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

CORPORATE GOVERNMENT SECTOR
Cluster 5 – Agricultural and Natural Resources

NIA
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Administrator's Office

December 5, 2014

Engr. FLORENCIO F. PADERNAL, DPA
Administrator
National Irrigation Administration
EDSA, Diliman, Quezon City

Dear Engr. Padernal:

Pursuant to Section 2, Article IX-D of the Philippine Constitution and Section 43 of Presidential Decree No. 1445, otherwise known as the Government Auditing Code of the Philippines, we transmit herewith our report on the results of the audit of the accounts and transactions of the **National Irrigation Administration (NIA) - Corporate Fund (F501)**, for the year ended December 31, 2013.

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

The Auditor rendered an adverse opinion on the fairness of presentation of the financial statements of NIA-Corporate Fund (F501) for CY 2013 in view of the following:

1. The accuracy of the Property, Plant and Equipment (PPE) account with net book value of P25.605 billion was not reasonably substantiated due to, among others, absence of Transfer Certificates of Title (TCTs) to prove ownership and existence of parcels of land valued at P3.469 billion (13.6 per cent), lack of reports for completed irrigation projects of more than P0.500 billion, inadequate accounting and property records, significant variances between books and physical counts, and the inclusion of unserviceable properties.

2. The reliability of the balance of Cash in Bank account of P2.632 billion could not be ascertained due to inadequate or absence of records to support the account balance, delayed or non-preparation of bank reconciliation statements (BRS) and discrepancies in balances among accounting records. Moreover, 28 bank accounts are maintained in three banks which are not authorized as government depository banks.

3. The accuracy and validity of Accounts Receivable - Irrigation Service Fees (ISF) and Communal Irrigation System (CIS) with a balance of P18.081 billion is affected due to, among others, unreconciled difference of P1.628 billion between records as a result of inconsistency in the valuation of receivables; receivables of P1.531 billion with lacking supporting documents; discrepancy of P0.370 billion between books and aging schedule; and receivables that have been dormant for over 15 to 40 years without adequate accounting records.

For the above-mentioned observations which were made basis of adverse opinion on the fairness of presentation of the financial statements, we recommended that Management:

1. Facilitate the titling of all properties recognized under the Land account as well as the land donated to NIA; and, create an appraisal committee to determine the current fair market value of the property to serve as basis for recording in the books;

2. Create a special group to undertake within a target period the immediate reconciliation of the variances between the Report on the Physical Count of Property, Plant and Equipment (RPCPPE) and the accounting records, and also to analyze the Construction in Progress (CIP)–Irrigation Projects account for reclassification to the proper PPE account, duly supported with complete documentation;

3. Require the Accounting and Property Sections to maintain/update accounting and property records, conduct periodic reconciliation between these records, and immediately investigate and clear any discrepancies;

4. Give instructions to the Property Section to initiate the annual conduct of proper and complete physical inventory of all properties, prepare the corresponding inventory reports, and submit the same to the Office of the Auditor not later than January 31 of the ensuing year;

5. Instruct the Accounting Section to coordinate with the Property Section as regards the unserviceable and disposed properties so that these can be reclassified to the appropriate accounts;

6. Always maintain a complete and updated Subsidiary Ledgers (SLs) for the Cash in Bank account, prepare Bank Reconciliation Statements (BRS) on a monthly basis; and conduct periodic reconciliation of general ledger and subsidiary records;

7. Analyze the bank accounts which have been dormant since 2005, including reconciling items which have not been considered for adjustments;

8. Seek approval from the Department of Finance (DOF) for the maintenance of depository accounts with banks other than the Land Bank of the Philippines (LBP) and Development Bank of the Philippines (DBP); otherwise, transfer all bank accounts to these authorized depository banks;

9. Consider enhancing the NIA Memorandum Circular No. 52 in a way that would resolve the inconsistency on the use of Government Support Price (GSP) in the valuation of Accounts Receivable-ISF;

10. Require the Accounting Section to: i) maintain subsidiary ledgers for receivable accounts and regularly reconcile the balances with the general ledger balances; ii) exert all efforts to reconcile the recorded receivables in the regional and field offices; iii) prepare aging schedules; and iv) set up allowance for bad debts for receivables based on the aging schedule;

11. Request for write-off of dormant/uncollectible accounts from COA, in accordance with COA Circular No. 97-001 dated February 5, 1997;

12. Require the billing personnel to submit on time the List of Billed Irrigation Fees Collectibles to the Regional Accounting Section as basis for recording ISF receivables;

13. Require the Irrigation Management Offices (IMOs) to timely submit all documents pertaining to completed projects to the Engineering/Operations Division for review and Finance Management Division for the recording of accounts receivable;

14. Require the Managers of IMOs to submit to the Accounting Section the Schedule of Receivables for completed and turned-over Communal Irrigation Systems (CIS) to Irrigators' Associations and Aging of Accounts Receivable supported with detailed list of balances of all farmers; and

15. Assign personnel in Agusan del Norte IMO to monitor payment of receivables from Irrigators' Associations and submission of required reports.

The other significant audit observations and recommendations are as follows:

16. Payment of Viability Incentive Grant (VIG) amounting to P181.896 million to officials and employees including those employed under Contract of Services/Job Orders was bereft of appropriate legal basis due to the absence of express authority from the President of the Philippines as required under pertinent laws and regulations. Moreover, there was no equitable basis of the amount paid per payee giving the impression of an arbitrary distribution of the said benefit.

16.1 We recommended that Management:

a. Ensure strict adherence to laws, rules and regulations on compensation in future payments of same incentives to avoid disallowances; and

b. Refund the amount paid. Seek avenues on how to facilitate the refund considering the amount involved and the number of employees affected.

CALAMITY FUND

17. Calamity fund of P0.726 million was spent for expenses such as travel, productivity enhancement incentive, landscaping, repair of vehicle and purchase of cell phones not related to disaster risk reduction and management (DRRM) activities, and utilization of funds was not reported every month, thus not consistent with the pertinent provisions of RA No. 10121. Also, bidding process was dispensed with in the procurement of rehabilitation works after calamity amounting to P8.203 million but actually completed in almost a year.

17.1 We have recommended that Management require:

a. Upper Pampanga River Integrated Irrigation System Division Managers to:

a.1. Justify the use of calamity fund on activities that were not related to calamity; otherwise, cause the refund of the amount used from the appropriate fund/s; and henceforth, refrain from using the calamity fund on projects and activities that do not directly address calamity-related risks and situations;

a.2. Harmonize the timelines of restoration/rehabilitation works with the urgency of the need for the same;

a.3. Use regular project funds on restorative activities that could be undertaken on longer periods; and

a.4. Submit to the Office of Management Services (OMS) the monthly report on the receipt and utilization of calamity fund.

b. Corporate Accountant B / Senior Accounting Processors A to record incurrence of expenses/acquisition of assets when goods are already received and services rendered.

c. Division Managers, Operations and Engineering and Administrative and Finance, OMS to:

c.1. Regularly monitor the utilization of calamity fund at division levels to assure compliance with regulations;

c.2. Act accordingly on deviations noted; and

c.3. Submit monthly to NIA Central Office the consolidated report on the receipt and utilization of calamity fund.

DISBURSEMENT ACCELERATION PROGRAM (DAP)

18. In Region VI, non-related project expenses such as purchase of Information Technology (IT) equipment, cost of plane tickets and hotel accommodations, conference and registration fees and car rental amounting to P1.363 million that were charged to Jalaur River Multi-Purpose Project II (JRMPP II), a project funded out of the DAP, were without valid basis, hence, considered irregular.

18.1 We have recommended that Management:

a. Discontinue providing service vehicles to NIA Central Office officials or other personnel not involved in the implementation of the JRMPP II and exercise prudence in the utilization of project funds; and

b. Require the concerned agency officials and personnel to refund the amount expended irregularly charged to the JRMPP fund, otherwise, the transactions will be disallowed in audit.

19. In Region XII, implementation of seven contract packages under the Malitubog-Maridagao Irrigation Project II (MMIP II), funded by the DAP were delayed with shortfall in actual accomplishments ranging from 2.5 per cent to 9.8 per cent from the program/target accomplishments, to the detriment of farmer- beneficiaries.

19.1 We recommended that Management require the contractors to fast-track the accomplishments of the projects considering that they are already delayed.

20. In Region XIII, the obligations incurred for wages and overhead expenses for the pre-construction and construction activities of the Umayam River Irrigation Project (URIP) funded out of the DAP exceeded the allotment by P3.679 million, due to realignment of funds without prior approval from the authorized official. Also, the charging of CNA Incentive totaling P0.675 million from the fund is considered irregular, as there was no valid basis.

20.1 We recommended that Management:

a. Secure post facto approval or authority from the NIA Central Office for the realigned funds of P3.679 million; and henceforth, obtain first the appropriate approval before utilizing savings from another allotment class or activity; otherwise, disbursements will be disallowed in audit; and

b. Refund the total amount of CNA Incentive that was charged against the project, and strictly observe that approved funds should only be utilized for expenses related to the functions, activities, projects and programs to which these are appropriated.

The other audit observations together with the recommended courses of action which were discussed by the Audit Team with concerned Management officials and staff during the exit conference conducted on June 27, 2014 are discussed in detail in Part II of the report. We also invite your attention to the prior year's unimplemented and partially implemented audit recommendations embodied in Part III of the report.

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

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

Very truly yours,

COMMISSION ON AUDIT

By:

DELIA D. AGATEP
Cluster Director

Copy furnished:

The President of the Republic of the Philippines
The Vice President
The Speaker of the House of Representatives
The Chairperson – Senate Finance Committee
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THE BOARD OF DIRECTORS
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In our transmittal letter of even date, we request the Administrator of NIA to implement the recommendations contained in the report and to inform this Commission of the actions taken thereon within 60 days from receipt hereof.

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

Very truly yours,

COMMISSION ON AUDIT

By:

DELIA D. AGATEP
Cluster Director

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COMMISSION ON AUDIT
Commonwealth Avenue, Quezon City

ANNUAL AUDIT REPORT

on the

NATIONAL IRRIGATION ADMINISTRATION
(Corporate Fund – F501)

For the Year Ended December 31, 2013

EXECUTIVE SUMMARY

INTRODUCTION

The National Irrigation Administration (NIA) was formally created as a government corporation under Republic Act (RA) No. 3601 on June 22, 1963 with an authorized capital of P300 million. In 1974, under Presidential Decree (PD) No. 552, the authorized capital was increased to P2 billion, and later, under PD No. 1702 dated July 18, 1980, it was further increased to P10 billion. The capital was to be subscribed and paid for entirely by the Philippine Government. Section 2, paragraph (b) of PD No. 552 provides NIA's sources of operating funds. The increase in Capital Stock is already included in the Government Equity.

The Corporation was originally attached to both the Department of Public Works and Highways (DPWH) and the Department of Agriculture (DA), was later transferred to the Office of the President, and subsequently attached to DA under Administrative Order No. 17 dated October 14, 1992. On May 5, 2014, by virtue of Executive Order No. 165, s. 2014, NIA together with the National Food Authority, Philippine Coconut Authority and Fertilizer and Pesticide Authority were transferred from DA to the Office of the President.

The principal function of NIA was initially to develop, maintain, operate, improve and rehabilitate irrigation systems including communal and pump irrigation projects. However, with the reorganization of the government that occurred after NIA's creation, the Corporation also assumed the irrigation activities of other government agencies, including those of the Irrigation Service Unit of the then Presidential Assistance on Community Development. Thereafter, with the passage of RA No. 6978, otherwise known as, "An Act to Promote Rural Development by providing for an Accelerated Program within a Ten-Year Period of the Construction of Irrigation Projects," the activities of NIA significantly increased to cover the remaining 1.5 million unirrigated but irrigable hectares of land nationwide.

NIA has the following powers and functions pursuant to the provisions of RA No. 3601 and PD Nos. 552 and 1702:

a. To investigate, study and develop all available water resource in the country, primarily for irrigation purposes; to plan, design, construct and/or improve all types of irrigation projects and appurtenant structures; to operate, maintain and administer all national irrigation systems; to supervise the operation, maintenance and repair, or;

b. To administer temporarily all communal and pump irrigation systems constructed, improved and/or repaired wholly or partially with government funds; to delegate the partial or full management of national irrigation systems to duly organized cooperatives or associations; and

c. To charge and collect from the beneficiaries of all irrigation systems constructed by or under the administration such fees or administrative charges as may be necessary to cover the cost of operation, maintenance and insurances; and to cover the cost of construction within a reasonable period of time to the extent consistent with government policy; to cover funds or portions thereof expended for the construction of communal irrigation systems, which shall accrue to a special fund for irrigation development.

NIA is headed by an Administrator who is assisted by a Senior Deputy Administrator and supported by Deputy Administrator for Administrative and Finance and Deputy Administrator for Engineering and Operations. Besides the Central Office, it has 17 Regional Irrigation Offices (RIOs), including the Upper Pampanga River Integrated Irrigation System (UPRIIS) and the Magat River Integrated Irrigation System (MARIIS), 44 Irrigation Management Offices (IMOs) inclusive of two interim IMOs, and 16 Project Executive sManagement Offices (PMOs). These are the offices that exist as a result of the implementation of the Rationalization Plan. The Corporation manages 237 National Irrigation Systems (NIS) nationwide with a total service area of 804,540 hectares and firmed-up service area of 722,583 hectares. The total irrigated area is 554,565 hectares during the dry season (November to April) and 578,749 hectares during the wet season (May to October) and 45,360 hectares for the third crop (Quick turn-around and ratooning).

As of December 31, 2013, NIA had a personnel complement of 5,393, composed of 3,374 monthly paid and 2,019 daily paid personnel.

The Corporation maintains the Corporate Fund (F501) to finance its operations. The Fund consists mainly of collections of irrigation fees, equipment rentals, pump amortizations, interest and miscellaneous income such as subsidy income from the national government - management fee, income derived from sale of electrical energy, service fee for the operation and maintenance of non-power components of Hydroelectric Power Plants, Communal Irrigation Project amortization on principal and equity contribution and proceeds from sale of property, plant and equipment.

FINANCIAL PROFILE (In million pesos)

The NIA Corporate Fund’s financial condition and results of operations are presented below:

I. Comparative Financial Condition

	2013	2012	Increase/Decrease
Assets	117,736.639	58,901.918	58,834.721
Liabilities	103,293.998	45,423.443	57,870.555
Equity	14,442.641	13,478.475	964.166

II. Comparative Results of Operation

	2013	2012	Increase/Decrease
Income	5,344.166	4,877.104	467.062
Expenses	4,105.350	3,697.079	408.271
Net Income (Loss)	1,238.816	1,180.025	58.791

SCOPE OF AUDIT

Our audit covered the operations of NIA – Corporate Fund (F501) for the period January 1 to December 31, 2013. The audit involved performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depended on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error.

