** | **P 1,808,016** |
| **Non-provision of Allowance for Impairment Loss** | | | | | |
| Due from NGAs/GOCCs | 6.2 | P 693,525 | P - | P 693,525 | P 693,525 |
| Investments | 8 | 14,122,433 | - | 13,000,000 | 13,000,000 |
|  |  | **P 14,815,958** | **P -** | **13,693,525** | **13,693,525** |
|  |  | **P1,245,499,675** | **P399,155,045** | **P389,363,610** | **P(9,791,435)** |

* 1. The reasons or causes for the net over provision in the Allowance for Impairment Losses amounting to P9.791 million are as follows:

1. Inconsistent/incorrect rates used in the computation of Allowance for Impairment Losses on Loans Receivable of NTA Isabela PBO and Kadiwa ni Ani at Kita; and
2. Different period observed by the PBOs in aging Loans Receivable subject to impairment loss as presented in Table 9.

**Table 9 - Basis of Allowance for Impairment on Loans Receivable of NTA PBOs**

| **Office/PBO** | **Basis** |
| --- | --- |
| CO | Actual age of the receivables (from the date the loan is granted up to the end of the year) |
| Abra | Aging starts after due date of the account |
| Cagayan | Aging starts after due date of the account |
| Candon | Aging starts after due date of the account |
| Ilocos Norte | Aging starts after due date of the account |
| Isabela | Aging starts after due date of the account |
| La Union | Actual age of the receivables (from the date the loan is granted up to the end of the year) |
| Pangasinan | Aging starts after due date of the account (from the date the loan is granted up to the end of the year) |
| Vigan | Actual age of the receivables |

* 1. The deficiencies noted in the computation of the Allowance for Impairment Losses are not in accord with Paragraphs 67 and 68 of IPSAS 29, Paragraph 16 of IPSAS 3, and NTA’s policy on the measurement of the Allowance for Impairment on Receivables, Investments and Other Non-current Assets, consequently the Allowance for Impairment Losses account was net overstated by P9.791 million, while the Accumulated Surplus/(Deficit) account was understated by the same amount.
  2. **We reiterated our previous years’ audit recommendations that Management instruct the Accountants of NTA-CO and PBOs to:**

1. **Recalculate and adjust the Allowance for Impairment Losses to fairly present the balances of the Receivables, Investments, and Non-Current Assets accounts in the FSs, in compliance with the pertinent provisions of IPSAS 3 and 29 as well as NTA’s policy on Allowance for Impairment Losses; and**
2. **Monitor regularly evidence of impairment of the Agency’s assets to ensure adequate provision for Allowance for Impairment Losses, once the conditions or observable data mentioned in Paragraph 68 of IPSAS 29 are present.**
   1. **We likewise recommended that Management consider amending the NTA’s policies and guidelines relative to Allowance for Impairment, to include, among others, (i) rates used in the computation of Allowance for Impairment; and (ii) reckoning date to be used in determining the age of an account for uniformity and consistency of application by the CO and PBOs.**
   2. Management commented that the NTA policy on aging is computed from the due date not on the release of the loan per Board Resolution No. 620-2017 dated January 13, 2017; thus, the PBOs were instructed to make the necessary adjusting entries in conformity with the Board Resolution as to the computation of Allowance for Impairment on Loans Receivable. Furthermore, JEV No. 2281405 was prepared in May 2022 as partial compliance with the audit observation.
   3. As a rejoinder, the Audit Team appreciated Management’s partial compliance with the audit recommendations; their full compliance thereof will be monitored in the CY 2022 audit.
3. **The faithful representation in the FSs of the balance of the Receivables-Loans Receivable account as at December 31, 2021 totaling P1.048 billion could not be established due to inclusion of inactive or non-moving accounts for 10 years or more in the books of NTA-CO and eight PBOs, namely, Candon, La Union, Batac, Isabela, Abra, Vigan, Pangasinan and Iloilo aggregating P132.145 million, which were not supported with Subsidiary Ledgers (SLs), loan documents and other reports, contrary to Paragraph 3.26 of the CFGPFRPSE.**
   * + 1. Paragraph 3.26 of the CFGPFRPSE provides that:

*Verifiability is the quality of information that helps assure users that information in GPFRs faithfully represents the economic and other phenomena that it purports to represent.*

* + - 1. Audit disclosed that the balance of the Receivables - Loans Receivable account as at December 31, 2021 of P1.048 billion (Note 6.1 to FSs) included dormant accounts of NTA-CO and eight PBOs, namely, Candon, La Union, Batac, Isabela, Abra, Vigan, Pangasinan and Iloilo, aggregating P132.145 million which remained inactive or non-moving in the books for 10 years or more and where settlement/collectability could no longer be ascertained due to absence of SLs, loan documents and other reports, details are presented in Table 10.

**Table 10 – Dormant Loans Receivable Without SLs, Loan Documents**

**and Other Reports as at December 31, 2021**

| **CO/PBOs** | **Dormant Loans Receivable** | **Causes/Reasons** |
| --- | --- | --- |
| Vigan | P 33,292,557 | * Unable to locate SLs due to records and documents not properly turned over by the former Accountant to the incumbent Accountant |
| Candon | 27,789,060 | * Unable to locate SLs due to records and documents not properly turned over by the former Accountant to the incumbent Accountant |
| La Union | 21,635,898 | * Absence of documents to support the Loans Receivable |
| Ilocos Norte | 14,602,419 | * Absence of complete documents to support the Loans Receivable |
| Pangasinan | 10,514,450 | * Absence of documents on dormant receivable accounts turned over by the former Accountant * SLs, loan documents or schedules to support the accounts were destroyed by Typhoon Peping in CY 2009 wherein all municipalities in Pangasinan were flooded |
| Abra | 9,052,751 | * Unable to locate SLs due to records and documents not properly turned over by the former Accountant to the incumbent Accountant |
| Central Office | 5,414,040 | * No documents are available since these are dormant accounts from the eight defunct tobacco agencies merged into NTA |
| Isabela | 5,270,188 | * Absence of SLs as basis in tracing the balances of each of the borrowers * No turnover of loan documents between the outgoing and incoming Branch Accountant |
| Iloilo | 4,573,689 | * PBO is already closed * Absence of documents to determine the details of the receivables |
|  | **P132,145,052** |  |

* + - 1. The SL is a book of final entry containing the details or breakdown of the balance of the controlling account appearing in the General Ledger (GL). Basically, the postings in the SLs generally come from the source documents, i.e., Disbursement Vouchers (DVs) and JEVs and their supporting documents.
      2. The SLs should contain information such as name of creditor/supplier, office address, contact person, contact number, e-mail address, date, particulars, reference, debit, credit and balance.
      3. Thus, the SLs are relevant accounting records in the preparation of Schedules and aging of accounts. In the absence thereof, the Accounting Division will encounter difficulty in the preparation of reliable and verifiable FSs which is used by the Management and other stakeholders of the NTA in rendering economic decision. Moreover, the purpose of check and balance in recording of transactions is defeated in the absence of SLs.
      4. Due to the absence of SLs, loan documents and other reports to support the account balances of loans receivables totaling P132.145 million, the faithful representation and verifiability of the balance of the Receivables – Loans Receivable account totaling P1.048 billion could not be established, contrary to Paragraph 3.26 of the CFGPFRPSE.
      5. **We recommended that Management:**
  1. **Institute all measures to locate the supporting documents or schedules to establish actual loan balances and validity of Loans Receivable account to faithfully present the balance of this account in the FSs as well as facilitate collection thereof; and**
  2. **Moving forward, direct the Accounting Division of PBOs concerned to prepare SLs by coordinating with the Operations Division and verifying source documents, as basis in sending billing statements to farmer-borrowers, and demand letters for those with past due or delinquent accounts.**
     + 1. Management committed to coordinate with the PBO Accountants and Management Information System Division for the automation of the accounting system or the loan assistance system. Likewise, the NTA Pangasinan PBO assured that they will exhaust all efforts to obtain records and relevant documents to support the balance of the Loans Receivable.
       2. As a rejoinder, the Audit Teams in NTA-CO and PBOs acknowledged Management’s commitment to address the issues on the Loans receivable. Their full compliance with the audit recommendations will be monitored in the CY 2022 audit.

