



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

INDEPENDENT AUDITOR'S REPORT

THE BOARD OF DIRECTORS

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

Report on the Audit of the Financial Statements

Qualified Opinion

We have audited the financial statements (FSs) of the **National Tobacco Administration (NTA)**, which comprise the statements of financial position as at December 31, 2021 and 2020, and the statements of financial performance, statements of changes in net assets/equity, and statements of cash flows for the years then ended, statement of comparison of budget and actual amounts for the year ended December 31, 2021, and notes to FSs, including a summary of significant accounting policies.

In our opinion, except for the effects of the matters described in the *Bases for Qualified Opinion* section of our report, the accompanying FSs present fairly, in all material respects, the financial position of **NTA**, as at December 31, 2021 and 2020, and its financial performance and its cash flows for the years then ended in accordance with International Public Sector Accounting Standards (IPSASs).

Bases for Qualified Opinion

The non-recognition of interest on the long-term Financial Liabilities - Notes Payable to the Philippine National Bank (PNB) through the Omnibus Credit Line, 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 IPSAS 1 and Paragraph 16 of IPSAS 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-Central Office 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-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 account.

The non-reversion to cash account of the unreleased checks as of December 31, 2021 for approved loans and assistance to farmers/beneficiaries and payments to creditors totaling P12.639 million understated the Cash in Bank and the Financial Liabilities-Accounts Payable accounts by P12.639 million and P0.695 million, respectively, while overstated the Receivables - Loans Receivable, Service Income - Other Service Income, and Maintenance and Other Operating Expenses - Financial Subsidy accounts in the amounts of P7.239 million, P120,650 and P4.826 million, respectively.

Moreover, 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 Provincial Branch Office (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 National Government Agencies/Government Owned and Controlled Corporations 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.

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

Other Matter

In our report dated July 29, 2021, we expressed a qualified opinion on the Calendar Years (CYs) 2020 and 2019 FSs since we were unable to obtain sufficient appropriate evidence about the tobacco regulation related revenues collected totaling P28.912 million because the Charge Slips/Statement of Accounts (SOAs) which are used as basis in the computation and assessment of corresponding fees by the Regulation Department were not attached to the official receipts and monthly Report of Collections and Deposits. Consequently, we were unable to determine whether any adjustment to the account was necessary.

The Accounting Division already submitted the Charge Slips/SOAs relative to the tobacco regulation related revenues collected which were verified on a sampling basis using the testing threshold as benchmark. Accordingly, our present opinion on the CY 2020 restated FSs, as presented herein is no longer qualified concerning this matter.

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the FSs, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the NTA's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the NTA's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the FSs or, if such disclosure are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the NTA to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the FSs, including the disclosures, and whether the FSs represent the underlying transactions and events in a manner that achieves fair presentation.

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

Report on Other Legal and Regulatory Requirements

Our audits were conducted for the purpose of forming an opinion on the basic FSs taken as a whole. The supplementary information for the year ended December 31, 2021 required by the Bureau of Internal Revenue as disclosed in Note 30 to the FSs is presented for purposes of additional analysis and is not a required part of the basic FSs prepared in accordance with IPSASs. Such supplementary information is the responsibility of Management of the NTA.

COMMISSION ON AUDIT



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