AUDITOR'S OPINION

We rendered an adverse opinion on the fairness of presentation of the financial statements of NIA-Corporate Fund (F501) for CY 2013 in view of the following:

1. The accuracy of the Property, Plant and Equipment (PPE) account with net book value of P25.605 billion was not reasonably substantiated due to, among others, absence of Transfer Certificates of Title (TCTs) to prove ownership and existence of parcels of land valued at P3.469 billion (13.6 per cent), lack of reports for completed irrigation projects of more than P0.500 billion, inadequate accounting and property records, significant variances between books and physical counts, and the inclusion of unserviceable properties.

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SUMMARY OF SIGNIFICANT AUDIT OBSERVATIONS AND RECOMMENDATIONS

For the above-mentioned observations which were made basis of adverse opinion on the fairness of presentation of the financial statements, we recommended that Management:

1. Facilitate the titling of all properties recognized under the Land account as well as the land donated to NIA; and, create an appraisal committee to determine the current fair market value of the property to serve as basis for recording in the books;

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16. Payment of Viability Incentive Grant (VIG) amounting to P181.896 million to officials and employees including those employed under Contract of Services/Job Orders was bereft of appropriate legal basis due to the absence of express authority from the President of the Philippines as required under pertinent laws and regulations. Moreover, there was no equitable basis of the amount paid per payee giving the impression of an arbitrary distribution of the said benefit.

16.1 We recommended that Management:

a. Ensure strict adherence to laws, rules and regulations on compensation in future payments of same incentives to avoid disallowances; and

b. Refund the amount paid. Seek avenues on how to facilitate the refund considering the amount involved and the number of employees affected.

CALAMITY FUND

17. Calamity fund of P0.726 million was spent for expenses such as travel, productivity enhancement incentive, landscaping, repair of vehicle and purchase of cell phones not related to disaster risk reduction and management (DRRM) activities, and utilization of funds was not reported every month, thus not consistent with the pertinent provisions of RA No. 10121. Also, bidding process was dispensed with in the procurement of rehabilitation works after calamity amounting to P8.203 million but actually completed in almost a year.

17.1 We have recommended that Management require:

a. UPRIIS Division Managers to:

a.1. Justify the use of calamity fund on activities that were not related to calamity; otherwise, cause the refund of the amount used from the appropriate fund/s; and henceforth, refrain from using the calamity fund on projects and activities that do not directly address calamity-related risks and situations;

a.2. Harmonize the timelines of restoration/rehabilitation works with the urgency of the need for the same;

a.3. Use regular project funds on restorative activities that could be undertaken on longer periods; and

a.4. Submit to the Office of Management Services (OMS) the monthly report on the receipt and utilization of calamity fund.

b. Corporate Accountant B / Senior Accounting Processors A to record incurrence of expenses/acquisition of assets when goods are already received and services rendered.

c. Division Managers, Operations and Engineering and Administrative and Finance, OMS to:

c.1. Regularly monitor the utilization of calamity fund at division levels to assure compliance with regulations;

c.2. Act accordingly on deviations noted; and

c.3. Submit monthly to NIA Central Office the consolidated report on the receipt and utilization of calamity fund.

DISBURSEMENT ACCELERATION PROGRAM (DAP)

18. In Region VI, non-related project expenses such as purchase of IT equipment, cost of plane tickets and hotel accommodations, conference and registration fees and car rental amounting to P1.363 million that were charged to Jalaur River Multi-Purpose Project II (JRMPP II), a project funded out of the DAP, were without valid basis, hence, considered irregular.

18.1 We have recommended that Management:

a. Discontinue providing service vehicles to NIA Central Office officials or other personnel not involved in the implementation of the JRMPP II and exercise prudence in the utilization of project funds; and

b. Require the concerned agency officials and personnel to refund the amount expended irregularly charged to the JRMPP fund, otherwise, the transactions will be disallowed in audit.

19. In Region XII, implementation of seven contract packages under the Malitubog-Maridagao Irrigation Project II (MMIP II), funded by the DAP were delayed with shortfall in actual accomplishments ranging from 2.5 per cent to 9.8 per cent from the program/target accomplishments, to the detriment of farmer- beneficiaries.

19.1 We recommended that Management require the contractors to fast-track the accomplishments of the projects considering that they are already delayed.

20. In Region XIII, the obligations incurred for wages and overhead expenses for the pre-construction and construction activities of the Umayam River Irrigation Project (URIP) funded out of the DAP exceeded the allotment by P3.679 million, due to realignment of funds without prior approval from the authorized official. Also, the charging of CNA Incentive totaling P0.675 million from the fund is considered irregular, as there was no valid basis.

20.1 We recommended that Management:

a. Secure post facto approval or authority from the NIA Central Office for the realigned funds of P3.679 million; and henceforth, obtain first the appropriate approval before utilizing savings from another allotment class or activity; otherwise, disbursements will be disallowed in audit; and

b. Refund the total amount of CNA Incentive that was charged against the project, and strictly observe that approved funds should only be utilized for expenses related to the functions, activities, projects and programs to which these are appropriated.

SUMMARY OF TOTAL AUDIT SUSPENSIONS, DISALLOWANCES AND CHARGES

As of December 31, 2013, audit suspensions, disallowances and charges amounted to P36.295 million, P160.779 million and P1.064 million, respectively.

STATUS OF IMPLEMENTATION OF PRIOR YEAR'S AUDIT RECOMMENDATIONS

Of the 67 audit recommendations embodied in the previous year's Annual Audit Report, four were fully implemented, 47 were partially implemented and 16 were not implemented. Details are presented in Part III of the Report.

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

INDEPENDENT AUDITOR'S REPORT

THE BOARD OF DIRECTORS
National Irrigation Administration
EDSA, Quezon City

We have audited the accompanying financial statements of the **National Irrigation Administration Corporate Fund (F501)**, which comprise the balance sheet as at December 31, 2013, and the statement of income and expenses, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with State accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our adverse audit opinion.

Basis for Adverse Opinion

We rendered an adverse opinion on the fairness of the presentation of the financial statements in view of the following:

1. The accuracy of the Property, Plant and Equipment (PPE) account with net book value of P25.605 billion was not reasonably substantiated due to, among others, absence of Transfer Certificates of Title (TCTs) to prove ownership and existence of parcels of land valued at P3.469 billion (13.6 per cent), lack of reports for completed irrigation projects of more than P0.500 billion, inadequate accounting and property records, significant variances between books and physical counts, and the inclusion of unserviceable properties.

2. The reliability of the balance of Cash in Bank account of P2.632 billion could not be ascertained due to inadequate or absence of records to support the account balance, delayed or non-preparation of bank reconciliation statements (BRS) and discrepancies in balances among accounting records. Moreover, 28 bank accounts are maintained in three banks which are not authorized as government depository banks.

3. The accuracy and validity of Accounts Receivable - Irrigation Service Fees (ISF) and Communal Irrigation System (CIS) with a balance of P18.081 billion is affected due to, among others, unreconciled difference of P1.628 billion between records as a result of inconsistency in the valuation of receivables; receivables of P1.531 billion with lacking supporting documents; discrepancy of P0.370 billion between books and aging schedule; and receivables that have been dormant for over 15 to 40 years without adequate accounting records.

Adverse Opinion

Because of the significance of the matters discussed in the Basis for Adverse Opinion paragraphs, the consolidated financial statements do not present fairly the financial position of the **National Irrigation Administration Corporate Fund (F501**) as at December 31, 2013, and their financial performance and their cash flows for the year then ended in accordance with State accounting principles

Emphasis of Matter

We draw attention to Note 9 to financial statements which defines Other Investment – California Energy (CE) - Casecnan as cash advances made by the Bureau of the Treasury (BTr) to California Energy Casecnan Water Electric Company, Inc. (CECWECI) for the account of NIA for water deliveries under the Build, Operate and Transfer (BOT) scheme of the project agreement entered into by and between CECWECI and NIA on November 13, 1994. In a meeting called for by the Department of Finance on June 6, 2012 among the representatives from the BTr, NIA and Commission on Audit, it was agreed that NIA shall book up the advances by debiting Other Investment – CE Casecnan account and crediting Due to the National

Treasury account. As at December 31, 2013, Other Investment - CE Casecnan account already amounted to P56.265 billion or 47.8 per cent of the total assets of P117.737 billion.

COMMISSION ON AUDIT

ELENA L. AGUSTIN
Supervising Auditor
Audit Group B - Irrigation
Cluster 5-Corporate Government Sector

June 27, 2014

Pambansang Pangasiwaan ng Patubig
(NATIONAL IRRIGATION ADMINISTRATION)
Lungsod ng Quezon

OFFICE ADDRESS: NATIONAL GOVERNMENT CENTER
E. DE LOS SANTOS AVENUE
QUEZON CITY PHILIPPINES

TELEPHONE NOS.: 929-6071 TO 78
TELEFAX NO.: 926-2846
TIN: 000-916-415

OUR REFERENCE:

December 31, 2013

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of **NATIONAL IRRIGATION ADMINISTRATION** is responsible for all information and representations contained in the accompanying Consolidated Central Office Trial Balance, Balance Sheet, Statement of Government Equity as of December 31, 2013 and the related Statement of Income and Expenses and Cash Flow for the year then ended under Fund 501 (Corporate Fund and NDC). The financial statements have been prepared in conformity with generally accepted state accounting principles and reflect amounts that are based on the best estimates and informed judgment of management with an appropriate consideration to materiality.

In this regard, management maintains a system of accounting and reporting which provides for the necessary internal controls to ensure that transactions are properly authorized and recorded, assets are safeguarded against unauthorized use or disposition and liabilities are recognized.

NOEMI V. VILLANUEVA
Acting Manager, Accounting Division

LORNA GRACE B. ROSARIO
Acting Deputy Administrator for Finance and Administrative Sector

CLARO V. MARANAN
Administrator

NATIONAL IRRIGATION ADMINISTRATION
CORPORATE FUND (F501)
BALANCE SHEET
December 31, 2013
(In Philippine Peso)

	Note	2013	2012
ASSETS			
Current assets			
Cash	4	2,746,163,584	2,163,804,055
Receivables - net	5	32,481,203,173	32,044,394,999
Inventories - net	6	63,163,951	63,282,322
Prepayments	7	171,444,917	145,676,624
Other current assets	8	(198,643,759)	(205,759,007)
		35,263,331,866	34,211,398,993
Non-current assets			
Investments	9	56,276,662,585	11,224,500
Property, plant and equipment - net	10	25,604,865,596	24,157,341,391
Other assets	11	591,778,559	521,953,427
		82,473,306,740	24,690,519,318
TOTAL ASSETS		**117,736,638,606**	**58,901,918,311**
LIABILITIES AND EQUITY			
Current liabilities			
Payables	12	1,451,877,160	509,450,537
Inter/intra-agency payables	13	70,487,850,137	14,271,217,238
Other liabilities	14	1,265,551,304	1,335,293,556
		73,205,278,601	16,115,961,331
Non-current liabilities			
Long-term liabilities	15	11,506,340,534	11,506,340,534
Deferred credits	16	18,582,378,511	17,801,141,052
		30,088,719,045	29,307,481,586
		103,293,997,646	45,423,442,917
Equity	18	14,442,640,960	13,478,475,394
TOTAL LIABILITIES AND EQUITY		**117,736,638,606**	**58,901,918,311**

The Notes on pages 9 to 23 form part of these financial statements.

NATIONAL IRRIGATION ADMINISTRATION
CORPORATE FUND (F501)
STATEMENT OF INCOME AND EXPENSES
For the Year Ended December 31, 2013
(In Philippine Peso)

	Note	2013	2012
INCOME			
Operating income			
Irrigation service fees (ISF)		1,647,756,436	1,445,575,656
10% Discount on ISF	5	(92,840,269)	(94,880,041)
Loss on sale of palay		(353,586)	(231,138)
		1,554,562,581	1,350,464,477
Rent income		169,020,636	162,174,298
Fines and penalties-service income		24,979,839	20,234,928
		1,748,563,056	1,532,873,703
Non-operating income			
Management fees		28,462,937	33,957,526
CIP/CIS/RIS amortization and equity		329,455,380	324,909,493
Pump amortization and equity		21,169,485	14,195,631
Service fees - water		460,798,798	480,857,158
Energy delivery fees - NPC		94,935,267	-
Other fines and penalties		816,822	154,353
Miscellaneous income	20	150,363,459	143,666,508
		1,086,002,148	997,740,669
		2,834,565,204	2,530,614,372
EXPENSES			
Personal services	21	1,661,608,641	1,685,012,627
Maintenance and other operating expenses	21	2,018,632,327	1,643,646,317
Financial expenses	21	422,519,999	366,280,579
		4,102,760,967	3,694,939,523
LOSS FROM OPERATION		(1,268,195,763)	(1,164,325,151)
OTHER INCOME (EXPENSE)			
Interest income		23,704,068	38,503,691
Loss on FOREX		(2,329,875)	(2,139,756)
Gain (Loss) on sale of assets		(259,180)	1,637,000
		21,115,013	38,000,935
LOSS BEFORE SUBSIDY		(1,247,080,750)	(1,126,324,216)
Subsidy income from national government			
5% Management fee	17	1,187,039,841	984,362,420
NET LOSS BEFORE SUBSIDY		(60,040,909)	(141,961,796)
SUBSIDY FOR THE IMPLEMENTATION OF VARIOUS PROJECTS			
Budgetary support - 2.85% general engineering, supervisory and administrative (GESA)	17	676,611,159	561,086,580
Disbursement acceleration program (DAP):	17		
Jalaur River Multipurpose Project II		-	450,000,000
Casecnan Multipurpose Irrigation and Power Project II		283,620,000	200,000,000
Malitubog Maridagao Irrigation Project II		233,181,000	101,400,000
Umayam River Irrigation Project (URIP)		105,445,000	9,500,000
		1,298,857,159	1,321,986,580
PENSION AND GRATUITY FUND	17	417,490,784	-
Less: Disbursement for pension and gratuity fund		(417,490,784)	-
		-	-
NET INCOME AFTER SUBSIDY FOR THE IMPLEMENTATION OF VARIOUS PROJECTS		**1,238,816,250**	**1,180,024,784**

The Notes on pages 9 to 23 form part of these financial statements.