1. **NON-FINANCIAL**
2. **The collectability of the dormant Loans Receivable, which remained inactive or non-moving in the books of accounts for more than 10 years, totaling P134.112 million as of December 31, 2021, representing 12.80 per cent of total Loans Receivable of P1.048 billion, is already remote, if not nil, due to, among others: (a) lack of loan documents/records to establish the validity of the accounts as there was no proper turn-over of records from the former PBO Accountants to the incumbent Accountants; (b) unknown whereabouts/ addresses of some of the farmer-borrowers; (c) some of the farmer-borrowers were already deceased; and (d) Statement of Accounts (SOAs) were not regularly sent/issued to farmer-borrowers and/or demand letters were not sent to defaulting farmer-borrowers; thus, deprived the NTA of additional funds for its operations, to pay/settle its loan obligations with the PDIC, and/or to finance projects aligned with its mandate.**
3. This is a reiteration with updates of the observation contained in the previous years' Annual Audit Reports (AARs) since Management was not able to implement the recommendations.
4. Item 5.4 of COA Circular No. 2016-005 dated December 19, 2016 defined dormant receivable accounts as those accounts which balances remained inactive or non-moving in the books of accounts for ten 10 years or more and where settlement/collectability could no longer be ascertained.
5. Moreover, Item 8.2 of the same Circular states that:

*The Head of the government entity shall file the request for authority to write off dormant receivable accounts, unliquidated cash advances, and fund transfers to the COA Audit Team Leader (ATL) and/or Supervising Auditor (SA). No filing fee is required.*

1. The Aging of the Loans Receivable account amounting to P1.048 billion as of December 31, 2021 is presented in Table 11.

**Table 11 - Aging of Loans Receivable as of December 31, 2021**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Office/PBO/Project** | **Less than**  **One Year** | **More than One to Five Years** | **More than Five to 10 Years** | **More than**  **10 Years** | **Total** |
| CO | P - | P - | P 18,874,840 | P 5,414,040 | P 24,288,880 |
| Candon | 62,697,308 | 100,642,663 | 42,662,414 | 27,789,060 | 233,791,445 |
| La Union | 53,480,532 | 51,214,548 | 34,186,745 | 21,635,898 | 160,517,723 |
| Batac, Ilocos Norte | 33,769,823 | 59,298,601 | 51,632,577 | 14,602,419 | 159,303,420 |
| Isabela | 98,677,427 | 4,589,508 | 5,673 | 5,270,189 | 108,542,797 |
| Abra | 24,025,569 | 40,323,562 | 34,383,583 | 9,052,751 | 107,785,465 |
| Vigan | 16,743,706 | 39,383,212 | 17,424,844 | 33,292,557 | 106,844,319 |
| Pangasinan | 13,751,997 | 58,859,586 | 7,590,320 | 10,514,450 | 90,716,353 |
| Tuguegarao, Cagayan | 16,179,510 | 20,992,430 | 7,009,698 | 1,813,993 | 45,995,631 |
| Kadiwa ni Ani at Kita | - | - | 5,554,751 | 153,441 | 5,708,192 |
| Iloilo | - | - | - | 4,573,689 | 4,573,689 |
|  | **P319,325,872** | **P375,304,110** | **P219,325,445** | **P134,112,487** | **P1,048,067,914** |

1. Perusal of the Aging of the Loans Receivable totaling P1.048 billion (Table 11) revealed that P134.112 million or 12.80 per cent remained inactive or non-moving in the books of accounts for more than 10 years. The causes/reasons for the dormancy of these accounts are summarized in Table 12.

**Table 12 – Causes/Reasons for the Dormancy of Loans Receivable**

| **CO/PBOs/Project** | **Dormant Loans Receivable**  **(a)** | **Total Loans Receivable**  **(b)** | **Percentage Dormant / Total Loans Receivable**  **(a/b)** | **Causes/Reasons for the dormancy of the accounts** |
| --- | --- | --- | --- | --- |
| Vigan | P 33,292,557 | P 106,844,319 | 31.16% | Former Accountant did not properly turn over to the incumbent Accountant the pertinent records and documents. |
| Candon | 27,789,060 | 233,791,445 | 11.89% | -do- |
| La Union | 21,635,898 | 160,517,723 | 13.48% | The Branch Accountant is not aware of the details of the receivables because the balances were already recorded in the books when he assumed Office.  Some of the farmer-borrowers gave the following reasons for their inability to settle their outstanding loan balances: (a) they are only tenants of the lands they cultivate; (b) quantity planted was only minimal; (c) nobody collected payment from them; (d) no statement of accounts or balances were given/sent by NTA; and (e) they planted other crops like corn and vegetables.  Inquiry with the Branch Accountant revealed that only few demand letters were sent to farmer-borrowers in CY 2021 due to lack of time and manpower considering that he is a one-man team in the Accounting Division, and the frequent adoption of alternative work arrangements due to Coronavirus Disease 2019 (COVID-19) pandemic. |
| Batac, Ilocos Norte | 14,602,419 | 159,303,420 | 9.17% | Some of the farmer-borrowers gave the following reasons for their inability to settle their outstanding loan balances: High cost of inputs in growing and drying of tobacco, inadequate sales proceeds to cover amortization, application of payments to interests and penalties, damaged tobacco crops, and farmers’ notion that loans granted to them are dole-outs. |
| Pangasinan | 10,514,450 | 90,716,353 | 11.59% | No documents relative to dormant receivable accounts were turned over by the former Accountant when the incumbent Accountant assumed office, and the balances were only carried over in the books. Likewise, PBO Management requested five years ago for budget from NTA-CO to defray expenses in the issuance of demand letters to more than 3,000 farmers with dormant accounts, however, the request was denied. |
| Abra | 9,052,751 | 107,785,465 | 8.40% | Former Accountant did not properly turn over to the incumbent Accountant the pertinent records and documents. |
| CO | 5,414,040 | 24,288,880 | 22.29% | No documents are available since these are dormant accounts from the eight defunct tobacco agencies merged to the NTA. Moreover, these accounts remained unsettled due to unknown whereabouts of the farmer-borrowers or there are farmer-borrowers who were already deceased. |
| Isabela | 5,270,189 | 108,542,797 | 4.86% | The names and whereabouts of the debtors were unknown, particularly debtors of the CBAP due to damage caused by Typhoon Juan that occurred in the City of Ilagan in October 2010, including loan documents as basis in verifying the validity of the accounts and other necessary information. Moreover, there was no turnover of loan documents between the outgoing and incoming PBO Accountant. |
| Iloilo | 4,573,689 | 4,573,689 | 100.00% | The PBO is already closed and there were no documents retrieved to determine the details of the dormant accounts. |
| Tuguegarao, Cagayan | 1,813,993 | 45,995,631 | 3.94% | No demand letters were sent to defaulting farmer-borrowers to collect outstanding loan balances. |
| Kadiwa ni Ani at Kita | 153,441 | 5,708,192 | 2.69% | PBO Management did not send any demand or reminder letters to the borrowers/debtors in CY 2021. |
|  | **P134,112,487** | **P1,048,067,914** | **12.80%** |  |

1. As can be gleaned in Table 12, the most common causes/reasons for the dormancy of the Loans Receivable are: (a) absence of loan documents/records to establish validity of the accounts due to lack of proper turnover by the former PBO Accountants to incumbent Accountants, (b) unknown whereabouts of farmer-borrowers precluding the sending of SOAs and demand letters, (c) farmer-borrowers were already deceased, and (d) no SOAs and/or demand letters sent to farmer-borrowers.
2. The collectability of the dormant Loans Receivable totaling P134.112 million, which remained inactive or non-moving for more than 10 years, is already remote, if not nil, for reasons stated in Table 12; thus, deprived the NTA of additional funds for its operations, to pay/settle its loan obligation with the PDIC, and/or to finance projects aligned with its mandate.
3. **We reiterated our previous years’ recommendations that Management:**
   1. **Require the former PBO Accountants to submit or turn over all the loan documents and accounting records still in their possession to the incumbent Accountants;**
   2. **Require the NTA-CO and PBOs Administrative Departments to ensure that proper turn-over of documents is made by retiring, resigning or reassigned/transferring employees before clearance from money, property and all accountabilities is issued to them; and**
   3. **Direct the Accountants and other concerned officials/employees of the NTA-CO and PBOs 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 Loans Receivable accounts aged more than 10 years, if all efforts exerted in collecting the accounts remained improbable.**
4. **We also recommended that Management instruct the Accountants of PBOs to:**
5. **Communicate in writing with the relatives of the deceased farmer-borrowers to request authenticated copy of the death certificate or obtain said document from the Philippine Statistics Authority, as one of the documents to support the request for authority to write-off;**

1. **Intensify collection efforts by sending religiously the SOAs/ demand letters, through registered mail with return card, to farmer-borrowers, so as to prevent/minimize the accumulation of dormant accounts; and**
2. **Consider initiating legal action against defaulting farmer-borrowers with long overdue accounts, if no settlement is made despite demand letter(s) sent.**
3. The Management of PBOs and Project submitted the following comments:
   * + - 1. NTA La Union Management informed that the collectability of the dormant receivables is already remote because most of the debtors, such as, trading/buying stations and cooperatives were no longer operating/existing, specifically the borrowers under the Research and Regulations Fees and TCGS account. Moreover, they will coordinate with NTA-CO and will prepare the necessary documents to support their request for authority to write-off the dormant accounts in accordance with COA Circular No. 2016-005.
         2. NTA Ilocos Norte Management informed that they have exerted serious effort to collect overdue and delinquent accounts, but these remained uncollected. They have also included in the existing guidelines in the granting of loans, not to grant production assistance to those farmer-beneficiaries who have not paid at least 85 per cent of their existing loans.
         3. NTA Isabela Management agreed to gather the needed documents to support their request for authority to write-off dormant accounts.
         4. NTA Pangasinan Management assured that they will continue to send demand letters to debtors especially those with accounts aged more than 10 years. They will request the Barangay Officials and the Tobacco Production and Regulation Officers (TPROs) to gather information on the whereabouts of debtors with dormant receivables. In case all their efforts fail, the Branch Manager will consider requesting for authority to write-off the dormant accounts.
         5. Kadiwa ni Ani at Kita Management informed that demand letters were already sent to the borrowers. Likewise, they committed to formulate clear-cut operational guidelines in the granting of loans before the full operation of the project in CY 2022.
4. As rejoinders, the Audit Teams assigned at NTA PBOs acknowledged the commitment of Management to address the issues on the dormant Loans Receivable. Their full compliance will be monitored by the Audit Teams in the CY 2022 audit. Moving forward, **we further recommended that Management consider the financial capability of the farmer-borrowers before granting loans, to avoid accumulation of unpaid accounts.**
5. **NTA Abra, Candon and Vigan PBOs granted new loans totaling P9.691 million to farmer-borrowers despite the latter still have existing past due loan balances from other projects aggregating P9.585 million, in view of the following lapses in granting and recording of loans, among others: (a) non-enforcement of blacklisting of farmer-borrowers who are delinquent or with past due loan balances; (b) inadequate monitoring of the loan accounts of the farmer-borrowers due to absence of master list showing their outstanding loan balances on all projects, thus delinquent borrowers could not be easily identified; (c) lack of coordination between Operations and Accounting Divisions of the PBOs, resulting in the granting of loans to ineligible farmer-borrowers; and (d) lack of updated loan records and SLs due to voluminous workload of the PBO Accountant, hence, the latter could not readily verify if the farmer-borrower/s still have existing unpaid loans. Consequently, other qualified farmer-borrowers were deprived of the opportunity to avail of the loan program and resulted in the accumulation of unpaid accounts.**
   1. The Implementing Guidelines of the various projects/program of the NTA, which include, among others, CBAP, Improved Tobacco Seedling Project (ITSP), Integrated Farming and Other Income Generating Activities Project (IFOIGAP)-Rice, IFOIGAP-Tobacco, Tobacco Farm Mechanization Program (TFMP), Beef Cattle Production Assistance Project (BCPAP), provided the criteria or qualifications to be entitled to the different loan programs, specifically on the credit standing, as summarized in Table 13.

**Table 13 - Criteria/Qualifications for Loan Entitlement**

| **Project/Program Title** | **Reference in Implementing Guidelines** | **Provision in the Implementing Guidelines** |
| --- | --- | --- |
| CBAP | Item 1(c) | Must not have availed of a similar assistance in the past including Multi-Purpose Curing Barn (MPCB), except those who were affected by natural calamities and those who have fully paid previous availments. |
| ITSP | Section IX. Violation of any undertaking | Violation of any provision/s of this AGREEMENT shall subject the violator/s to the following sanctions/penalties:   1. Blacklisting from future participation in any project of NTA; 2. Immediate payment of production assistance including interest charges and other fees, which becomes immediately due and demandable; and 3. Xxx. |
| IFOIGAP-Rice | Item 3 (g) | Has attained at least 75 per cent repayment of production assistance availed for IFOIGAP-Rice for Wet Season (WS) 2020 project or prior years, except those affected by recent typhoons. |
| IFOIGAP-Tobacco | Item II. B(g) | Must pay the full payment amount of production assistance availed. Failure on the part of farmer-cooperator to pay the full amount of production assistance will disqualify him from availing any production assistance program in the future. However, if the cause of non-payment of the production assistance is force majeure, the farmer-cooperator shall execute a promissory note indicating therein the restructured schedule of payment for a two-year period to fully pay the loan obligation. |
| TFMP | Item III (A) (4) | Willing to conscientiously and religiously pay and remit to the NTA through its assigned TPROs, in accordance with the schedule of amortizations and the time agreed upon in the schedule of payments. |

* 1. Audit disclosed that NTA Abra, Candon and Vigan PBOs granted new loans totaling P9.691 million to farmer-borrowers despite the latter still have existing past due loan balances from other projects, namely, CBAP, ITSP, IFOIGAP-Rice, IFOIGAP-Tobacco, TFMP, and BCPAP aggregating P9.585 million, as summarized in Table 14, contrary to the pertinent provisions of the respective Implementing Guidelines of the projects/program, as indicated in Table 13.

**Table 14 - Summary of New Loans Granted to Farmer-Borrowers in CY 2021**

**and Outstanding Loans Balances Prior to CY 2021**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Particulars** | **Abra** | **Candon** | **Vigan** | **Total** |
| **New Loans Granted in CY 2021:** |  |  |  |  |
| CBAP | P1,547,813 | P 514,800 | P 499,598 | P2,562,211 |
| ITSP | - | 92,775 | - | 92,775 |
| IFOIGAP-Rice | 97,397 | 1,042,860 | 44,215 | 1,184,472 |
| IFOIGAP-Tobacco | 37,207 | 781,861 | 50,378 | 869,446 |
| TFMP | 1,944,000 | - | - | 1,944,000 |
| BCPAP | 657,450 | 253,800 | 2,127,150 | 3,038,400 |
|  | **P4,283,867** | **P2,686,096** | **P2,721,341** | **P9,691,304** |
| **Loan Balances Prior to Grant of New Loans in CY 2021:** | |  |  |  |
| CBAP | P - | P 907,440 | P2,462,961 | P3,370,401 |
| ITSP | 494,753 | 963,415 | 1,202,982 | 2,661,150 |
| IFOIGAP-Rice/Tobacco | 181,786 | 798,653 | 633,670 | 1,614,109 |
| TFMP | 1,647,389 | 291,468 | - | 1,938,857 |
|  | **P2,323,928** | **P2,960,976** | **P4,299,613** | **P9,584,517** |

* 1. The non-payment by the farmer-borrowers of their previous loans is already a ground for disqualification to avail new loan from NTA Abra, Candon and Vigan PBOs pursuant to the respective Implementing Guidelines of the projects/program.
  2. Audit disclosed several lapses in the granting of loans from the different projects/program of the Agency; thus, some of the farmer-borrowers were able to avail of new loans despite they still have outstanding loans with the NTA, as discussed hereunder.

*Non-enforcement of blacklisting of farmer-borrowers who are delinquent or with past due loan balances*

* 1. The Implementing Guidelines of some of the programs, activities and projects (PAPs) of NTA include provision on the blacklisting of farmer-borrowers who are delinquent or with past due loan balances, as indicated in Table 15.