NATIONAL IRRIGATION ADMINISTRATION
CORPORATE FUND (F501)
STATEMENT OF CHANGES IN EQUITY
For the Year Ended December 31, 2013
(In Philippine Peso)

	Note	Capital stock	Government equity (Note 18)	Retained operating surplus (Note 18)	Property, plant and equipment - public infrastructures (Note 18)	Total
Balance, January 1, 2012		5,559,191,864	18,040,452,164	(10,638,878,828)	-	12,960,765,200
Net income after subsidy for the implementation of various projects		-	-	1,180,024,784	-	1,180,024,784
Correction of prior period errors	19	-	(1,391,952)	(144,924,943)	-	(146,316,895)
Set up of CNA for 2011		-	-	(398,000,000)	-	(398,000,000)
Remittance to BTr - refund of project		-	-	(12,425,578)	-	(12,425,578)
Funds of CNA payments, should be charged to F501 funds		-	-	(2,181,665)	-	(2,181,665)
Set up of ENERCON allowance for 2011		-	-	(4,930,419)	-	(4,930,419)
Set up of rice and transportation subsidy for MARIIS for CYs 2009-2010		-	-	(18,046,012)	-	(18,046,012)
Income and expense summary		-	85,845,429	(88,916,510)	-	(3,071,081)
Public infra account (F501 - regular closed to government equity) - CAR		-	-	-	(19,655,058)	(19,655,058)
Adjustments to F501 NDC account						
CAR (Cordillera Administrative Region)		-	(98,060,409)	98,060,409	-	-
MARIIS		-	-	87,379	-	87,379
Region I		-	-	-	1,006,959	1,006,959
Regions IV-A and VII (completed and turned over projects		-	-	-	(41,137,275)	(41,137,275)
CAR - Public infra account		-	-	-	(11,339,199)	(11,339,199)
Region III - balance of account 255-2012 closed to government equity		-	-	-	(6,305,746)	(6,305,746)
Balance, December 31, 2012		**5,559,191,864**	**18,026,845,232**	**(10,030,131,383)**	**(77,430,319)**	**13,478,475,394**
Net income after subsidy for the implementation of various projects		-	-	1,238,816,250	-	1,238,816,250
Correction of prior period errors	19	-	-	(54,367,717)	-	(54,367,717)
Remittance to BIR -						
CNA charged to project funds		-	-	(824,000)	-	(824,000)
Disallowed expenses		-	-	(250,000)	-	(250,000)
Set up of CNA for CY 2012		-	-	(244,734,000)	-	(244,734,000)
Income and expense summary		-	720,527,025	(609,402,290)	-	111,124,735
Adjustments		-	-	(29,998)	-	(29,998)
Rice and transportation subsidy-UPRIIS		-	-	(916,587)	-	(916,587)
Rice subsidy-MARIIS for CY 2012		-	-	(22,994,627)	-	(22,994,627)
Rice and transportation subsidy from ENERCON		-	-	(6,732,148)	-	- (6,732,148)
Public infra (NDC account closed to government equity) - Region I		-	-	-	(6,037,000)	- (6,037,000)
- CAR		-	-	-	(25,548,476)	(25,548,476)
Completed and turned over projects Region VII		-	-	-	(23,340,866)	(23,340,866)
Balance, December 31, 2013		**5,559,191,864**	**18,747,372,257**	**(9,731,566,500)**	**(132,356,661)**	**14,442,640,960**

The Notes on pages 9 to 23 form part of these financial statements.

NATIONAL IRRIGATION ADMINISTRATION
CORPORATE FUND (F501)
STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2013
(In Philippine Peso)

	Note	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash received from irrigation users and other customers		2,719,976,394	2,812,752,976
Receipt of subsidy from the national government		2,903,387,784	2,309,880,590
Fund transfer from other funds		139,618,439	178,938,331
Receipt of subsidy from local government units (LGUs)		15,774,770	74,484,379
Other payables		-	64,532,086
Guarantee deposits		110,662,916	-
Trust deposits		105,529,459	59,842,417
Refund of cash advances and disallowances		41,423,960	32,208,611
Collection of other receivables		23,313,966	18,353,532
Interest on deposits		20,291,936	18,194,969
Prior period errors		38,597,902	14,517,300
Cash received from other government-owned and/or controlled corporations (GOCCs)		132,635,928	6,665,354
Receipt of management fee		28,462,935	2,609,451
Receipt of inter/intra-agency cash transfer		252,464,172	-
Bank charges		(1,030)	(3,042)
Repair/rehabilitation of existing irrigation facilities		(296,414)	(595,575)
Advances to GOCCs		(4,040,597)	(881,615)
Advances to LGUs		(2,703,631)	(2,588,313)
Payment to other GOCCs/NGAs		(30,000)	(4,853,154)
Refund of performance/bidders' bond		(13,631,676)	(5,337,279)
Payment of guaranty deposits payable		-	(14,572,567)
Adjustments		(13,181,400)	(18,011,731)
Advance payment to contractors		(16,305,100)	(40,639,168)
Advances to NGAs		(29,448,782)	(47,100,180)
Fund transfer to other funds		(174,929,267)	(64,499,664)
Cash advances granted to officers and employees		(53,310,206)	(97,926,420)
Due to officers and employees		(3,448,862)	(152,812,839)
Payment of accounts payable		(349,140,284)	(202,460,515)
Inter-agency/intra-agency transfers		-	(290,300,378)
Payment of other payables		(515,658,131)	(299,950,918)
Remittances to BIR, GSIS, Pag-IBIG and PHILHEALTH		(403,532,845)	(312,940,273)
Cash paid to suppliers, employees and others		(2,889,731,438)	(2,012,286,984)
		2,062,750,898	2,025,219,381
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of property and equipment		371,530	9,400
Office buildings		(856,535)	(23,900,285)
Purchase of office and IT equipment and software		(221,262,509)	(168,916,483)
Construction in progress		(1,258,643,855)	(342,468,335)
		(1,480,391,369)	(535,275,703)
CASH FLOWS FROM FINANCING ACTIVITIES			
Payment of interest on loan		-	(110,000,000)
		-	(110,000,000)
CASH, BEGINNING OF YEAR		2,163,804,055	783,860,377
CASH, END OF YEAR	4	**2,746,163,584**	**2,163,804,055**

The Notes on pages 9 to 23 form part of these financial statements.

NATIONAL IRRIGATION ADMINISTRATION
CORPORATE FUND (F501)
NOTES TO FINANCIAL STATEMENTS
(All amounts in Philippine Peso unless otherwise stated)

1. AGENCY BACKGROUND

The National Irrigation Administration (NIA) was formally created as a government corporation under Republic Act (RA) No. 3601 on June 22, 1963 with an authorized capital of P300 million. In 1974, under Presidential Decree (PD) No. 552, its capitalization was increased to P2 billion; under PD No. 1702 dated July 17, 1980, it was further increased to P10 billion. The capital was to be subscribed and paid for entirely by the Philippine Government. Section 2, paragraph (b) of PD No. 552 provides NIA's sources of operating capital. The increase in Capital Stock is already included in the Government Equity.

The Corporation was originally attached to both the Department of Public Works and Highways (DPWH) and the Department of Agriculture (DA). It was later transferred to the Office of the President, and subsequently attached to DA under Administrative Order (AO) No. 17 dated October 14, 1992. On May 5, 2014, by virtue of Executive Order (EO) No. 165, s. 2014, NIA together with National Food Authority, Philippine Coconut Authority and Fertilizer and Pesticide Authority were transferred from DA to the Office of the President.

The principal function of NIA was initially to develop, maintain, operate, improve and rehabilitate irrigation systems including communal and pump irrigation projects. However, with the reorganization of the government that occurred after its creation, NIA also assumed the irrigation activities of other government agencies, including those of the Irrigation Service Unit of the then Presidential Assistance on Community Development. Thereafter, with the passage on January 24, 1991 of RA No. 6978, otherwise known as "An Act to Promote Rural Development by providing for an Accelerated Program within a Ten-Year Period of the Construction of Irrigation Projects," the activities of NIA were significantly increased to cover the remaining 1.5 million hectares of un-irrigated but irrigable land nationwide.

NIA is headed by an Administrator who is assisted by a Senior Deputy Administrator and supported by Deputy Administrator for Administrative and Finance and Deputy Administrator for Engineering and Operations. Besides the Central Office, it has 17 Regional Irrigation Offices (RIOs), including the Upper Pampanga River Integrated Irrigation System (UPRIIS) and the Magat River Integrated Irrigation System (MARIIS), 44 Irrigation Management Offices (IMOs), 16 Project Management Offices (PMOs) and 237 National Irrigation Systems (NIS). A total of 122 irrigation projects are presently undertaken by the Corporation. Of these projects, 15 are foreign-assisted, 105 are locally-funded (including 15 carry over projects), and two are inter-agency.

The Corporation maintains the Corporate Fund (F501) to finance its operations. This Fund consists mainly of collections of irrigation fees, equipment rentals, pump amortizations, interest and miscellaneous income such as the five per cent management fee, income derived from sale of electrical energy, service fee for the operation and maintenance of non-power components of Hydroelectric Power Plants, Communal Irrigation Project amortization on principal and equity contribution and proceeds from sale of property, plant and equipment.

2. BASIS OF FINANCIAL STATEMENTS PRESENTATION

The financial statements have been prepared in accordance with State accounting principles. The combined financial statements include the financial statements of the Central Office, UPRIIS, MARIIS, RIOs, IMOs/PMOs under the Corporate Operating Budget and the Irrigation Component of the Comprehensive Agrarian Reform Program (CARP).

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Allowance for Bad Debts

The Corporation sets up allowance for bad debts for all outstanding receivables, except reciprocal accounts, and for installment receivables based on the aging of accounts at the rate of one per cent for accounts that are one to 60 days due, two per cent for accounts that are 61 to 180 days due, three per cent for accounts that are 181 days to one year due, and five per cent for accounts that are more than one year due.

b. Inventories

Inventories are measured at lower cost or net realizable value. Items for resale, such as palay, are stated at cost less allowance for inventory variance, which is based on the 56-kilogram-rule, i.e., that NIA shall collect 56 kilograms gross weight for every 50 kilograms net weight paid to compensate for the expected shrinkage, impurity and inferior quality of the palay being collected.

c. Investments

Long-term investments are valued at cost.

d. Property, Plant and Equipment

Property, plant and equipment are stated at cost less accumulated depreciation. Depreciation is computed using the straight-line method at rates ranging from two per cent to 10 per cent per annum.

Major repairs are capitalized while minor repairs are charged to operations as incurred.

e. Revenue Recognition

Income is taken up on a modified cash basis, i.e., income from space and facilities rental, bid documents and management fee are taken up on a cash basis, whereas income from operations is taken up on an accrual basis. Collections-in-kind (palay, corn, etc.) are recognized as income upon receipt of cash at the time of sale of the palay inventory received from the farmers.

4. CASH

This account includes the following:

	2013	2012
Cash-collecting officers	85,874,798	102,214,981
Working fund	19,615,566	18,504,894
Petty cash fund	1,696,969	1,491,533
Payroll fund	6,439,983	4,979,601
Cash in bank – local currency, current account	1,827,388,548	1,263,608,401
Cash in bank – local currency, savings account	349,480,404	449,542,107
Cash in bank – local currency, time deposits	420,154,327	288,226,079
Cash in bank – foreign currency, time deposits	35,512,989	35,236,459
	2,746,163,584	**2,163,804,055**

5. RECEIVABLES - NET

This account consists of the following:

	2013	2012
Accounts receivable	18,081,259,467	17,251,812,664
Due from officers and employees	15,591,410	14,848,648
Due from national treasury	(85,059,290)	(85,059,290)
Due from national government agencies (NGAs)	788,849,645	820,131,364
Due from government owned and/or controlled corporations (GOCCs)	13,548,151,129	13,631,181,642
Due from local government units (LGUs)	149,168,024	149,477,543
Due from central office	633,203	586,627
Due from regional offices	528,651,831	492,679,204
Due from other funds	39,492,250	195,511,844
Receivables - disallowances/charges	10,460,825	11,264,394
Advances to officers and employees	8,817,266	7,422,291
Other receivables	268,609,396	332,158,868
	33,354,625,156	32,822,015,799
Allowance for bad debts	(873,421,983)	(777,620,800)
	32,481,203,173	**32,044,394,999**

Accounts Receivable account comprises trade/business receivables from irrigation service fees. Memorandum Circular (MC) No. 26 dated June 7, 1976 requires annual adjustment of the account in the books due to increase in the government support price for palay. MC No. 62 dated December 5, 1977 and MC No. 62-A dated December 22, 1977 grant 10 per cent discount to farmers for payment of irrigation fees on or before due dates. The account also includes current installment receivables from amortization of irrigation pumps, communal irrigation systems and motorcycles.

Due from National Treasury is an account maintained with the Bureau of the Treasury (BTr) through which foreign loan proceeds are released to NIA. Reconciliation of this account is still pending with the BTr. This also includes carried-over balances of the NIA general and bond funds, which were transferred to the corporate fund in 1983.

Due from NGAs represents releases to DPWH District Offices for the construction/rehabilitation of farm to market roads out of the National Development Company (NDC) loan proceeds.

Due from GOCCs includes receivables from National Power Corporation (NPC) relative to the sale of electrical energy generated by the Casecnan Multi-Purpose Irrigation and Power Project per Power Purchase Agreement dated June 30, 1995 and Supplemental Agreement dated September 25, 2003.

Due from LGUs comprises releases to local government units, also, out of loan proceeds from NDC, for the implementation of farm to market road projects.

Due from Regional Offices is the reciprocal account of Due to Central Office which are both closed at year-end during consolidation of financial statements. However, due to inadequate reconciliation, the account remains open.

Other Receivables account includes claims from accountable officers for cash shortages, claims for dishonored checks and other miscellaneous contingent assets.

6. INVENTORIES - NET

This account consists of:

	2013	2012
Merchandise inventory	63,481,757	64,014,574
Allowance for inventory variance	(317,806)	(732,252)
	63,163,951	**63,282,322**

Merchandise Inventory represents collections-in-kind (palay, corn, etc.) from the end-users of irrigation systems and pump sets, which are intended for resale to the National Food Authority or to other private individuals.

Office supplies, gasoline, oil and lubricants, spare parts and other supplies inventories previously included in this account in calendar year (CY) 2012 totaling P45,824,701 were reclassified to prepayments account.

7. PREPAYMENTS

This account consists of:

	2013	2012
Prepaid rent	7,547,861	7,547,861
Office supplies inventory	45,738,937	45,207,861
Gasoline, oil and lubricants inventory	1,242,297	247,680
Spare parts inventory	227,249	227,249
Other supplies inventory	145,376	141,911
Deposit on letters of credit	197,088	197,088
Advances to contractors	111,232,165	83,074,111
Deferred charges	(120,615)	(120,615)
Other prepaid expenses	5,234,559	9,153,478
	171,444,917	**145,676,624**

Advances to Contractors account comprises of mobilization costs for various projects undertaken under Fund 501 prior to 1996. Other Prepaid Expenses account represents prepayment to Procurement Service under the Department of Budget and Management (DBM) and to Petron Philippines for the delivery of office supplies and gasoline, respectively. Reconciliation of the Other Prepaid Expenses-Gasoline, Oil and Lubricant account amounting to P9,144,011 at the NIA-Central Office is on-going to correct/deduct from the balance fuel withdrawals for the current and previous years.