**Table 15 - Provision in the Implementing Guidelines of PAPs on the**

**Blacklisting of Farmer-Borrowers**

| **Project/Program Title** | **Reference in Implementing Guidelines** | **Provision in the Implementing Guidelines** |
| --- | --- | --- |
| CBAP | Sanctions and Violations (1) c. | The following violations of farmer-cooperators are punishable by Blacklisting:   1. Xxxx 2. Non-payment of Curing Barn Assistance in accordance with pre-agreed schedule of repayments. |
| IFOIGAP-Rice | Sanctions and Violations: | The following violations of the farmer-cooperators are punishable by blacklisting:  a. Xxxx  b. Xxxx   1. Non-payment of production assistance in accordance with the schedule of repayments, plus penalty charges of 3 per cent per month of delay, except for those affected by recent typhoons. |
| IFOIGAP-Tobacco | L. Sanctions and Violations | 1. The following violations of farmer-cooperators/Pilot Block Farm (PBF) are punishable by Blacklisting: 2. Xxxx   Xxxx   * + - * 1. Non-payment of production/facility assistance in accordance with schedule of repayments. |
| TFMP | XII. Sanctions and Violations | 2. Non-payment of facility assistance in accordance with schedule of repayments by the Association/Cooperative beneficiaries or individual farmer beneficiaries (IFB) is punishable by blacklisting. |

* 1. The non-enforcement of the blacklisting policy of the NTA resulted in the grant of new loans and assistance to farmer-borrowers who are delinquent or with past due loan balances in other loan programs of the NTA.

*Inadequate monitoring of the loan accounts of the farmer-borrowers due to absence of master list showing their outstanding loan balances on all projects, thus delinquent borrowers could not be easily identified*

* 1. Verification showed that there was inadequate monitoring of the loan accounts of farmer-borrowers being undertaken by the Operations Division of NTA Abra, Candon and Vigan PBOs. These PBOs do not maintain a database of farmer-borrowers indicating the details and status of the loans granted, thus delinquent borrowers could not be easily and readily identified. This resulted in the continuous grant of loans to supposedly blacklisted borrowers.
  2. The master list of farmer-borrowers should indicate, among others, the outstanding loan balances of the tobacco farmers on all NTA projects/program, which would be one of the bases in evaluating whether the farmer-borrower is eligible for new loan on other loan program(s) of the NTA.

*Lack of coordination between Operations and Accounting Divisions of the PBOs, resulting in the granting of loans to ineligible farmer-borrowers*

* 1. The Operations Division of the PBOs has the overall and direct supervision on the different PAPs implemented by the NTA within their respective area. It is responsible in the pre-screening of loan applicants and processing of loan documents of the farmer-borrowers based on the Implementing Guidelines of the various NTA PAPs.
  2. On the other hand, the Accounting Division of the PBOs is in-charge in the processing, recording and release of loans to farmer-borrowers, billing and issuance of SOAs and demand letters as well as the collection of loan payments and other fees related thereto.
  3. The evaluation/assessment made by the Operations Division of the PBOs on the farmer-applicants is the basis of the Accounting Division of the PBOs to process and release the loans to the farmer-borrowers concerned.
  4. However, it was noted that loans and assistance were granted to farmer-borrowers who are delinquent or have past due loan balances in other or same loan programs of the NTA, as shown in Table 14; as such, this would indicate the lack of coordination between Accounting and Operations Divisions of the PBOs to check from their respective records whether the farmer-borrower/s are qualified to avail of the loan program.

*Lack of updated loan records and SLs due to voluminous workload of the PBO Accountant, hence, the latter could not readily verify if the farmer-borrower/s still have existing unpaid loans*

* 1. The PBO Accountants are in-charge of the whole accounting cycle, from preparation of JEVs, posting to the special journals or books of original entry consisting of Cash Receipts and Deposits Journal, Checks Disbursements Journal and General Journal, then to the GLs and SLs or the books of final entry, to come up with the Trial Balance and the FSs of the PBO which are submitted to the NTA-CO.
  2. Aside from their accounting functions, the PBO Accountants provide financial support services to the NTA through, among others, maintenance and updating of loan records and SLs of farmer-borrowers who availed of the loan program(s) implemented by the NTA. The PBO Accountants also monitor the status of loans of the farmer-borrowers.
  3. Considering the voluminous workload of the PBO Accountants, the loan records and SLs of the farmer-borrowers were not updated, hence verification whether the farmer-borrowers have existing unpaid loans becomesdifficult.
  4. It is emphasized that the gross balance of the Loans Receivable as of December 31, 2021 amounted to P1.048 billion which represents 54.98 per cent of the total assets of the NTA of P1.906 billion.
  5. In view of the foregoing lapses noted in the granting and recording of the various loan programs in NTA Abra, Candon and Vigan PBOs, there were farmer-borrowers who availed of new loans totaling P9.691 million despite they still have existing past due loan balances from other projects aggregating P9.585 million; hence, deprived other qualified farmer-borrowers the opportunity to avail of the loan program/s, and resulted in the accumulation of dormant accounts, considering that the loans were granted to farmer-borrowers already in default.
  6. **We recommended that top Management:**

1. **Direct the PBO Managers of NTA Abra, Candon and Vigan to:**
2. **Require the Operations Division to:**

**a.1.1. Ensure that blacklisting of farmer-borrowers with delinquent or with past due loan balances as provided in the Implementing Guidelines of the PAPs is strictly enforced; and**

**a.1.2. Prepare the master list of farmer-borrowers indicating therein, among others, the name of borrower; address; contact number; amount and date of loan; number of years to pay; due date; outstanding loan balances; and status of borrower whether active, delinquent or blacklisted on all loan programs of NTA, and provide the Accounting Division a copy thereof;**

1. **Direct the Operations and Accounting Divisions to closely coordinate with each other, specifically on the processing of loan applications of the farmer-borrowers, to ensure that no new loans are granted to delinquent farmer-borrowers;**
2. **Augment the personnel assigned at the Accounting Division who will be tasked to assist the Accountant in updating of loan records and SLs of the farmer-borrowers, and sending of SOAs and demand letters regularly; and**
3. **Stop granting new loans to farmer-borrowers with unpaid past due accounts to avoid accumulation of dormant receivables;**
4. **Set maximum limit of the overall amount of loan that can be availed of by a farmer-borrower to avoid over exposure to various NTA loan programs; and**
5. **Require the Internal Audit Division of NTA-CO to conduct review of the processes and procedures in the granting of loans to farmer-borrowers by the PBOs, to identify weaknesses in the internal control, specifically on the screening, availment, processing, recording and monitoring of loans under the various loan programs of NTA.**
   1. Management of NTA Abra, Candon and Vigan PBOs commented that qualifications of farmer-borrowers to avail new loans were based on the guidelines of the project implemented. They admitted that they have no database of delinquent borrowers but assured that all the recommendations are noted and will be complied with.
   2. As rejoinders, **we further recommended that Management direct the PBOs concerned to strictly adhere with the Implementing Guidelines of the various NTA PAPs to avoid granting new loans to farmer-borrowers with existing past due balances from other loan programs; otherwise, hold responsible the officers and employees concerned who do not comply with NTA’s policies and guidelines.** With regard to NTA Abra, Candon and Vigan PBOs’ commitment to implement the other audit recommendations, their full compliance thereof with be monitored by the Audit Teams concerned in the CY 2022 audit.
6. **The regularity of the assistance and loans granted to tobacco farmer-cooperators by NTA Pangasinan, Isabela and Candon PBOs under four PAPs, namely, CBAP, IFOIGAP-TCGS, Gulayan at Manukan sa Barangay II (GMB II), and Vegetable Seed Distribution II (VSD II), could not be ascertained due to the following deficiencies noted in the implementation of these PAPs:**
7. **The documentary requirements to support the grant of assistance and loans totaling P36.437 million to farmer-cooperators under CBAP and IFOIGAP–TCGS in NTA Pangasinan and Isabela PBOs were not submitted, contrary to Section 4(6) of Presidential Decree (PD) No. 1445 and Section A-1 of the Implementing Guidelines of the CBAP; thus, propriety of the disbursements cannot be established;**
8. **Loans granted twice to 58 tobacco farmer-cooperators by the NTA Pangasinan PBO, the first release (January and February releases CY 2020-2021 CBAP) amounting to P1.144 million, while the second release (December release CY 2021-2022 CBAP) amounting to P1.160 million, were not supported with certifications or documents to prove that previous loans have been fully paid and/or that the recipients were affected by natural calamities, contrary to Item 1.c of the Implementing Guidelines of CBAP; and**
9. **Fifty farmer-beneficiaries, five from NTA Candon PBO and 45 from NTA Pangasinan PBO, who were granted materials and inputs under the GMB II were also recipients of materials and inputs under the VSD II in CY 2021, contrary to Section III-B of the Implementing Guidelines of the GMB II and VSD II.**