8. OTHER CURRENT ASSETS

This account consists of:

	2013	2012
Guaranty deposits	19,735,469	12,620,220
Other current assets	(218,379,228)	(218,379,227)
	(198,643,759)	**(205,759,007)**

Other Current Assets account consists of inactive negative cash in bank-current accounts transferred to this account in December 1997. It also includes receivables under Funds 107, 102 and 101 transferred to the corporate fund without details or breakdown.

9. INVESTMENTS

This account consists of:

	2013	2012
Investment in stocks	11,207,000	11,207,000
Investment in bonds	1,600	1,600
Other investments and marketable securities	15,900	15,900
Other investment – CE Casecnan	56,265,438,085	-
	56,276,662,585	**11,224,500**

Investment in Stocks account comprises investment in NIA Consult, Inc. (NIACI), a subsidiary of NIA, amounting to P10 million in the form of drilling rigs and auxiliary equipment with appraised value of P12,639,022 and cash under Treasury Warrant No. B0481390 dated October 2, 1980 in the amount of P750,000. Per Board Resolution No. 3791-82, NIA's investment in NIACI is up to P10 million only and the excess in the amount of P3,389,022 is considered as advances and recorded as receivables. This account also includes investment in Gasifier and Equipment Manufacturing Corporation (GEMCOR) shares of stocks, 937 shares purchased in 1981 and another 250 shares acquired in 1984 both at P1,000 per share. In 1988, the GEMCOR privatization plan, which called for its dissolution, was approved. As at audit date, NIA's inquiry on the chance of recovering its investment remains unanswered.

Investment in Bonds account consists of 25-year six per cent Land Bank of the Philippines (LBP) bonds with various maturity dates depending on the dates of issue.

Other Investment – CE Casecnan represents the cash advances made by the BTr to California Energy Casecnan Water Electric Company, Inc. (CECWECI) for the account of NIA for water deliveries under the Build, Operate and Transfer (BOT) scheme of the project agreement entered into by and between CECWECI and NIA on November 13, 1994. The project was aimed to**:** (i) divert certain water in the Casecnan Watershed and transfer that water into the Pampanga watershed at the Pantabangan Reservoir for NIA's subsequent irrigation use in the Central Luzon Valley, (ii) make available new installed electrical capacity and electrical energy to National Power Corporation (NPC) Luzon grid; and (iii) increase electrical energy generation at the existing Pantabangan and Masiway facilities.

On June 26, 1995, NIA and CECWECI entered again into the Amended and Restated Project Agreement to amend and restate in its entirety the original project agreement by reason of the General Agreement on Tarrifs and Trade-Uruguay Round (GATT-UR) Agreement on agriculture and for NIA to implement an accelerated irrigation program for to 1,500,000 hectares over the next 10 years.

Consequently, on June 30, 1995 a Power Purchase Agreement (PPA) was entered between NIA and NPC relative to the energy delivery for 20 years of commercial operation or such longer period as may be determined in accordance with the contract.

On September 29, 2003, NIA and CECWECI entered into another Supplemental Agreement regarding the Amended and Restated Casecnan Project Agreement whereby the parties agreed to: (i) Excess Energy Delivery Fees – the excess energy fees chargeable by NIA to NPC shall be reduced to the equivalent of the variable energy rates provided under this supplemental agreement, thereby resulting in the accrual of the benefits relating to excess energy in favor of NPC (ii) Dispatch Protocol – assumption by NPC of all obligations of NIA relating to dispatch and contractual obligation (CO) for energy and (iii) Cooperation on co-Minimization – both parties acknowledge that the failure or inability to prevent or reduce water spillage or wastage will increase both parties' energy and water delivery fees to CECWECI.

From the very start of the cooperation period in CY 2002 up to the present, the BTr advanced the payment of NIA's contractual obligation upon approval of NIA's request by the Department of Finance (DOF). However, Management stopped the recording of these advances effective CY 2009.

In a meeting called for by the DOF on June 6, 2012 between the representatives from the BTr, NIA and COA, it was agreed that NIA would book up the advances by debiting Other Investment - CE Casecnan account and crediting Due to the National Treasury account.

Included also in this account is the ten-year US$97 million bonds issued on October 15, 2003 by NIA and guaranteed by the Republic of the Philippines and the guarantee fee of one per cent per annum as approved by the DOF.

10. PROPERTY, PLANT AND EQUIPMENT - NET

This account represents:

Particulars	Land and land improvements	Building and improvements	Machineries, equipment, furniture and fixtures	Construction in progress (CIP)	Total
Cost: January 1, 2013	24,416,175,288	1,207,196,864	1,920,153,516	11,537,974,920	39,081,500,588
Additions	417,936,438	221,050,085	87,244,884	2,067,958,216	2,794,189,623
Liquidations of fund transferred to LGU	(165,102,171)	-	-	-	(165,102,171)
Donations received	-	-	4,439,625	-	4,439,625
CIP transferred to PPE	-	9,114,138	13,862,247	(22,976,385)	-
CIP – projects turned over to LGUs	-	-	-	-	-
Reclass to other assets	275,699,797	-	(5,523,137)	(92,885)	270,083,775
Adjustments	2,768,456,811	-		(23,340,867)	2,745,115,944
December 31, 2013	27,713,166,163	1,437,361,087	2,020,177,135	13,559,522,999	44,730,227,384
Less: Accumulated depreciation, January 1, 2013	13,639,828,597	248,139,282	1,036,191,318	-	14,924,159,197
Depreciation charges during the year	669,847,005	17,661,735	223,283,613	-	910,792,353*
Adjustments	(1,203,513,583)*	-	-	4,493,923,821	3,290,410,238
December 31, 2013	13,106,162,019	265,801,017	1,259,474,931	4,493,923,821	19,125,361,788
Net Book Value – December 31, 2013	**14,607,004,144**	**1,171,560,070**	**760,702,204**	**9,065,599,178**	**25,604,865,596**
Net Book Value – December 31, 2012	**10,776,346,691**	**959,057,582**	**883,962,198**	**11,537,974,920**	**24,157,341,391**

* The adjustments in the amount of P(1,203,513,583) and depreciation charges of P910,792,353 are still under reconciliation.

Land and Land Improvements account includes cost of farm to market roads in various LGUs financed out of the P346,000,000 proceeds of loan from NDC.

Land Improvements account refers to the total cost of completed irrigation projects which have generally redounded to the benefit of the farmers in terms of service areas. This also includes those funded out of appropriations from the National Government through the DPWH and the DA in 1990 until 1996.

Construction in Progress (CIP) account represents cost of projects implemented out of project funds directly released to NIA by DBM.

11. OTHER ASSETS

This account consists of work/other animals worth P547,909 in 2013 and 2012 and other assets in the amount of P591,230,650 in 2013 and P521,405,518 in 2012.

12. PAYABLES

This account includes the following:

	2013	2012
Accounts payable	1,404,631,535	483,105,973
Notes payable	128,022	128,022
Due to officers and employees	47,117,603	26,216,542
	1,451,877,160	**509,450,537**

The account Due to National Treasury in the amount of P543,871,931 in CY 2012 was reclassified under Inter/Intra-Agency Payables.

13. INTER/INTRA-AGENCY PAYABLES

This account includes the following:

	2013	2012
Due to BIR	47,850,285	43,643,340
Due to GSIS	14,998,410	20,411,652
Due to Pag-IBIG fund	3,811,401	3,709,488
Due to PHILHEALTH	3,956,494	4,369,583
Due to other NGAs	13,122,591,394	13,133,590,631
Due to national treasury	56,809,566,263	543,871,931
Due to other GOCCs	144,737,963	143,383,227
Due to LGUs	8,038,685	11,159,043
Due to Central Office	136,496,645	60,411,171
Due to other funds	195,802,597	306,667,172
	70,487,850,137	**14,271,217,238**

Due to Other NGAs account includes trust receipts from national government agencies (i.e., DA and DPWH) to finance specific projects or to pay specific obligations, subject to liquidation to the source agencies.

Due to National Treasury is the amount of the cash advances made by the BTr on account of NIA for payment of water delivery fees to CECWECI.

Due to Other GOCCs pertains to trust receipts from government-owned and/or controlled corporations to finance specific projects or to pay specific obligations.

14. OTHER LIABILITIES

This account includes the following:

	2013	2012
Guaranty deposits payable	106,375,564	62,458,694
Performance/bidders bond payable	32,089,143	30,054,737
Other payables	1,127,086,597	1,242,780,125
	1,265,551,304	**1,335,293,556**

Guaranty Deposits Payable represents “retention money” from claims of contractors implementing the Corporation’s projects to cover for uncorrected discovered defects and third party liabilities.

Other Payables account includes outstanding personnel allowances and benefits of Central and Regional Offices. Savings account with negative balances, which have been dormant since 1989, and miscellaneous trust liabilities were reclassified to this account.

15. LONG-TERM LIABILITIES

This account consists of loans and advances payable to the following:

	2013	2012
Loans payable – domestic and advances payable– national government agencies		
Asian Development Bank	2,829,468,741	2,829,468,741
International Bank for Reconstruction and Development	3,107,554,082	3,107,554,082
Overseas Economic Cooperation Fund	266,583,721	266,583,721
Special Project Implementation Assistance Loan	156,479,931	156,479,931
	6,360,086,475	6,360,086,475
Loans payable – NDC	4,875,000,000	4,875,000,000
Loans payable – foreign		
Asian Development Bank	139,039,695	139,039,695
International Bank for Reconstruction and Development	83,155,142	83,155,142
International Fund for Agricultural Development	49,059,222	49,059,222
	271,254,059	271,254,059
	11,506,340,534	**11,506,340,534**

Loans Payable – Domestic and Advances Payable to National Government Agencies represent payments made by the BTr to lending banks in favor of NIA. The BTr periodically forwards notices of payments to NIA which serve as basis of the latter in the recording of advances made by the former. Most of these payments cover only the interest incurred on loans.

Loans Payable – Foreign account represents the proceeds of foreign loan availment usually evidenced by the lending institution’s payment advice and Bangko Sentral ng Pilipinas credit advice ticket. Verification as to the nature and status of these payables are on-going.

The Loans Payable to NDC was an offshoot of the implementation of economic pump-priming projects of the national government, which NIA is involved in, and completion of NIA's repair and rehabilitation program of existing national and communal irrigation systems (NIS/CIS). As the required fund, in the total amount of P3.700 billion, was not programmed in the proposed 2006 General Appropriations Act, the NIA Board of Directors authorized the then NIA's Administrator, under Board Resolution No. 7370-06, series of 2006 dated March 3, 2006, to negotiate for a loan with NDC.

In relation to this, a Memorandum of Agreement (MOA) was entered into by and among NIA, NDC, DBM, DOF and DA on May 11, 2006 which defines the roles and responsibilities of the concerned agencies to carry out the said lending activity and the implementation and monitoring of the project. On the same date, NIA entered into a loan agreement with NDC for P1 billion as interim financing, as approved under Board Resolution No. 7375-06 dated April 24, 2006. The loan has a term of six years and bears a fixed interest rate of 10 per cent per annum plus taxes, payable quarterly in arrears.

In October 2006, NIA availed itself of an additional P2 billion loan from NDC, as approved by Board Resolution No. 7391-06, series of 2006. Another MOA was executed among NDC, DBM, DOF and DA for the utilization and repayment of said loan. The terms include utilization of P1 billion for full payment of the interim loan and P1 billion for financing NIA's additional requirements for repair and rehabilitation of NIS/CIS including farm-to-market roads and other projects.

As of December 31, 2013, proceeds from the loan had a remaining balance of P14,606,880. Breakdown of the fund is shown below:

	2013	**2012**
Balance, January 1	14,606,880	31,367,701
Less:		
Fund releases to NIA Regional Offices	-	6,037,000
Refund by:		
DPWH	-	(122,010)
Regional Offices	-	(46,164)
Operating expenses	-	7,360
Prior period errors	-	10,884,635
	-	16,760,821
Balance, December 31	**14,606,880**	**14,606,880**
Funds Maintained in:		
Cash in bank – CA	513,253	513,253
Cash in bank – SA	14,093,627	14,093,627
	14,606,880	**14,606,880**

16. DEFERRED CREDITS

This account includes the following:

	2013	**2012**
Deferred credits	16,963,418,591	16,185,432,720
Other deferred credits	1,618,959,920	1,615,708,332
	18,582,378,511	**17,801,141,052**

Deferred Credits account represents income to be realized upon collection of previously billed irrigation fees and unearned income on installment sales, equipment rentals and CIS amortizations.

Other Deferred Credits account pertains to miscellaneous liabilities and undistributed collections converted to this account.

17. SUBSIDY INCOME FROM NATIONAL GOVERNMENT

A total of P2,903,387,784 was received as Subsidy from the National Government, broken down as follows:

	2013	2012
Subsidy for operations		
5% Management fee	1,187,039,841	984,362,420
Budgetary support for the implementation of various projects (Capital Outlay)		
2.85% General engineering, supervisory and administrative	676,611,159	561,086,580
Disbursement Acceleration Program (DAP)		
Jalaur River Multipurpose Project II (JRMP II)	-	450,000,000
Casecnan Multipurpose Irrigation and Power Project II (CMIPP II)	283,620,000	200,000,000
Malitubog-Maridagao Irrigation Project II (MMIP II)	233,181,000	101,400,000
Umayam River Irrigation Project (URIP)	105,445,000	9,500,000
	1,298,857,159	1,321,986,580
Pension and Gratuity Fund	417,490,784	**-**
	2,903,387,784	**2,306,349,000**

Receipts of cash for Disbursement Acceleration Program (DAP) were credited to Land Bank of the Philippines (LBP) Current Account No. 1872-1005-94 under Fund 501 per Letter Authority issued at various dates by the BTr to the LBP, Intramuros Branch.

18. GOVERNMENT EQUITY

This account represents capital expenditures out of funds released directly to NIA by the National Government up to 1989 and out of trust funds released to NIA through the DA and DPWH from 1990 to 1996.

An adjustment amounting to P54,367,717 representing various corrections of prior period errors was closed to this account.

The amount of P244,734,000 represents the Collective Negotiation Agreement Incentive (CNAI) for the year 2012 which were set up as Accounts Payable per MC No. 13, s. 2013. The amount of P6,732,148 represents ENERCON incentives of NIA-Central Office personnel for CY 2012. The amounts of P916,587 and P22,994,627 represent the Rice and Transportation Subsidy of NIA-UPRIIS and NIA-MARIIS personnel for CY 2012, respectively.

The amounts of P824,000 and P250,000 represent deposit to the BTr as refund of disallowed CNAI payment charged to the General Fund.