*The documentary requirements to support the grant of assistance and loans totaling P36.437 million to farmer-cooperators under CBAP and IFOIGAP–TCGS in NTA Pangasinan and Isabela PBOs were not submitted, contrary to Section 4(6) of PD No. 1445 and Section A-1 of the Implementing Guidelines of the CBAP; thus, propriety of the disbursements cannot be established*

* 1. Section 4(6) of PD No. 1445, otherwise known as the Government Auditing Code of the Philippines, requires that all claims against government funds should be supported with complete documentation.
  2. The procedures in the grant of curing barn assistance under Section A-1 of the Implementing Guidelines of the CBAP are as follows:

*For the availment of assistance, the following documentary requirements shall be submitted by the Branch Office* *to the Farm Technology and Services Department (FTSD) for validation, segregated as follows:*

*Set 1 documents:*

*Branch Manager Indorsement*

*Consolidated Farm Plan and Budget* [FPB] *(CBAP Form No. 3)*

*Cluster MOA (per municipality) with list of availees*

*Guaranty letter of contracted buyer firm*

*Xxxx*

* 1. Item No. 9.1.3.1 of COA Circular No. 2012-001 dated June 14, 2012, provides that:

*Supplies, Materials, Equipment and Motor Vehicles*

*General Guidelines*

*The inventory of supplies, materials and equipment spare parts to be procured out of available funds shall at no time exceed the normal three-month requirement, subject to pertinent rules and regulations issued by competent authority. The heads of departments, bureaus, offices or agencies may increase their inventory of critical supplies and materials in anticipation of cost increases, or if necessitated by a national emergency or of an impending shortage in the items concerned, specifying maximum quantities of individual items. Unless otherwise approved by the President of the Philippines, upon the joint recommendation of the Secretary concerned and the Chairman of COA, these stocks shall not exceed one year’s requirement.*

*Xxxx*

*Additional Documentary Requirements*

* *Xxxx*
* *Original copy of Dealers/Suppliers’ Invoices showing the quantity, description of the articles, unit and total value, duly signed by the dealer or his representative, and indicating receipt by the proper agency official of items delivered.*
* *Xxxx*
* *Such other documents peculiar to the contract and/or to the mode of procurement and considered necessary in the auditorial review and in the technical evaluation thereof.*
  1. In view of the mandate of NTA under EO No. 245 to improve the economic and living conditions and raise the quality of life of the tobacco farmers, including those who depend upon the industry for their livelihood, the Agency implemented the CBAP and IFOIGAP – TCGS for the benefit of the tobacco farmers.
  2. The CBAP aims to promote the use of the NTA-prescribed curing barns/ sheds, particularly the use of *venturi* and *anawang* designs which economically is advantageous in terms of long life and efficient use of fuelwoods; increase the income of tobacco farmers through the production of properly cured leaf; and maximize the local tobacco farmer’s share of the markets for domestic cigarette manufacturing and growing exportation.
  3. Meanwhile, the IFOIGAP – TCGS shall provide the production, facility and marketing assistance directly to the farmer-beneficiaries to augment the production support being extended by buyer firms, Local Government Units (LGUs), Government Financial Institutions (GFIs) and cooperatives.
  4. The implementation of these projects in NTA Pangasinan and Isabela PBOs showed that there were 1,163 and 589 farmer-beneficiaries who were granted loans of P23.109 million under CBAP and P13.328 million under IFOIGAP – TCGS, respectively. However, documents were not submitted by the tobacco farmers to validate the loans assistance granted under the CBAP and IFOIGAP – TCGS in NTA Pangasinan and Isabela PBOs, as summarized in Table 16 (next page).
  5. Inquiry with the Supervising TPRO in NTA Pangasinan PBO revealed that the Cluster Memorandum of Agreement (MOA) is still for signature of the PBO Manager, the Administrator, and the Finance Department Manager as at audit date, and the required Guaranty Letter of contracted buyer firm was not applicable to the PBO because all tobacco farmer-cooperators-availees are already NTA-financed. Likewise, the Promissory Notes were not duly notarized due to unavailability of budget.

**Table 16 – Unsubmitted Documents to Support the Assistance and Loans Granted**

**to Farmer-Cooperators under the CBAP and IFOIGAP – TCGS**

**For CY 2021**

| **Project/PBO** | **No. of farmer-beneficiaries/ farmer-cooperators** | **Amount** | **Documents Not Submitted** |
| --- | --- | --- | --- |
| CBAP |  |  |  |
| Pangasinan | 754 | P14,929,200 | DVs were not supported with Set 1 documents consisting of indorsement from the concerned PBO Manager, consolidated Farm Plan and Budget, Cluster MOA with list of availees, and Guaranty Letter of contracted buyer firm, contrary to Section A-1 of the Implementing Guidelines of the CBAP |
| Isabela | 409 | 8,180,000 | Approved master list/s of qualified recipients as basis in verifying whether the beneficiaries are registered tobacco farmer/s |
|  | **1,163** | **23,109,200** |  |
| IFOIGAP - TCGS |  |  |  |
| Isabela | 589 | 13,328,000 | * 1. Copy of valid identification cards (IDs) of farmer-beneficiaries with signature affixed therein      * 1. Sales Invoice(SI)/Official Receipt (OR) issued by the supplier to support the payment of seedlings costing P3.332 million |
|  | **1,752** | **P36,437,200** |  |

* 1. In NTA Isabela PBO, the copies of the approved master list of the qualified recipients were not furnished to the concerned Audit Team. Likewise, the attached IDs of some tobacco farmer-cooperators to validate their legitimacy as a bona fide tobacco farmer were not IDs issued by the NTA but Senior Citizen IDs, Voter’s Certification as well as IDs issued by the Commission on Election and Bureau of Internal Revenue (BIR).
  2. Considering that the criteria in the selection of qualified beneficiaries consist of various records/documents specified in the Implementing Guidelines, non-submission of the required documents precluded the validation whether these tobacco farmer-cooperators are qualified based on the set standards.
  3. Compliance with the guidelines in the distribution of production assistance is necessary to assure orderly and smooth implementation of the project. Moreso, the completeness of documentation should always be observed in the disbursement of all government transactions as required under Section 4(6) of PD No. 1445.
  4. In view that the documentary requirements to support the assistance and loans granted to farmer-cooperators under the CBAP and IFOIGAP-TCGS in the total amount of P36.437 million were not submitted for audit, the propriety and legality of the disbursements could not be established.

*Loans granted twice to 58 tobacco farmer-cooperators by the NTA Pangasinan PBO, the first release (January and February releases CY 2020-2021 CBAP) amounting to P1.144 million, while the second release (December release CY 2021-2022 CBAP) amounting to P1.160 million, were not supported with certifications or documents to prove that previous loans have been fully paid and/or that the recipients were affected by natural calamities, contrary to Item 1.c of the Implementing Guidelines of CBAP*

* 1. Item 1.c of the Implementing Guidelines of CBAP states:

*FC* [farmer-cooperators] *must not have availed of a similar assistance in the past including MPCB* *except those who were affected by natural calamities and those who have fully paid previous availments.*

* 1. Audit disclosed that 58 tobacco farmer-cooperators who availed of the CBAP for CY 2020-2021, released in January and February 2021, also availed of the CBAP for CY 2021-2022, released in December 2021. Likewise, there were no certifications or documents to prove that previous loans have been fully paid and/or that the recipients were affected by natural calamities, contrary to Item 1.c of the Implementing Guidelines of CBAP.
  2. The releases of financial assistance to tobacco farmer-cooperators without proof that the recipients were affected by natural calamities and that full payment of their previous loans had been made, cast doubt on the regularity and validity of the implementation of the CBAP for CY 2021.