Likewise, the total amount of P54,926,342 represents completed and turned over projects and various adjustments affecting the Property, Plant and Equipment – Public Infrastructures of Regions I, VII and the Cordillera Administrative Region (CAR).

19. CORRECTION OF PRIOR PERIOD ERRORS

This account represents Central and Field Offices prior years' adjustments as detailed below:

	2013	2012
Management fee	(4,301,645)	-
Adjustment on bad debts	3,317,390	9,437,427
Power cost	(966,176)	144,372,367
Disallowance	337,553	(2,899,893)
Reclassification of unserviceable equipment	-	(550,708)
Adjustment of accounts payable	1,120,262	(34,906)
Inventory	414,446	(1,193,845)
Bid documents	110,000	-
Deposits	328,518	(473,653)
Subsidy from central office	5,612,767	(2,098,000)
Staple food allowance	40,107	-
Subsidy to regional offices-remittance	-	(3,500)
Income	702,098	(6,187,937)
Reconciling items	(10,000)	(41,600)
Accounts receivable	(29,048,897)	20,666,018
Monetization	-	26,439
Cost of check booklet	(350)	(7,350)
Pag-IBIG	(124,577)	(4,500)
Trust liabilities	-	129,433
Office supplies	(37,114)	(292,993)
PHILHEALTH	337,798	44,888
Liquidation of cash advance/equity	331,270	(523,029)
Honorarium	(404,922)	4,169
Unrecorded expenses/disbursements	(5,666,253)	(1,522,241)
GSIS	(254,770)	(173,579)
Viability incentive grant	20,000	(21,005)
Reversion of accounts payable	29,405	258,784
Collections/remittance	113,899	4,558,337
Interest income	444,491	(598,209)
Terminal leave	(470,989)	83,868
C N A	(16,378,785)	1,018,350
Cancellation of entry	(1,500)	2,757,898
Depreciation	(67,659,167)	(312,243,854)
Salaries, wages/allowances/bonuses	(1,295,962)	(125,261)
Disbursements	62,103,915	(2,277,472)
Bank charges	(50)	(2,315)
Cost of living allowance/amelioration	(219,465)	-
Others	(2,891,014)	808,715
Cancellation of F102 equipment recorded under F501	-	(5,580,969)

	2013	2012
Transfer of Feasibility Studies and Detailed Estimates (FSDE) disbursements to F101	-	(334,600)
Correction of entry – crediting Public Infra account instead of prior years' adjustment	-	2,707,831
Corporate advances for FSDE	-	4,000,000
	(54,367,717)	**(146,316,895)**

20. MISCELLANEOUS INCOME

This account includes income derived from sale of electrical energy generated by the Casecnan Multi-Purpose Irrigation and Power Project per Power Purchase Agreement dated June 30, 1995. This also includes service fee for the operation and maintenance of non-power components of the 100 Mega Watts (MW) Pantabangan Hydroelectric Power Plant and 12 MW Masiway Hydroelectric Power Plant per Operations and Maintenance Agreement dated November 13, 2006 and Magat Power Plant Complex per Operations and Maintenance Agreement dated December 13, 2006.

The account is detailed as follows:

	2013	2012
Bid documents	41,583,707	33,505,960
Sale of goods and materials	52,500	235,484
Disallowances	931,257	366,119
Scrap of fixed assets	177,671	2,418,617
Income from NIA Housing	5,000	63,176
Laboratory analysis – soil and water	670,900	712,775
Payment for lost items	10,379	61,180
Printing/photocopy/radio	29,818	11,472
Hauling/milling/drying fish	117,288	120,068
Income from National Home Mortgage Finance Corporation	1,440	2,683
Contract price adjustment	2,384,518	29,455
Gain on sale of palay	-	776,448
Other miscellaneous income	104,398,981	105,363,071
	150,363,459	**143,666,508**

21. EXPENSES

The account consists of:

	2013	2012
Personal Services		
Salaries and wages	914,114,725	925,682,868
Life and retirement insurance contributions	105,700,865	109,110,942
Personnel economic relief allowance	83,301,446	90,794,425
Year-end bonus	73,252,253	75,538,581
Other bonuses and allowances	34,111,243	23,834,686
Cash gift	21,803,035	23,784,084
Clothing/uniform allowance	18,134,999	19,953,000
Other personnel benefits	69,832,238	139,590,850
Productivity incentive allowance	7,825,876	8,038,500

	2013	2012
Representation allowance	9,072,112	8,502,900
PHILHEALTH contributions	9,547,733	9,041,808
Transportation allowance	7,868,100	7,722,677
Terminal leave benefits	242,379,404	218,400,882
Pag-IBIG contributions	4,476,906	4,721,966
ECC contributions	4,397,445	4,849,950
Additional compensation allowance	1,479,000	2,052,491
Retirement benefits	42,130,306	1,719,925
Longevity pay	3,759,251	3,463,306
Honoraria	3,382,811	3,437,107
Overtime and night pay	4,958,493	4,771,679
Hazard pay	80,400	-
	1,661,608,641	**1,685,012,627**
Maintenance and Other Operating Expenses (MOOE)		
Depreciation	844,239,440	1,020,916,704
Bad debts	99,118,574	69,745,328
Electricity expenses	84,290,354	67,797,117
Collection/viability bonus	193,897,723	85,440,424
Irrigators' share	251,838,753	103,351,055
Gasoline, oil and lubricants	44,030,695	45,174,415
Repairs and maintenance - equipment	13,753,481	5,048,222
Other supplies expense	14,380,150	15,312,638
Repairs and maintenance - motor vehicles	30,340,983	15,691,355
Miscellaneous expenses	11,652,804	15,557,590
Travelling expenses	18,342,901	18,109,951
Auditing services	41,005,372	8,493,460
Office supplies expense/supplies and materials	17,681,484	17,885,498
Repairs and maintenance-buildings/structures	32,331,722	9,240,508
Collection expenses	2,616,282	4,425,499
Telephone expenses - landline	7,773,417	7,414,215
Taxes, duties and fees	6,942,920	7,274,205
Training expenses	4,976,562	4,135,115
Janitorial services	10,358,486	8,718,546
Representation expenses	2,576,354	3,432,300
Insurance expenses	4,498,661	5,006,056
Repairs and maintenance-irrigation, canals and laterals	170,416,325	5,674,159
Water expenses	4,035,147	4,412,990
Telephone expenses - mobile	2,504,637	2,737,725
Rent expenses	1,261,529	1,209,196
Fidelity bond premiums	1,210,569	1,369,875
Legal services	266,819	665,688
Advertising expenses	941,610	879,270
Internet expenses	3,170,523	1,177,156
Printing and binding expenses	2,536,625	1,365,920
Repairs and maintenance-artesian wells, reservoirs, etc.	1,746,565	3,444,150
Motorcycle allowance	301,438	437,957
General services	392,153	254,120
Extraordinary expenses	356,562	948,103
Transportation and delivery expenses	664,647	268,777
Accountable forms expenses	1,729,418	1,601,870
Rewards and other claims	20,000	430,000
Consulting services	1,633,644	3,329,233

	2013	2012
Postage and deliveries	278,657	227,477
Cable, satellite, telegraph and radio expenses	91,872	647,835
Subscription expenses	187,315	1,393,986
Membership dues and contribution to organizations	62,107	92,067
Other professional services	16,530	96,000
Drugs and medicines expenses	283,178	213,439
Medical, dental and laboratory supplies expenses	134,063	30,431
Textbooks and instructional materials expenses	105,284	17,500
Security services	-	4,447,761
Donations	1,232,321	23,000
Military and police supplies expenses	14,796	-
Scholarship expense	5,000	-
Cooking gas expenses	-	3,494
Other maintenance and operating expenses	86,385,875	68,076,937
	2,018,632,327	**1,643,646,317**
Financial Expenses		
Interest expenses	422,505,160	366,262,468
Bank charges	14,839	18,111
	422,519,999	**366,280,579**
Total Expenses	**4,102,760,967**	**3,694,939,523**

22. COMPLIANCE WITH TAX LAWS

For CY 2013, NIA, under its Corporate Fund withheld taxes from salaries and wages, suppliers/contractors and remitted P30.629 million to the Bureau of Internal Revenue (BIR). The Due to BIR account as of December 31, 2013 totaled P47.850 million consisting of taxes withheld for December 2013, prior year's accumulated tax dues and unrecorded remittances from regional and field offices which are still subject to further verification and reconciliation.

PART II - OBSERVATIONS AND RECOMMENDATIONS

FINANCIAL OPERATIONS

1. The accuracy of the Property, Plant and Equipment (PPE) account with net book value of P25.605 billion was not reasonably substantiated due to, among others, absence of Transfer Certificates of Title (TCTs) to prove ownership and existence of parcels of land valued at P3.469 billion (13.6 per cent), lack of reports for completed irrigation projects of more than P0.500 billion, inadequate accounting and property records, significant variances between books and physical counts, and the inclusion of unserviceable properties.

1.1. Section 58 of Presidential Decree (PD) No. 1445 states that:

> *The examination and audit of assets shall be performed with a view to ascertaining their existence, ownership, valuation and encumbrances as well as the propriety of items composing the respective asset accounts, determining their agreement with records, proving the accuracy of such reports; xxx.*

1.2. The PPE account with a net book balance of P25.605 billion is composed of Land and Land Improvements (57.0 per cent), Construction in Progress (35.4 per cent), Building and Improvements (4.6 per cent), and Machineries and others (3.0 per cent). Review of the accounts revealed that the audit observations discussed below are recurring as these are not yet fully addressed.

1.3. Audit of the Land and Land Improvements account that have a net book balance of P14.607 billion disclosed that it included parcels of land valued at P3.469 billion (or 13.6 per cent of the total PPE account) which are not supported with original Transfer Certificates of Title (TCTs), and vital information as to area, location, cost, dates acquired/completed and the fund source, and neither are these supported with property ledger cards. In view of these lacking information, and since most of these cannot be located, ownership and existence of these properties is doubtful.

1.4. The parcel of land donated by the Provincial Government of Nueva Vizcaya to the NIA Nueva Vizcaya Irrigation Management Office with a total land area of 4,215 square meters and where the NIA office building and its facilities are situated is not yet recorded in the books as titling in favor of NIA is not yet undertaken.

1.5. Section 41 of the Manual on New Government Accounting System (MNGAS), Volume I, requires that *[D]uring construction period, property, plant and equipment shall be classified and recorded as "Construction in Progress" with the appropriate asset classification. As soon as these are completed, the "Construction in Progress" account shall be transferred to the appropriate asset accounts. Accounts "Public Infrastructures" and "Reforestation Projects" are closed to Government Equity" account and the asset is recorded in the Registry of Public Infrastructures/Reforestation Projects at the end of the year.*

1.6. Relative to this, NIA, in its Memorandum Circular No. 44 dated July 20, 2007 provided the guidelines, procedures and journal entries for the transfer of all completed projects from Construction-in-Progress (CIP) to Public Infrastructure account.

1.7. The CIP account has a total balance of P9.066 billion. This presupposes that implementation of projects such as construction, repair, rehabilitation or restoration of irrigation system is still on-going and within the normal contract period of less than one year to five years.

1.8. Analysis of the CIP account, however, showed that it still included completed irrigation projects mostly pertaining to CY 2008 and prior years valued at approximately more than P0.500 billion. These cannot be adjusted to the proper PPE account due to lack of appropriate supporting documents like the project completion reports from the Engineering Department which should have been the basis for the Accounting Section to close the CIP account to the proper PPE account. Thus, these cannot be provided with allowance for depreciation and also not included in the Physical Count of PPE as these could not be physically inspected due to absence of documents to trace their locations. Hence, the true nature and value of the CIP account as at year-end is not certain.

a. In NIA Regional Office (RO) I, completed projects amounting to P537.452 million were not supported with details such as the name and cost of each of the projects.

b. Of the CIP account amounting to P726.542 million in NIA RO III, the cost of completed projects cannot be determined in the absence of project completion reports. This also hold true in NIA RO VI with a CIP account of P58.675 million, in NIA RO X, and NIA RO XIII with a CIP balance of P487.752 million.

1.9. Section 43 of the MNGAS, Volume I, requires the Accountant and Property Officer to respectively maintain PPE Ledger Cards (PPELC) and Property Cards (PC) for PPE accounts. But these are not maintained or not properly maintained.

a. In NIA Magat River Integrated Irrigation System (MARIIS), the PPE account of P265.180 million included items that were not segregated as to what funds these items should belong. Based on interviews, these items have no underlying records and represent items acquired during previous years.

b. Although the Accounting Section in NIA RO II maintains computerized records of its PPE account of P461.771 million, these are not updated and not adequate to serve as basis for reconciliation against property records.

c. In NIA RO III, PPELC for CIP account were not maintained.

d. The PPELC and PC are not also properly maintained in NIA RO IV-B, RO V, RO X, RO XI, and RO XIII for PPE accounts with balances of P59.031 million, P571.140 million, P647.218 million, P908.790 million and P667.674 million, respectively.

1.10. Due to lack of very basic and mandatory supporting records for the PPE account, verification and reconciliation between records cannot be undertaken and the cost per project cannot be easily determined. As a result, the accuracy of the year-end balances of the accounts classified as PPE cannot be relied upon.

1.11. Physical inventory of property required under COA Circular No. 80-124 dated January 18, 1980 and Sections 490 and 491 of the Government Accounting and Auditing Manual (GAAM), Volume I, was not completely/properly conducted, and the required Report on the Physical Count of PPE (RPCPPE) under Section 66 of the MNGAS, Volume II, was not prepared and submitted to the Office of the Auditor. In view of this, the physical existence of the recorded PPE was not duly substantiated.

a. In NIA Casecnan Multipurpose Irrigation and Power Project (CMIPP), the conduct of physical count was not made in accordance with Sections 490 and 491 of the GAAM, Volume I, which cast doubt on the reliability of the result of the physical count as well as the existence of the PPE with carrying value of P387.019 million. It was clear that Management is neither prepared nor informed of the methodical system of inventory-taking. The following features were visibly missing:

- Designated person who will supervise the count
- Members to act as counters and checkers
- Set of written instructions to be observed by the inventory team
- Serially pre-numbered property tags
- Inventory sheets to where data on property tags may be transferred

b. In NIA RO V, there was incomplete physical count of PPE; in RO VI with PPE account of P201.561 million and also in RO XI, RPCPPE was not prepared; and in RO X, physical inventory was not conducted.

1.12. In regions where RPCPPE were prepared, the variances between the book balances and results of physical count as of year-end cannot be reconciled and traced to source documents due to absence of subsidiary ledgers. This condition runs counter with the provisions of Section 491 of the GAAM, Volume I, requiring all discrepancies between physical and book inventories to be investigated and cleared immediately, and if necessary written explanations shall be required from persons responsible.

a. In NIA RO II, the RPCPPE for CY 2013 totaling P282.123 million does not reconcile with the accounting records with a balance of P461.771 million, resulting in a variance of P179.648 million. Several properties indicated in the RPCPPE did not reflect the acquisition cost like the land acquired through purchase and donations, and most did not indicate the funding sources, detailed description, and other vital information.

b. In NIA Upper Pampanga River Integrated Irrigation System (UPRIIS), the PPE accounts of P915.360 million have a total variance of P934.820 million when compared with the RPCPPE. The variance in RO V amounted to P491.626 million since the value of properties per RPCPPE amounted to only P79.514 million.

1.13. Section 143, MNGAS, Volume III, states that Other Assets account is used to record the value of obsolete and unserviceable assets awaiting final disposition as well as those assets still serviceable but no longer being used. Also, Section 79 of Presidential Decree (PD) No. 1445 states that when government property has become unserviceable for any cause, or is no longer needed, it shall, upon application of the officer accountable therefore, be inspected by the head of the agency or representative and in the presence of the auditor, and if found valueless or unsalable, it may be destroyed in their presence. If found valuable, it may be sold at public auction.

1.14. It was noted that unserviceable properties were still included under PPE account and some properties that were already disposed are not yet dropped from the books. These further rendered the balances of the PPE account unreliable.

a. In NIA RO I, unserviceable properties with total acquisition cost of P5.471 million, which are either still with the different accountable officers or already surrendered to the Property Supply Officer, were neither reclassified as Other Asset nor disposed, exposing them to further deterioration and loss in value.

b. These are also prevailing in NIA RO II, as well as in RO III with unserviceable properties worth P5.035 million and in RO VI worth P7.313 million.

1.15. As a result of the foregoing deficiencies, the PPE account with a net book balance of P25.605 billion cannot be relied upon.

1.16. **We recommended that Management:**

a. Facilitate the titling of all properties recognized under the Land account as well as the land donated to NIA; and, create an appraisal committee to determine the current fair market value of the property to serve as basis for recording in the books;

b. Create a special group to undertake within a target period the immediate reconciliation of the variances between the RPCPPE and the accounting records, and also to analyze the CIP–Irrigation Projects account for reclassification to the proper PPE account, duly supported with complete documentation;

c. Require the Accounting and Property Sections to maintain/update accounting and property records, conduct periodic reconciliation between these records, and immediately investigate and clear any discrepancies;

d. Give instructions to the Property Section to initiate the annual conduct of proper and complete physical inventory of all properties, prepare the corresponding inventory reports, and submit the same to the Office of the Auditor not later than January 31 of the ensuing year; and

e. Instruct the Accounting Section to coordinate with the Property Section as regards the unserviceable and disposed properties so that these can be reclassified to the appropriate accounts.

1.17. Management gave the following comments:

a. In NIA RO II, all issues on PPE shall be discussed with concerned officials and employees and be acted upon.

b. In UPRIIS, they are continuously working on the reconciliation of PPE records. Effective 2013, reclassification of PPE shall be made based on the Inspection and Acceptance Report. The Engineering Section shall timely provide the Accounting and Property Sections with the Certificate of Completion of Infrastructure projects, as basis in reclassifying the CIP account. All Property Officers were instructed to coordinate with the Accounting Section for the synchronized reclassification and reconciliation of PPE items.

c. In CMIPP, they will observe the prescribed procedures in inventory-taking.

d. In NIA Region IV-B, they agreed with the recommendation and will require the Irrigation Management Office (IMO) for the prompt submission of complete and properly accomplished distribution of CIP account for each project to be tallied and reconciled with the subsidiary ledger maintained at the regional office.

e. NIA Region VI will implement the recommendations; will prepare the Inventory and Inspection Report on Unserviceable Property and Report of Waste Materials; and will cause the recording of unserviceable assets as Other Assets. Sanction will be imposed for failure to submit the required documents on time. Templates for simple filling in the blanks upon project completion will be given to assigned project engineers for submission to the Engineering Division.

f. In NIA Region X, lack of subsidiary ledgers had been a perennial problem for many years and the lack of manpower also attributed to the non-maintenance of subsidiary ledgers. The Finance Division commented that they are waiting for the turn-over documents where the final cost per project is indicated so that they will have a basis for adjusting and reclassifying the CIP account.

g. In NIA Region XIII, they are continuously preparing/updating the PPE subsidiary ledgers per IMO. The Finance Unit is coordinating with the Engineering and Operation Division regarding the submission of Project Completion Report and Turnover Documents of all completed projects for proper recording in the books.

h. On April 28, 2014, the NIA Administrator issued a Memorandum directing the Senior Deputy Administrator, Deputy Administrators, Regional/Operations Managers and all others concerned to organize three Task Groups to accomplish different tasks to address the recurring issues raised in the Consolidated Annual Audit Report. The Physical Inventory Task Group shall, among others, conduct physical inventory of PPE as of December 31, 2013, and identify, evaluate and reconcile variances between accounting and property records.

1.18. As a rejoinder, we further recommend that **Management set a timeline for each task/activity in the order they are to be undertaken, to serve as basis for monitoring the extent of accomplishments at any point.**

2. The reliability of the balance of Cash in Bank account of P2.632 billion could not be ascertained due to inadequate or absence of records to support the account balance, delayed or non-preparation of bank reconciliation statements (BRS) and discrepancies in balances among accounting records. Moreover, 28 bank accounts are maintained in three banks which are not authorized as government depository banks.

2.1. Section 12 of MNGAS, Volume II, requires government agencies to maintain Subsidiary Ledgers (SLs) which contains the details or breakdown of the balance of the controlling account appearing in the General Ledger, and to reconcile the SL balances with their respective control account regularly or at the end of the month.

2.2. Also, Section 74 of PD No. 1445 requires the head of the agency to see to it that monthly reconciliation is made between the balance shown in the bank statement and the balance found in the books of the agency.

2.3. The Cash in Bank account is composed of current, savings and time deposits. Audit disclosed accounting deficiencies already noted in previous years but remained uncorrected, as summarized in Table 1, which have caused difficulty in establishing the accuracy and reliability of the year-end balance of P2.632 billion.

Table 1 – Deficiencies affecting the Cash in Bank account

	Observations
RO I	The discrepancy of P0.169 million between the SLs and BRS could be due to lack of coordination between the personnel in-charge in preparing and maintaining these records.
UPRIIS	With variance of P7.518 million between SLs and BRS on 12 accounts, but no reconciliation was made between these records. Cash in Bank without SLs and/or BRS ballooned to P17.110 million and P3.625 million, respectively, primarily due to absence of subsidiary records for the newly opened time deposit accounts.
RO III	Balance is P67.343 million. SLs maintained are for current year transactions only; ending balances of prior year's transactions cannot be validated; BRS not regularly prepared; and reconciling items remained outstanding for several months while the rest ranged from one to two years.
	According to the Manager, Administrative and Finance Division, it takes them some time to adjust the reconciling items as these concerns the different IMOs and the records are maintained thereat. Tracing and verification at the regional office is tedious and long.
RO V	With net abnormal credit balance of P29.128 million; not supported with SLs; and no BRS prepared.
RO VI - Aklan/ Capiz IMO	Balance is P2.306 million; BRS not prepared.
RO X	With balance of P57.497 million; delayed submission of BRS; with unrecorded reconciling items since 2009.
RO XI	Balance of field offices is P14.489 million; SLs not maintained; and delayed preparation of BRS.

	Observations
RO XIII	Has a balance of P49.589 million; delay in the preparation and submission of BRS ranged from three months to one year; BRS submitted by IMOs are reconciliation only between the Cashier's records and the bank; no reconciliation between bank and book balances; Regional Office does not maintain SL for each bank account; reconciliation of records between the Regional Office and Field Offices not made for years; SLs not properly maintained; and status of savings account of P3.546 million which remained dormant since 2005 not monitored due to absence of subsidiary records to allow reconciliation.

2.4. Likewise, it was noted that NIA maintains 28 bank accounts with banks not authorized as Government Depository Banks (AGDB) without the prior approval of the Department of Finance (DOF). In the Central Office, there are 18 bank accounts being maintained with non-AGDB, namely: Philippine National Bank (PNB) – five accounts; Philippine Veterans Bank (PVB) – 11 accounts and United Coconut Planters Bank (UCPB) – two accounts. In UPRIIS, 10 accounts are maintained with PNB.

2.5. DOF Department Order (DO) No. 27-05 dated December 9, 2005 on the revised guidelines for the deposit and maintenance of government funds with banks states that:

> *X x x Heads of all Government-Owned and/or Controlled Corporations (GOCCs) are required to secure prior DOF approval if they are to deposit their funds or maintain depository accounts with banks other than the Land Bank of the Philippines (LBP) and the Development Bank of the Philippines (DBP).*

2.6. **We recommended that Management require the Finance and Accounting Division to:**

a. Always maintain a complete and updated SLs for the Cash in Bank account, prepare BRS on a monthly basis; and conduct periodic reconciliation of general ledger and subsidiary records;

b. Analyze the bank accounts which have been dormant since 2005, including reconciling items which have not been considered for adjustments; and

c. Seek approval from the DOF for the maintenance of depository accounts with banks other than LBP and DBP; otherwise, transfer all bank accounts to these authorized depository banks.

2.7. Management commented that:

a. In NIA Region VI, they will implement the audit recommendations; while in NIA Region XIII, the Finance Division is preparing a more detailed SL to hasten reconciliation between bank statement and Cashier's Check Disbursement Record. They are also developing a computerized accounting program which will be installed in the IMOs.

b. With the NIA Administrator's Memorandum dated April 28, 2014, directing all concerned to organize Task Groups to address the recurring issues raised in the Consolidated Annual Audit Report, the Cash Reconciliation Task Group One shall, among others, be responsible for the preparation of updated BRS, evaluation of reconciling items as determined in the BRS and reconciling items determined in comparison of the subsidiary ledgers with the general ledgers.

2.8. As a rejoinder, considering that the Cash in Bank account is a very critical account, more so that the balance is too significant, **we further recommend that Management require the officers concerned to submit their strategies and commitments on how to address each of the deficiencies noted; and, for Management to monitor the overall progress of these commitments and submit progress report pertaining thereto to the Auditor.**

3. The accuracy and validity of Accounts Receivable - Irrigation Service Fees (ISF) and Communal Irrigation System (CIS) with a balance of P18.081 billion is affected due to, among others, unreconciled difference of P1.628 billion between records as a result of inconsistency in the valuation of receivables; receivables of P1.531 billion with lacking supporting documents; discrepancy of P0.370 billion between books and aging schedule; and receivables that have been dormant for over 15 to 40 years without adequate accounting records.

3.1. Section 111(1) of PD No. 1445 states that *the accounts of the agency shall be kept in such detail as is necessary to meet its needs and at the same time to be adequate to furnish the information needed by fiscal or control agencies of the government.* In Section 114 (2), it states *that subsidiary records shall be kept where necessary.*

3.2. Audit of the Accounts Receivable account with a balance of P18.081 billion disclosed deficiencies which affected the validity and accuracy of the reported receivables as of December 31, 2013.

3.3. In UPRIIS, there is a discrepancy in the total amount P1.628 billion between the SLs maintained by the Office of the Manager and Staff (OMS) and the schedules of ISF receivables provided by each division office. The accounting personnel concerned attributed the discrepancy primarily to the inconsistent valuation basis of receivables as booked and as reflected in the schedules. Consistent with NIA Memorandum Circular No. 52, the OMS valued the Accounts Receivable-ISF based on the government support price (GSP) for palay at the time of billing, that is, upon receipt of fifty batches of areas assessed of ISF. On the other hand, the division offices used GSP at the time of collection in the preparation of statement of accounts (SOA), which was what they actually collected from farmers.

3.4. In Table 2 are receivables of P1.531 billion with lacking supporting documents.

Table 2 - Receivables with lacking documents

	Amount (In millions)	Lacking documents
Region IV-B	P 644.694	These are transferred accounts from NIA Region IV-A, but not supported with Schedule of Receivables and aging of receivables with detailed list of balances of all farmers.
Region VI - Negros Occ. IMO	272.452	Subsidiary ledgers
Region IX	614.131	Recorded as Account Receivable - CIP/CIS despite the non-transfer of completed projects to the proper accounts. These were not supported with Completed Project Report from the IMO for submission to the Engineering/Operations Division and to the Finance and Management Division.
	P 1,531.277	

3.5. In NIA Region V, a discrepancy of P370.409 million existed between the Schedule of Aging of Accounts Receivable–ISF and Accounts Receivable-CIP/CIS totaling P1,426.479 million compared with the total balance of P1,056.070 million appearing in the financial statements. This may be attributed to the inability of the Accounting Section to conduct a periodic reconciliation of the receivable accounts.

3.6. In NIA RO X, as in prior years, receivables recorded in the Regional Office (RO) were not reconciled with the records of the field offices. Chargeable cost of completed and turned-over CIS to the Irrigators' Associations were not included in the Schedule of Receivables submitted by the IMOs to the ROs, thus, not recorded in the books. Also there was no aging of accounts, thus determination of dormant accounts is not possible. Allowance for bad debts was fixed at two per cent of total accounts receivable in view of the absence of aging of accounts. Other factors, such as collectability, collection experience, expected loss and identified doubtful accounts, were, likewise, not taken into consideration.

3.7. In NIA RO XIII, SLs were not also maintained. Irrigation Fee Register (IFR) which is required to be maintained at the field offices was not updated. The IFR serves as SL on ISF receivables wherein individual lot owners, bills, payments, exemptions and adjustments are recorded. There is unreconciled difference totaling P17.255 million between the report of receivables submitted by IMOs and the balance of Accounts Receivable-ISF.

3.8. Further in NIA RO XIII, billed ISF in Andanan River Irrigation System, Cantilan Irrigation System and Simulao River Irrigation System for CY 2013 wet and dry cropping seasons and wet season for Lower Agusan River Pump Irrigation System were not recorded in the books due to delayed submission of List of Billed Irrigation Fees Collectibles (LBIFC) to the Regional Accounting Office. The LBIFC is the basis to record ISF receivables, which is prepared every wet and dry cropping seasons. Also, there is no personnel in Agusan del Norte IMO who is responsible for the receivables from CIS/CIP, hence, loans to Irrigators' Association and payment of amortizations were not closely monitored and required reports were not timely submitted.

3.9. In NIA Region III, SLs were not maintained for farmers and Irrigators' Associations, and instead, relied on the records maintained by the Billing Section. In Tarlac-Zambales (TARZAM) IMO, receivables amounting to P50.512 million from 18 Irrigators' Association, which are no longer operating, are already dormant for over 15 years. Also, receivables from farmer-beneficiaries in Bulacan-Aurora-Nueva Ecija (BANE), Pampanga-Batanes (PAMBAT) and TARZAM IMOs in the amount of P571.153 million are more than 15 years and mostly dormant accounts. Receivables of P2.667 million in BANE IMO have been dormant for more than 40 years.