*Fifty farmer-beneficiaries, five from NTA Candon PBO and 45 from NTA Pangasinan PBO, who were granted materials and inputs under the GMB II were also recipients of materials and inputs under the VSD II in CY 2021, contrary to Section III-B of the Implementing Guidelines of the GMB II and VSD II*

* 1. One of the criteria for the selection of beneficiaries under Section III-A of the Implementing Guidelines of the GMB II and VSD II projects is, “*A GMB beneficiary shall not be selected as VSD beneficiary again.”*
  2. However, verification of the list of beneficiaries under the GMB II and VSD II projects disclosed that five farmer-beneficiaries of NTA Candon PBO and 45 farmer-beneficiaries of NTA Pangasinan PBO were recipients of materials and inputs of both projects, contrary to Section III-A of the Implementing Guidelines of the said projects. This could be attributed to inadequate review, evaluation, and validation of the master list of beneficiaries of the GMB II and VSD II projects by the members of the Branch Project Management Team.
  3. **We recommended that top Management direct the PBO Managers concerned to:**

1. **Require the Extension Workers of NTA Pangasinan and Isabela PBOs to submit the following documents, to avoid suspension of the subject transactions in audit:**
2. **Set 1 documents under CBAP Implementing Guidelines for curing barn assistance granted to farmer-cooperators by the NTA Pangasinan PBO, consisting of indorsement from the concerned Branch Manager, consolidated Farm Plan and Budget, Cluster MOA with list of availees, and Guaranty Letter of contracted buyer firm;**
3. **Approved master list/s of qualified recipients for curing barn assistance granted to farmer-cooperators by the Isabela PBO;**
4. **Duly certified photocopies of valid IDs of the farmer-beneficiaries with signature affixed therein to support the loans granted to farmer-cooperators by the NTA Isabela PBO under the IFOIGAP – TCGS; and**
5. **Sales Invoices/Official Receipts issued by the participating tobacco buyer firm to support the payment of seedlings costing P3.332 million for the implementation of IFOIGAP – TCGS by the NTA Isabela PBO;**
6. **Instruct the PBO Accountants to ensure that all DVs are duly supported with complete and proper documentation before processing of payment, using the Implementing Guidelines of the NTA PAPs and COA Circular No. 2012-001 dated June 14, 2012, as reference; and**
7. **Moving forward, ensure that:**

**c.1. Loan assistance under CBAP is granted to tobacco farmer-cooperators who have not availed of similar assistance in the past including MPCB, unless they are affected by natural calamities and have no outstanding loan balance from their previous availment; and**

**c.2 Farmer-beneficiaries of the GMB II are not given materials and inputs under the VSD II, in compliance with Section III-A of the Implementing Guidelines of both projects.**

* 1. Management of Pangasinan, Isabela, and Candon PBOs gave the following comments:
  2. NTA Pangasinan PBO Manager assured that the Implementing Guidelines and the audit recommendations will be strictly complied with.
  3. NTA Isabela Management agreed to submit the duly signed master list of the recipients qualified to avail the CBAP. As regards IFOIGAP – TCGS, they requested if the ID issued by the supplier concerned could be used as secondary ID of the tobacco farmer-cooperators in the meantime that the production of Tobacco Farmer’s ID is suspended. Likewise, a formal request was made from the supplier concerned relative to the issuance of SI/OR on the seedlings procured.
  4. NTA Candon Management committed to adhere to the recommendations by requiring the accountable personnel to refund the value of the supplies and materials granted under either the GMB II or VSD II project. They also assured to strictly comply with the Implementing Guidelines of said projects.
  5. As a rejoinder, the Audit Team appreciated the commitment of the Management of Pangasinan, Isabela, and Candon PBOs to address the issues on the assistance and loans granted to farmer-cooperators under the NTA PAPs and, their full compliance with the recommendations will be monitored in the CY 2022 audit.

**GENDER AND DEVELOPMENT (GAD)**

1. **The existing GAD rules and regulations were not strictly complied with by NTA in CY 2021, considering the following:**
   1. **GAD Agenda, as the Agency’s strategic framework and plan on gender mainstreaming and achieving women’s empowerment and gender equality, is not prepared yet by the NTA, which is not consistent with Section 5.1 of Philippine Commission on Women (PCW), National Economic and Development Authority (NEDA), and Department of Budget and Management (DBM) Joint Circular (JC) No. 2012-01; and PCW Memorandum Circular (MC) No. 2018-04 dated September 19, 2018, thus, existing priority gender-issues and/or specific GAD mandates and targets of the Agency may not have been completely identified and addressed;**
   2. **Harmonized Gender and Development Guidelines (HGDG) tool was not accomplished by the NTA’s GAD Focal Point System (GFPS) to determine the actual cost/expenditure of the regular PAPs of the Agency that can be attributed to GAD and could be reflected in the CY 2021 GAD Accomplishment Report (AR), contrary to Section 1.5 of PCW MC No. 2021-06 dated December 10, 2021;**
   3. **Late submission of the PCW-endorsed GPB to the NTA-CO Audit Team, contrary to Item 1.2.5.3 of PCW MC No. 2020-005 dated September 11, 2020; and**
   4. **Non-submission of the GAD AR to the PCW through the Gender Mainstreaming and Monitoring System (GMMS) and the PCW-reviewed GAD AR to the COA NTA-CO and Cagayan PBO Audit Teams which is not in accordance with Items 1.1 and 3.1 of PCW MC No. 2021-06 dated December 10, 2021.**

*GAD Agenda, as the Agency’s strategic framework and plan on gender mainstreaming and achieving women’s empowerment and gender equality, is not prepared yet by the NTA, which is not consistent with Section 5.1 of PCW, NEDA, and DBM JC No. 2012-01 and, PCW MC No. 2018-04 dated September 19, 2018, thus, existing priority gender-issues and/or specific GAD mandates and targets of the Agency may not have been completely identified and addressed*

* 1. Item 5.1 of PCW-NEDA-DBM JC No. 2012-01 provides that:

*Set the GAD agenda or identify priority gender-issues and/or specific GAD mandates and targets to be addressed over a one-year or three-year term by the central office in consultation with regional offices, bureaus and attached agencies. This GAD agenda shall be the basis for the annual formulation of PAPs to be included in the GPB of the department and its attached agencies, bureaus, regional offices and units.*

* 1. Item 4 of PCW MC No. 2018-04 dated September 19, 2018 provides that the GAD Agenda is a two-part document consisting of the GAD Strategic Framework (GADSF) and the GAD Strategic Plan (GADSP). The GADSF outlines the agency’s GAD Vision, Mission and Goals anchored on the mandate of the agency, while GADSP defines the strategic interventions, indicators, and targets to be pursued to achieve GAD goals over a period of time. The timeframe of the GAD Agenda is six years.
  2. Item 4.1 of PCW MC No. 2011-01 dated October 21, 2011 requires the heads of agencies to issue appropriate directives to institutionalize the creation of the GFPS in their respective agencies.
  3. Likewise, Item 4.5 of the same MC entails the conduct of periodic monitoring and evaluation of the agency’s GFPS and undertake measures to address possible issues hindering the performance of their functions in accordance with the Magna Carta of Women and other GAD-related laws, policies and plans.
  4. The head of the agency shall approve the GAD Agenda and issue a policy ensuring the implementation of the agency’s sub-units as required under Item 6.1 of PCW MC No. 2018-04 dated September 19, 2018. For monitoring and evaluation of the GAD Agenda, a review and end-term evaluation of the GADSF and GADSP shall be conducted by the GFPS after three years and reports shall be prepared and submitted to the PCW.
  5. Verification disclosed that the GADSF and GADSP comprising the GAD Agenda was not prepared by the NTA and submitted to the PCW, contrary to Item 5.1 of PCW-NEDA-DBM JC No. 2012-01.
  6. Inquiry with the GFPS Chairman revealed that no planning team was organized by NTA for the formulation of NTA’s GAD Agenda due to lack of training of the GFPS members. She acknowledged the need to undergo training by the GFPS and GAD FPs of the PBOs, in particular the GAD Agenda, concepts, mandates, HGDG, since most of their orientation is concentrated on organization-focused, rather than client-focused PAPs.
  7. It is emphasized that the preparation of the GAD Agenda is required for all government agencies under Section 5.1 of PCW-NEDA-DBM JC No. 2012-01, to ensure that agency-specific priority gender-issues are completely identified and addressed. Moreover, without the GAD Agenda, there will be no monitoring and evaluation framework for assessing GAD results and outcomes that shall be the basis for strengthening the mainstreaming of a GAD perspective in the agency’s operations and programs as mentioned in Section 3.1.2 of PCW MC No. 2018-04.