3.10. The foregoing is an indication that Management was not properly monitoring its receivables. There was no concrete action taken to address the issues, like the analysis of accounts, the determination of their true status, the investigation of whereabouts of farmer-beneficiaries/Irrigators' Associations, and the compliance with COA Circular No. 97-001 dated February 5, 1997, which provides that dormant accounts maybe written off in the books of accounts upon receipt of authority from the COA.

3.11. As a consequence of the foregoing, the validity and accuracy of the recorded Accounts Receivables with a year-end balance of P18.081 billion could not be ascertained.

3.12. **We recommended that Management:**

a. Consider enhancing the NIA Memorandum Circular No. 52 in a way that would resolve the inconsistency on the use of GSP in the valuation of Accounts Receivable-ISF;

b. Require the Accounting Section to: maintain subsidiary ledgers for receivable accounts and regularly reconcile the balances with the general ledger balances; exert all efforts to reconcile the recorded receivables in the regional and field offices; prepare aging schedules; and set up allowance for bad debts for receivables based on the aging schedule;

c. Request for write-off of dormant/uncollectible accounts from COA, in accordance with COA Circular No. 97-001 dated February 5, 1997;

d. Require the billing personnel to submit on time the List of Billed Irrigation Fees Collectibles to the Regional Accounting Section as basis for recording ISF receivables;

e. Require the IMOs to timely submit all documents pertaining to completed projects to the Engineering/Operations Division for review and Finance Management Division for the recording of accounts receivable;

f. Require the Managers of IMOs to submit to the Accounting Section the Schedule of Receivables for completed and turned-over CIS to Irrigators' Associations and Aging of Accounts Receivable supported with detailed list of balances of all farmers; and

g. Assign personnel in Agusan del Norte IMO to monitor payment of receivables from Irrigators' Associations and submission of required reports.

3.13. Management gave the following comments:

a. In Region IV-B, the beginning balances of Accounts Receivable - ISF and CIS accounts are carried forward balances based on the Journal Entry Voucher (JEV) forwarded by Region IV-A. For reconciliation purposes, the Field Offices will be required to submit the aging of Accounts Receivable - ISF and CIS supported with detailed list of balances of all farmers generated from the billing and collection system to be validated and certified by the Managing Heads of the IMOs to determine and establish the actual beginning balances.

b. In NIA RO IX, the observation resulted from the delayed submission of the Completed Project Reports by the field offices. It will comply with the recommendations and would reconstruct the JEV to effect the audit recommendation.

c. NIA RO X agreed and committed to implement the audit recommendations.

d. In Region XII, they will complete/update Irrigation Fee Registers (IFRs) maintained in the field offices.

e. In NIA RO XIII, they will completely update IFRs; have already completely recorded all the LBIFC; and, all other recommendations are well taken.

f. A Collection and Receivable Reconciliation Task Group was also created based on the Memorandum dated April 28, 2014 of the NIA Administrator. It shall among others, reconcile the Accounts Receivable subsidiary ledgers with the general ledger, evaluate the discrepancies between the two ledgers and submit documents for proper adjustment.

3.14. As a rejoinder, considering that most of the noted deficiencies have been recurring, **we further recommend that Management formulate strategies for the efficient and effective implementation of the activities that will be undertaken by the Collection and Receivable Reconciliation Task Group, and to submit progress report thereon.**

4. The existence of the Merchandise and Office Supplies Inventories valued at P63.164 million and P45.739 million is uncertain considering that inventories of P58.757 million (93.0 per cent) and P27.453 million (60.0 per cent), respectively, are adjustments and balances in prior years which were carried forward to the succeeding years, but without supporting documents, and also due to the inconsistent use of the method in accounting said inventories.

4.1. The Merchandise Inventory account, which has a net book value of P63.164 million, represents collections-in-kind (palay, corn, etc.) from the end-users of irrigation systems and pump sets, which are intended for resale to the National Food Authority or to other private individuals. On the other hand, the Office Supplies Inventory account, which represents stocks for use in operations, has a total balance of P45.739 million.

4.2. Section 111(1) of PD No. 1445 states that –

The accounts of the agency shall be kept in such detail as is necessary to meet the needs of the agency and at the same time be adequate to furnish the information needed by fiscal or control agencies in the government.

4.3. Section 114(2) of the same PD also requires the maintenance of subsidiary record where necessary. Stock Ledger Cards (SLCs), however, are not maintained or other supporting documents and reports to substantiate the balances of these inventory accounts.

4.4. Perusal of the breakdown of the inventory accounts provided by Management revealed that adjustments amounting to P47.407 million and P25.149 million were made during the year which respectively increased the year-end balances to P63.164 million for the Merchandise Inventory account and P45.739 million for the Office Supplies Inventory. However, there are no documents to substantiate the adjustments made and no information on the nature of said adjustments could be provided by the accounting personnel concerned. In view of this, there is doubt not only on the validity of the adjustments made but also the physical existence of these inventories as at year-end.

4.5. Further, the inquiry made with the accounting personnel concerned disclosed that Merchandise Inventory of P11.350 million and Office Supplies Inventory of P2.304 million in the Central Office were carried-over balances from prior years that continue to be included in the Balance Sheet due to the absence of supporting documents such as SLCs or any other supporting documents. With this condition, these inventories no longer physically exist as of end of the year.

4.6. Likewise, verification from the acting storekeeper revealed that the Property Division no longer stores nor carry in stock office supplies since these are immediately issued to the end-users upon delivery of the items.

4.7. Records also showed there is no uniformity in accounting for supplies and materials as six regional offices and three projects use the asset method since they maintain Office Supplies Inventory accounts while 11 regional offices use the expense method.

4.8. In summary, the existence of the said inventories is doubtful due to the inconsistent use of accounting method and due to the following:

	Merchandise Inventory	**Office Supplies Inventory**
Balances, December 31, 2013	**P 63,163,951**	**P 45,738,937**
a. Adjustments made not substantiated with supporting documents	47,407,269	25,149,220
b. Prior years' balances carried forward to the succeeding years without SLC or any supporting document	11,349,583	2,303,822
	P 58,756,852	**P 27,453,042**
Percentage of the total amounts affected over the balances, December 31, 2013	**93.0**	**60.0**

4.9. **We recommended that Management require the Accountants to:**

a. Exercise due diligence in analyzing the Merchandise and Office Supplies Inventory accounts to determine the actual status of the balances carried forward so that appropriate adjustments may be effected;

b. Always maintain and regularly update subsidiary ledgers to support the general ledger balances and facilitate early detection and correction of errors to ensure accuracy of the inventory accounts; and

c. Adopt uniformly the prescribed asset method in accounting for inventories to establish accountability.

4.10. Management did not provide any comment on the above observation.

5. Payment of Viability Incentive Grant (VIG) amounting to P181.896 million to officials and employees including those employed under Contract of Services/Job Orders was bereft of appropriate legal basis due to the absence of express authority from the President of the Philippines as required under pertinent laws and regulations. Moreover, there was no equitable basis of the amount paid per payee giving the impression of an arbitrary distribution of the said benefit.

5.1. Payment of VIG to NIA personnel is based on the revised and supplemental guidelines issued under various NIA Memorandum Circulars (MCs).

5.2. Under MC No. 3, s. 1984, the VIG was treated as monetary grant awarded to viable units for distribution to personnel who have performed creditably towards attaining self-sufficiency for their units.

5.3. When MC No. 20, s. 2007 was issued, the VIG was no longer a monetary grant. The MC provided that it shall be used strictly for office improvement, collection intensification, study tour, training and field visitation. It may also be used for the purchase of equipment/furniture provided that it is included in the approved Current Operating Budget (COB).

5.4. Thereafter, NIA MC No. 45, s. 2008, superseded all previous circulars inconsistent with the provisions therein, with the NIA Management deciding to adopt the NIA Program and Awards and Incentives for Service Excellence (NIA-PRAISE) wherein VIG was authorized to be given in cash and acknowledge the same as non-monetary award and incentive, to be distributed by the Regional Irrigation Managers concerned. This MC placed upon the division/department managers the discretion on how the benefit shall be distributed.

5.5. Audit of Personnel Services showed that payments of VIG amounting to P181.896 million in CY 2013 have no appropriate legal basis as these were based only on the aforementioned NIA MCs.

5.6. As provided under COA Circular No. 2013-003 dated January 30, 2013, all government officials and employees shall be entitled only to allowances, incentives, and other benefits expressly provided by law, and other statutory authority, and the rules and regulations promulgated by competent authority. Other pertinent provisions of the Circular are as follows:

> *II. Entitlement to Allowances, Incentives, and Other Benefits*
>
> *Government officials and employees shall be entitled only to allowances, incentives, and other benefits expressly provided by law, and other statutory authority, and the rules and regulations promulgated by competent authority.*
>
> *III. Allowances and Benefits Generally Applicable to Agencies which are covered by Republic Act (RA) No. 6758, "The Salary Standardization Law (SSL)."*
>
> *Below is the list of the allowances, incentives and other benefits commonly granted to officials and employees of agencies covered by the SSL, together with the legal authority for the payment thereof and the corresponding rates:*
>
> *X x x x*
>
> *Other allowances not listed above, whether granted government-wide or specific to certain government agencies are likewise recognized provided there is sufficient legal basis.*
>
> *IV. Allowances and Benefits of Officials and Employees of Agencies Which Are Not Covered by the SSL*
>
> *In addition to the foregoing list of allowances and benefits, officials and employees of agencies exempt from the SSL may be paid other allowances and benefits, subject to the following:*
>
> *1. Prior approval by the Office of the President as required under Presidential Decree (P.D.) No. 1597, "Further Rationalizing the System of Compensation and Position Classification in the National Government."*

5.7. In UPRIIS, Management opined that VIG is a Board Policy and is not covered by the requirements of PD No. 1597. As defined in NIA MC No. 3, s. 1984, VIG is an incentive or grant awarded to viable units of NIA for distribution to personnel who have performed creditably towards attaining self-sufficiency for their units. It was considered as a "policy," the formulation of which is inherent to the NIA Board which has the power, among others, to formulate and adopt policies for the management and operations of the Corporation. They also cited that VIG is being given by NIA as early as 1981 per Board Resolution No. 3813-82 approving the viability incentive grant scheme for Regions XII and IX effective CY 1981. Subsequently, the NIA Board, thru Resolution No. 4043-83, approved the grant of viability incentive in accordance with the general guidelines applicable to all NIA regions starting 1983.

5.8. The VIG may be a "policy" that ensued from a Board's action; nonetheless, the regulation is clear on the requirement for a Presidential authority for payments of benefits as such. Benchmarked on Supreme Court ruling in G.R. No. 131529 dated April

30, 1999, *[A]dditional benefits or compensation that may be granted to government officials/employees require a law and may not be done by a mere expedient of a resolution or a circular of a GOCC.*

5.9. Despite our request, we were not provided with the computation on how the physical and financial accomplishments were arrived at which became the basis for the amount distributed. Likewise, we were not provided with the guidelines how discretion was applied by the division/department manager concerned in determining the varied rates for the VIG.

5.10. **We recommended that Management:**

a. Ensure strict adherence to laws, rules and regulations on compensation in future payments of same incentives to avoid disallowances; and

b. Refund the amount paid. Seek avenues on how to facilitate the refund considering the amount involved and the number of employees affected.

5.11. Management gave the following comments:

a. In MARIIS, various MCs on VIG as supplement to existing incentive and bonuses emanated from various NIA Board resolutions. The documents indicating the physical accomplishment and financial viability of the NIA-MARIIS were submitted to the NIA Central Office for their review and recommendation, and thereafter such criteria were duly certified and approved by the concerned Central Office personnel.

b. In UPRIIS, there is sufficient legal basis in the payment of VIG inasmuch as it was included in the annual budget of NIA which was approved by the Department of Budget and Management (DBM). The approval by DBM, being an executive body under the Office of the President, already signifies the approval of the President. The computations of physical and financial accomplishments and the manner of payment of VIG were all done solely in compliance with existing policies and MCs issued and approved by the NIA Administrator and Board of Directors.

c. In NIA Region X, the VIG program is similar to the profit–sharing system in progressive private companies whereby workers who are productive are rewarded with bonuses or dividends. Only NIA has such a profit–sharing program in the government sector. Furthermore, the said benefit is based on an express policy of the Corporation and has ripened into practice over a long period of time. The Bukidnon IMO only continued the said practice, for such benefit has been granted since time immemorial, and that Management observes the non-diminution rule, that elimination or diminution of benefits is prohibited, hence such benefit cannot be taken back or reduced unilaterally by the office without directives coming from the Central Office.

5.12. By way of rejoinder, we put emphasis on the following:

a. For MARIIS, pursuant to Section 168 of the Government Accounting and Auditing Manual (GAAM), Volume I, the documents indicating physical accomplishment and financial viability submitted to the NIA Central Office to support the review and approval of the VIG must form part of the supporting documents attached to the disbursement vouchers. These documents were not attached to the disbursement vouchers to support payments.

b. For UPRIIS, the COB of NIA may be approved by the DBM; however, said approval is not absolute as it was still subject to the following conditions stated in the same document (approved COB):

> *Disbursement for personnel amelioration/benefits shall be subject to the pertinent compensation laws, rules and regulations x x x. Such expenditures shall also be conditioned on the relevant General Provisions of RA 10353 x x x or any specific law or approval of the President of the Philippines or Secretary of Budget and Management, as the case maybe.*

c. For NIA RO X, matters pertaining to compensation of government personnel are governed by RA No. 6758, PD No. 1597 and issuances of the Office of the President and the DBM. The resolutions issued by the Board of Directors of Government-Owned and Controlled Corporations (GOCCs) and Government Financial Institutions (GFIs) are not absolute and therefore subordinate to the aforementioned laws.

6. Frequent delay in the submission of financial reports and supporting vouchers, sometimes up to four months, precluded the timely auditorial review of financial transactions, thus, errors, if any, could not also be rectified by the Accountant on a timely manner.

6.1. Section 7.2.1 of COA Circular No. 2009-006 dated September 15, 2009 requires that the Chief Accountant, Bookkeeper and/or other authorized official performing accounting and/or bookkeeping functions of the audited agency shall ensure that the reports and supporting documents submitted by the accountable officers are immediately recorded in the books of accounts and submitted to the Auditor within the first ten (10) days of the ensuing month.

6.2. Section 71 of the MNGAS, Volume I, requires that monthly pre-closing trial balance for each fund shall be submitted within ten days after the end of the month and on or before February 14 of the succeeding year in the case of the year-end pre-closing and post-closing trial balances (TB). The TB at the end of the quarter shall be supported by a schedule of subsidiary ledgers of the controlling accounts in the general ledger.