*HGDG tool was not accomplished by the NTA’s GFPS to determine the actual cost/expenditure of the regular PAPs of the Agency that can be attributed to GAD and could be reflected in the CY 2021 GAD AR, contrary to Section 1.5 of PCW MC No. 2021-06 dated December 10, 2021*

* 1. The use of the HGDG tool in the preparation of the GAD AR is prescribed under Item 1.5 of PCW MC No. 2021-06 dated December 10, 2021, which states that:

*To attribute the expenditure of a major agency program/ projects to GAD in the FY 2021 GAD AR, agencies shall accomplish the Harmonized Gender and Development Guidelines (HGDG) Project Implementation and Management, and Monitoring and Evaluation (PIMME) checklist (HGDG Boxes 16 & 17) or the Facility Implementation, Management, and Monitoring and Evaluation (FIMME) checklist (HGDG Box F2), whichever is applicable, to assess the gender-responsiveness of the implementation of the program/project.*

* 1. Verification disclosed that the NTA GPFS was not able to accomplish the HGDG tool to determine the actual cost/expenditure that can be attributed to GAD and reflected in the GAD AR, contrary to Item 1.5 of PCW MC No. 2021-06 dated December 10, 2021.
  2. The GFPS Chairman informed the Audit Team that the NTA GFPS was able to accomplish and support the Fiscal Year (FY) 2021 GAD GPB with the HGDG tool, but not the GAD AR since the latter’s preparation coincided with the submission of the FY 2022 GPB.
  3. The non-preparation of the HGDG tool casts doubt on the propriety of the attribution of the allocated major PAPs budget to GAD funds reflected in the NTA’s GAD AR for CY 2021.

*Late submission of the PCW-endorsed GPB to the NTA-CO Audit Team, contrary to Item 1.2.5.3 of PCW MC No. 2020-005 dated September 11, 2020*

* 1. The submission of the GPB for FY 2021 is anchored on Item 1.2.5.3 of PCW MC No. 2020-005 dated September 11, 2020, which states that:

*PCW-endorsed GPBs shall be authenticated by the Gender Mainstreaming Monitoring System (GMMS) with a QR code. Agencies shall print the PCW-endorsed GPB for signature of their agency head, and disseminate the signed copy to their concerned units. Agencies shall also furnish their respective Commission on Audit (COA) Audit Team a copy of their signed GPB within 5 working days from its endorsement.* (Emphasis Supplied)

* 1. Audit disclosed that the NTA earmarked in the GPB for FY 2021 a total budget of P86.163 million for the implementation of GAD-related PAPs, representing 10.78 per cent of the DBM-approved Corporate Operating Budget (COB) for FY 2021 amounting to P799.083 million. The GPB was submitted to the PCW through the GMMS in November 2020 and was endorsed by the PCW on December 3, 2020. However, the Audit Team was furnished by the NTA with the PCW-endorsed GPB only on April 25, 2022, contrary to PCW MC No. 2020-005 dated September 11, 2020, which requires submission to the COA Audit Team within five days from its endorsement.
  2. In the transmittal letter dated April 22, 2022, the GFPS Chairman stated that the various reportorial requirements for submission to the Budget Hearing and oversight agencies caused the delay in the submission to the Audit Team of the GAD reports including the PCW-endorsed GPB for FY 2021.
  3. The delayed submission of the PCW-endorsed GPB for FY 2021 precluded the Audit Team to promptly evaluate and validate the gender issues identified by Management, including gender issues brought about by the COVID-19 pandemic as well as the corresponding GAD PAPs to be addressed and implemented in FY 2021.

*Non-submission of the GAD AR to the PCW through the GMMS and the PCW-reviewed GAD AR to the COA NTA-CO and Cagayan PBO Audit Teams which is not in accordance with Items 1.1 and 3.1 of PCW MC No. 2021-06 dated December 10, 2021*

* 1. Pertinent provisions of PCW MC No. 2021-06 dated December 10, 2021, state that:

*1.0 Preparation and Submission of the FY 2021 GAD AR through the GMMS Version 2 or 3*

*1.1. Pursuant to Section 36 of Republic Act No. 9710 or the Magna Carta of Women, the utilization and outcome of the GAD budget shall be annually monitored and evaluated. As such, all line departments, constitutional bodies, judicial and legislative bodies, attached agencies/bureaus, other executive offices (OEOs) and government-owned and/or controlled corporations (GOCCs) shall submit their consolidated FY 2021 GAD Accomplishment Reports (ARs) to PCW through the PCW Gender Mainstreaming Monitoring System (GMMS) on or before the following dates:*

|  |  |
| --- | --- |
| *18 March 2022* | *Deadline of submission of government-owned and/or -controlled corporations (GOCCs) to PCW* |

*Xxxx*

*1.5.3. PDF* [Portable Document Format] *copies of the results of HGDG PIMME/FIMME checklist, the program/project brief and accomplishment report; details of expenditure; as well as the relevant MOVs* [Means of Verification] *for the agency self-rating, such as activity reports, monitoring and evaluation reports, list of sex-disaggregated data or gender statistics that were used and/or collected, among others, shall be attached to the agency’s GAD AR submission. Xxxx*

*3.0 Generation and Dissemination of the PCW-Reviewed GAD AR*

*3.1. Concerned agencies shall print the returned GAD AR with PCW’s final observations and remarks for signature, and submit signed copies to the PCW and their respective COA Audit Team.*

* 1. Verification disclosed that the GAD AR for FY 2021 was not submitted to the PCW, through the GMMS, for review. Inquiry with the Chairman of the GFPS revealed that the GAD AR for FY 2021 was not submitted to the PCW since it coincided with the submission of the GPB for FY 2022. Nonetheless, the NTA-CO Audit Team was furnished on April 25, 2022 with a copy of the GAD AR without the final comments and observations of the PCW. Likewise, the GAD AR of NTA Cagayan PBO was not yet submitted to the Audit Team as of audit date, despite the issuance of audit observations on the matter in prior years.
  2. The non-submission to the PCW of the GAD AR for FY 2021 and the accompanying reports within the prescribed period precluded the PCW to provide comments, observations and remarks which shall serve as reference or guide of the NTA in the implementation of the CY 2022 GAD PAPs as well as the preparation of the succeeding annual GPBs. Likewise, the Audit Team was precluded in assessing and evaluating the actual accomplishments vis-a-vis the PAPs indicated in the GPB to determine whether the PAPs implemented during the year were aligned with the FY 2021 GPB endorsed by the PCW.
  3. **We recommended that Management:**

1. **Constitute the planning team to formulate GAD Agenda and consider tapping the assistance of the PCW, pursuant to the guidelines provided in PCW MC No. 2018-04 dated September 19, 2018;**
2. **Send to GAD related seminars/trainings the NTA employees, particularly the GFPS, to enhance awareness and knowledge on issues, regulations and policies in the implementation of GAD PAPs; and**
3. **Require the GFPS through the ExeCom to:**

**c.1. Encode in the GMMS the GAD AR for FY 2021, for review of the PCW and, submit the FY 2021 PCW-reviewed GAD AR signed by the NTA Administrator and accompanying reports to the PCW and Audit Team, in compliance with Item 3.1 of PCW MC No. 2021-06 dated December 10, 2021;**

**c.2. Moving forward, ensure that the:**

**c.2.1 HGDG tool is used to determine how much of the budget of the major PAPs can be attributed to GAD-related PAPs that will be indicated in the succeeding GAD ARs;**

**c.2.2 GPB and GAD AR are submitted to the PCW within the prescribed deadline; and**

**c.2.3 PCW-endorsed GPB is submitted to the Audit Team within five days after its endorsement.**

* 1. Management commented that the GAD-related trainings are being coordinated with the Administrative Department. As regards the GAD AR, the GFPS committed to accomplish the HGDG on the NTA PAPs and submit the GAD AR thru the GMMS within the prescribed period. For the meantime, the NTA will request the PCW for consideration to re-open the GMMS since the submission of the GAD AR for FY 2021 has lapsed and, to update the Audit Team on the matter.
  2. As a rejoinder, the Audit Team acknowledged the commitment and initial action taken by Management to address the audit observations on GAD. Their full compliance with the audit recommendations will be monitored in the CY 2022 audit.

**COMPLIANCE WITH PROPERTY INSURANCE LAW**

1. **There are PPE items that were not insured with the General Insurance Fund (GIF) of the Government Service Insurance System (GSIS), consisting of****: (a) buildings, leased assets improvements, motor vehicles, communication equipment, etc. in NTA-CO costing P30.388 million were not insured in CY 2021; (b) PPE items in NTA Vigan PBO and Kadiwa ni Ani at Kita were not insured against earthquake, flood and other fortuitous events; and (c) PPE items in NTA Candon PBO were not insured against flood and other fortuitous events, contrary to Section 2 of RA No. 656 and Section 1 of Administrative Order (AO) No. 33; thus, NTA may not be indemnified for any damage or loss due to fire, earthquake or other casualty.**

* 1. Section 2 of RA No. 656, otherwise known as the Property Insurance Law, as amended by PD No. 245, states that:

*In order to indemnify or compensate the Government as defined in this Act for any damage to, or loss of, its properties due to* ***fire, earthquake, or other casualty*** *there is hereby established the “Property Insurance Fund”, xxx.* (Emphasis Supplied)

* 1. Section 1 of AO No. 33, which prescribes the guidelines for the insurance of all properties, contracts, rights of action and other insurance risks of the government, requires that:

*All heads of departments, commissions, boards, bureaus, offices of the national and local governments concerned except municipal governments below first class, government-owned and/or controlled corporations, subsidiaries and acquired asset corporations shall secure from the General Insurance Fund directly, all insurances or bonds covering properties, contracts, rights of action and other insurable risks of their respective offices, including all those in which their respective offices have an insurable risk and all those in which they have an insurable interest only. Xxxx*

* 1. Based on the definition of property and insurable interests under Items 4.1 and 4.2 of COA Circular No. 2018-002, the carrying amount of PPE, excluding land amounting to P395.804 million should be insured with the GIF of the GSIS, considering that NTA has insurable interests therein. However, audit disclosed that some PPE items were not insured with the GIF of the GSIS, as discussed in the succeeding paragraphs, contrary to Section 2 of RA No. 656 and Section 1 of AO No. 33.

*Buildings, leased assets improvements, motor vehicles, communication equipment, etc. in NTA-CO costing P30.388 million were not insured in CY 2021*

* 1. Comparison between the costs of PPE items per RPCPPE as at December 31, 2021 totaling P121.052 million vis-a-vis the PPE items included in the Property Inventory Forms (PIFs) submitted by the NTA-CO to GSIS to support the payment of insurance premiums revealed that PPE items valued at P30.388 million were not insured with the GIF of GSIS, such as, among others, permanent structures of NTA’s old building, motor pool, building formerly used as COA-NTA’s Office, and other PPE items of the eight defunct tobacco agencies, motor vehicles, and leased assets improvements.
  2. The Audit Team was verbally informed by the Chief, GSPD that the building formerly used as COA-NTA’s Office was not insured since, it was demolished in January 2022 due to the on-going construction of the new NTA building, and that only the contents of the NTA Quality Assurance Laboratory building were insured with the GSIS.
  3. Considering, however, that NTA has the intention to retain the laboratory building and the motor pool, Management should have insured these properties against all insurable risk and paid the corresponding amount of insurance premiums with the GSIS.

*PPE items in NTA Vigan PBO and Kadiwa ni Ani at Kita were not insured against earthquake, flood and other fortuitous events, while PPE items in NTA Candon PBO were not insured against flood and other fortuitous events*

* 1. Records disclosed that the insurable assets of NTA Vigan PBO and Kadiwa ni Ani at Kita were not insured against earthquake, flood and other fortuitous events, while PPE items in NTA Candon PBO were not insured against flood and other fortuitous events in CY 2021.
  2. It is worthy to mention that the properties of NTA Kadiwa ni Ani at Kita, composed of office building, other structures, equipment and machineries were damaged during the onslaught of typhoon Maring on October 11 to 12, 2021. However, the NTA was not indemnified by the GSIS for the damages estimated at P0.889 million as these properties were not covered by insurance against typhoon, resulting to undue disadvantage to the government.
  3. Non-observance of the pertinent provisions of RA No. 656 and AO No. 33, on the requirement of insuring all properties and insurable interests of the government with the GIF of the GSIS, the NTA may not be indemnified for any damage or loss due to fire, earthquake or other casualty, which already happened in the case of NTA Kadiwa ni Ani at Kita when it did not insure all its properties against earthquake, flood and other fortuitous events.
  4. Moving forward, **we recommended that Management ensure that all properties, assets and other insurable interests of NTA are covered with adequate insurance with the GIF of the GSIS, in compliance with Section 2 of RA No. 656 and Section 1 of AO No. 33.**
  5. **We also recommended that top Management determine the personnel responsible for non-insuring the properties against typhoon of the NTA Kadiwa ni Ani at Kita and, hold them liable for the damages caused by typhoon Maring, if warranted.**
  6. Management commented that the GSPD has already communicated with all the NTA PBOs to include flood and earthquake insurance coverage of all insurable properties of the NTA and funds were already transferred to the PBOs for the payment of the insurance to the GSIS.
  7. As a rejoinder, the Audit Team will monitor NTA’s full compliance with the recommendations during the CY 2022 audit.

**COMPLIANCE WITH REGULATORY REQUIREMENTS**

1. In CY 2021, NTA complied with the regulatory requirements to: (a) withhold/ declare and remit taxes to the BIR; (b) remit employees’ and employer’s shares premium contributions to the GSIS; and (c) remit employees’ and employer’s premium contribution to Philippine Health Insurance Corporation (PhilHealth) and Home Development Mutual Fund (HDMF). Withheld taxes and premium contributions and remittances thereof are presented in Table 17.

**Table 17 - Schedule of Remittances in Compliance with Regulatory Requirements**

| **Law, Rules and Regulations** | **Government Agency** | **Amount Remitted in CY 2021** |  | **Remittance after 12/31/2021** | |
| --- | --- | --- | --- | --- | --- |
| **Balance as at 12/31/2021** | **Amount Remitted** | **Date Remitted\*** |
| Department of Finance-DBM-COA JC No. 1-2000 | BIR | P29,253,326 | P2,497,195 | P2,497,195 | January 2022 |
| RA No. 8291, otherwise known as the “GSIS Law” | GSIS | 19,599,125 | 1,822,069 | 1,822,069 | January 2022 |
| RA No. 9679, otherwise known as the “HDMF Law” | HDMF | 4,748,918 | 119,123 | 119,123 | January 2022 |
| RA No. 7875, as amended by RA No. 9241, otherwise known as the “National Health Insurance Act” | PhilHealth | 1,787,409 | 78,927 | 78,927 | January 2022 |

*\* Different dates of remittance in January 2022 by NTA-CO and PBOs*

**SUMMARY OF AUDIT DISALLOWANCES, SUSPENSION AND CHARGE**

1. Table 18 summarizes the unsettled audit disallowances, suspension and charge as at December 31, 2021, the details and status thereof are presented in **Annex A** of this Report.

**Table 18 - Summary of Audit Disallowances, Suspension and Charge**

**As at December 31, 2021**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **Beginning Balance** | **CY 2021** | | **Ending Balance** |
| **Particulars** | **01/01/2021** | **Issuances** | **Settlements** | **12/31/2021** |
| Disallowances | P 30,782,127 | P - | P5,187,540 | P 25,594,587 |
| Suspension | 128,430,148 | - | 22,121 | 128,408,027 |
| Charge | 54,280 | - | - | 54,280 |
|  | **P159,266,555** | **P -** | **P5,209,661** | **P154,056,894** |

* 1. The composition of the Notices of Disallowance as at December 31, 2021 totaling P25.595 million is shown in Table 19.

**Table 19 - Composition of Notices of Disallowances (NDs)**

|  |  |  |
| --- | --- | --- |
| **Particulars** | **Quantity** | **Amount** |
| With Notices of Finality of Decision and COA Orders of Execution | 29 | P 6,685,823 |
| With Adjudication and Settlement Board Decisions | 2 | 86,895 |
| With Appeal Memorandum | 3 | 642,043 |
| With Petition for Review with the Commission Proper (CP)/Automatic Review of the CP | 17 | 18,179,826 |
|  | **51** | **P25,594,587** |