6.3. Also, COA Circular No. 2007-003 dated January 19, 2007 provides that the *Chief Accountant/Head of Accounting Section shall submit directly to xxx this Commission and Audit Team Leader (ATL)/Auditor concerned, the xxx year-end financial statements and reports/schedules in printed and digital copies on or before February 14 of each year*.

6.4. Section 122 of PD No. 1445 states that *whenever deemed necessary in the exigencies of the service, the Commission may under regulations issued by it require the agency heads, chief accountants, budget officers, cashiers, disbursing officers, administrative or personnel officers, and other responsible officials of the various agencies to submit trial balances, physical inventory reports, xxx, and such other reports as may be necessary for the exercise of its functions.*

6.5. Moreover, Section 127 of PD No. 1445 states that *subject to the rules and regulations as may be approved by the President (Prime Minister), any unjustified failure by the public officer concerned to comply with any requirement imposed in this Code shall constitute neglect of duty and shall be a ground for administrative disciplinary action against the said public officer who upon being found guilty thereof after hearing, shall be meted out such penalty as is commensurate with the degree of his guilt in accordance with the Civil Service Law. Repeated unjustified failure to comply with the requirements imposed in this Code shall be conclusive proof that the public officer is notoriously undesirable.*

6.6. In the Central Office, it was noted that Disbursement Vouchers (DVs) and Journal Entry Vouchers (JEVs) for CY 2013 were submitted late by three to four months. Likewise, digital copies of the year-end financial statements and reports/schedules were not submitted. Moreover, documents to substantiate the balances of the Government Equity and Retained Earnings accounts in the amount of P18.747 billion and debit balance of P9.732 billion, respectively, as shown in the Statement of Changes in Equity were not submitted for review.

6.7. In Region V, the delayed submission of DVs and mandatory reports to the Office of the Auditor ranged from 28 to 62 days. In Region XII, despite frequent reminders from the Auditor, Management still failed to timely submit the financial reports, preventing their timely review and examination.

6.8. The non-compliance with the submission of financial reports and supporting vouchers within prescribed deadlines hampered COA in the performance of audit activities and timely preparation of audit reports.

6.9. **We recommended that Management:**

a. Require the Accounting/Bookkeeping Section to: (i) immediately record the reports and supporting schedules/documents submitted by the accountable officers and thereafter submit the same, including pre-closing trial balances, to the Auditor within the first 10 days of the ensuing month; and, on or before February 14 of each year, also submit to the Auditor, the year-end financial reports and schedules in printed and digital copies;

b. Establish guidelines on the preparation and submission of reports in accordance with existing rules and regulations for guidance of all concerned and to ensure that these are timely consolidated in the Central Office and timely submitted to the Auditor; and

c. Consider imposing sanctions on the persons responsible for delayed submission of financial reports and supporting documents to the Auditor.

6.10. NIA Region XII gave assurance that all recommendations will be implemented and strictly followed by all concerned.

6.11. As a rejoinder considering that delay in the submission of the financial reports significantly affects the discharge of audit functions, **we further recommend that Management impose administrative disciplinary action against the public officer(s) who continuously fail to submit the required financial reports without justifiable cause.**

7. The reports required by the Department of Budget and Management (DBM) to justify the payment of Collective Negotiation Agreement (CNA) Incentives for CY 2011 pursuant to National Budget Circular (NBC) No. 528 dated January 3, 2011, DBM Budget Circular No. 2011-5 dated December 6, 2011 and Public Sector-Labor Management Council (PSLMC) Resolution No. 2 dated May 19, 2003 did not show that said reports were duly acknowledged and evaluated by DBM.

7.1. We have audited the payment of CNA Incentives of NIA personnel for CY 2011 and issued Notices of Disallowance on the excess payment of P37,000 per employee in the total amount of P19.570 million, in view of the explicit provision of DBM Budget Circular No. 2011-5 dated December 26, 2011 which provides that CNA Incentive for CY 2011 shall be determined based on Savings generated by an agency following the guidelines set forth in the said Circular, but not to exceed P25,000 per employee.

7.2. Section 3.6 of DBM Budget Circular No. 2011-5 states that:

> *The payment of the CNA Incentive for CY 2011 shall only be made after submission to the DBM of reports on accomplishments for the year, based on the physical and financial plan submitted to DBM pursuant to NBC No. 528 dated January 3, 2011. Agencies are also reminded of the submission to DBM on or before March 31 of every year, of an annual report on the total expenditure for CNA Incentive granted to qualified employees, and the sources of savings used for the purpose.*

7.3. However, review of the reports submitted to the Auditor's Office in compliance to the aforementioned DBM Circular showed that these reports were not stamped "Received" by the DBM or no proof that these were evaluated by the DBM.

7.4. **We have recommended that Management cause the immediate submission of the following reports for CY 2011, duly received and evaluated by the DBM to avoid disallowance of the entire amount of the CNA Incentive payment:**

> **a. Total amount of savings generated for the year;**
>
> **b. Accomplishment Report based on the physical and financial plan submitted and duly received by the DBM;**
>
> **c. Annual Report on the total expenditure for CNA Incentive granted to qualified employees and the sources of savings, submitted and duly received by the DBM; and**

d. Comparative Schedule of the operating losses for CY 2011 and CY 2010; and comparative schedule of actual operating expenses and the DBM approved level of expenses in the COB.

7.5. Management did not provide a comment on the above observation.

CALAMITY FUND

8. Calamity fund of P0.726 million was spent for expenses such as travel, productivity enhancement incentive, landscaping, repair of vehicle and purchase of cell phones not related to disaster risk reduction and management (DRRM) activities, and utilization of funds was not reported every month, thus not consistent with the pertinent provisions of Republic Act (RA) No. 10121. Also, bidding process was dispensed with in the procurement of rehabilitation works after calamity amounting to P8.203 million but actually completed in almost a year.

Expenses not relevant to DRRM activities

8.1. Section 1, Rule 19 of the Implementing Rules and Regulations (IRR) of RA No. 10121, otherwise known as the Philippine Disaster Risk Reduction and Management Act of 2010, prescribes the use of Calamity Fund, now known as National Disaster Risk Reduction and Management Fund, for disaster risk reduction or mitigation, prevention and preparedness activities such as, but not limited to training of personnel, procurement of equipment and capital expenditures.

8.2. It can also be utilized for relief, recovery, reconstruction and other work or services in connection with natural or human-induced calamities which may occur during the budget year or those that occurred in the past two years from the budget year.

8.3. For the years 2011 to 2012, calamity fund of P130.564 million was received for Upper Pampanga River Integrated Irrigation System (UPRIIS) covered by Advices of Sub-allotments (ASAs), details in Table 3.

Table 3 - List of ASAs for Calamity Fund for CYs 2011 and 2012

Number	Date	Amount	Validity Period
UPRIIS-501-2011-006 Typhoon Juan, Board Resolution # 7661-10, s. 2010 dated 12/13/10, Continuing Appropriation 2010	01/10/11	P 40,000,000	01/10/11 to 12/31/11
UPRIIS-501-2011-190 Typhoon Juan, Board Resolution # 7661-10, s. 2010 dated 12/13/10, Continuing Appropriation 2010	04/07/11	10,000,000	04/07/11 to 12/31/11
UPRIIS-501-2011-268 Typhoon Juan, Board Resolution # 7661-10, s. 2010 dated 12/13/10, Continuing Appropriation 2010	05/18/11	30,000,000	05/18/11 to 12/31/11
UPRIIS-501-2011-407, Board Resolution # 7661-10, s. 2010 dated 12/13/10	08/04/11	3,500,000	08/4/11 to 12/31/11
UPRIIS-501-2012-490, Board Resolution No. 7792-12 dated 09/25/12	10/09/12	47,064,271	10/09/12 to 12/31/12
		P 130,564,271	

8.4. As of June 30, 2013, the total amount was reported as fully utilized or obligated.

8.5. Review of disbursement documents showed that the fund was spent mostly on emergency repair or rehabilitation of irrigation structures and facilities that were damaged at the wake of Typhoons Juan, Quiel, Pedring, Gener and monsoon rains (Habagat). Further audit disclosed various disbursements for items/activities that showed no relevance to calamity, as itemized in Table 4.

Table 4 - Disbursements out of Calamity Fund without relevance to calamity

	Amount
Cost of travel, food and accommodation of participants on various trainings/seminars/out-of-town activities which are not related to DRRM	P 421,682
Productivity Enhancement Incentive of officials and staff	55,000
Construction of signage at Dam and Reservoir Division (DRD)	217,353
Maintenance and other operating expenses:	
a. Landscaping at DRD	20,823
b. Un-accommodated cost of repair of motor vehicle which was originally charged to ASA No. 377	10,500
c. Un-accommodated cost of 5 cell phones originally charged to ASA Nos. 063, 377 and 007	1,121
	P 726,479

8.6. Some Notices of Suspensions were already issued by the Audit Team requiring Management to explain why these expenses were charged to Calamity Fund, but no response has been received so far.

Reporting of fund utilization

8.7. Under Section 4, Rule 19 of the IRR, RA No. 10121, all departments/agencies and local government units (LGUs) that are allocated with DRRM fund are required to submit to the National Disaster Risk Reduction and Management Council (NDRRMC) their monthly statements on the utilization of DRRM funds.

8.8. Inquiry with Management disclosed that they had not been preparing a monthly report on the utilization of the said fund. The Accounting official concerned admitted that a one-time report was prepared only when the Office of the COA Auditor requested for it.

8.9. The lapse deprived oversight bodies of a tool to monitor risk-reduction and management activities and accomplishments; and it likewise did not allow timely action on concerns that may arise in the use of calamity fund.

Dispensing with the bidding process in the procurement of repair and rehabilitation works completed in almost one year

8.10. To alleviate, if not totally eliminate the impact of damaged irrigation facilities to the livelihood of farmers, NIA is mandated to undertake restoration of damaged facilities immediately after calamities hit the area. This urgency justifies the dispensing of the bidding process in the procurement for repair and rehabilitation works, as provided for in

Section 53.2 of RA No. 9184. As such, all infrastructure projects to be implemented charged to calamity fund are to be procured through negotiation.

8.11. Sense of urgency was, however, missing in the implementation of some projects supposed to have been conducted posthaste, which cast doubt on the propriety on the use of calamity fund and dispensing with the bidding process in procurement.

8.12. In the post-audit of payments made out of the Calamity Fund, it was noted that there were projects supposed to have been immediately undertaken but were nonetheless planned to be undertaken in 75 calendar days or longer periods. Moreover, these were completed way beyond the original date of completion, thus generally belying the claimed urgent need for the procurement.

8.13. For instance, the Contract dated October 24, 2012 for the Immediate Restoration of Damaged Portion and Repair of Scoured Outlets, Construction of Slope Protection along Bulo River, Linao Creek and Tabon Check gate with a contract amount of P8.203 million and contract duration of 90 calendar days was actually completed on September 6, 2013, or after almost a year.

8.14. It was noted that work suspensions were approved by Management based on the reported un-workability of the area, which were commonly due to the simultaneous schedules of project implementation and water delivery. As it was, water delivery took precedence over the project implementation.

8.15. The above conditions showed that even without undertaking restorative works on the irrigation facilities that were supposed to have been damaged by the typhoons and monsoon rains, farming activities could still proceed. The claim, therefore, of an emergency situation was not sustained, which weakens the justification on the use of calamity fund and the dispensing of a public bidding.

Recognition of Construction in Progress (CIP)
and Payable accounts without valid basis

8.16. As lifted from the report rendered by the Accounting official of UPRIIS, the four ASAs that were received in 2011 to address the damages sustained from Typhoon Juan have unused balances of P1.751 million as of December 31, 2011. The said report notwithstanding, the records maintained by the Budget Officer of Office of the Manager and Staff showed that the unused balance of P5.0 million was already obligated, captioned as “Transferred to Division” and taken up as accounts payable as at December 31, 2011.

8.17. Projects worth P1.751 million in 2012 was already recognized as CIP as at end of 2012 ahead of the issuance of Notice to Proceed made in the ensuing year, resulting in the overstatement of affected asset account as at end of 2012.

8.18. Interview with division officials concerned disclosed this was due to the late transfer of the ASA and the receipt of the corresponding cash allocations on much later dates. Although already moot and academic as of December 31, 2013, the recognition of CIP and payable accounts without valid basis and ahead of the issuance of Notice to Proceed and the actual implementation of the rehabilitation and repair of irrigation projects, if continued in practice, could overstate the balances of the affected accounts as at end of the reporting period.

8.19. **We have recommended that Management require:**

a. UPRIIS Division Managers to:

a.1. Justify the use of calamity fund on activities that were not related to calamity; otherwise, cause the refund of the amount used from the appropriate fund/s; and henceforth, refrain from using the calamity fund on projects and activities that do not directly address calamity-related risks and situations;

a.2. Harmonize the timelines of restoration/rehabilitation works with the urgency of the need for the same;

a.3. Use regular project funds on restorative activities that could be undertaken on longer periods; and

a.4. Submit to the Office of Management Services (OMS) the monthly report on the receipt and utilization of calamity fund.

b. Corporate Accountant B / Senior Accounting Processors A to record incurrence of expenses/acquisition of assets when goods are already received and services rendered.

c. Division Managers, Operations and Engineering and Administrative and Finance, OMS to:

c.1. Regularly monitor the utilization of calamity fund at division levels to assure compliance with regulations;

c.2. Act accordingly on deviations noted; and

c.3. Submit monthly to NIA Central Office the consolidated report on the receipt and utilization of calamity fund.

8.20. Management took COA's observation as a reminder for them to use calamity fund appropriately in the future. They claimed that they may have committed some lapses during the implementation, but they believed that this did not negate the intention of giving the best service to the farmers. Specifically, Management justified that:

a. Calamity fund was admittedly used in the payment of wages of daily project and job order personnel and other expense items but these were sourced from the project cost that represented Construction Management and Supervision, FSDE, Institutional Development Program (IDP) and GESA. Other allowances, bonuses and cash gifts charged thereto were paid to said personnel for their services in the monitoring of the implementation of the said project. The fund was also used to replace the signage and landscape of DRD, which was damaged by the typhoon.

b. Work suspensions were implemented to assure continuous water delivery for the then ongoing farming activities, and were resumed after the cut-off of water delivery before the next cropping season.

c. Sub-advice of allotments (SAA) were given at the later part of 2012 when funds were due to lapse on December 31, 2012, thus they decided to utilize the remaining SAA.

8.21. As a rejoinder:

a. On the claim that the lapses committed “did not negate the intention of giving the best service to the farmers,” we do not find any direct correlation between the said “intention” and the nature of expenses which were charged to calamity fund, e.g. clothing allowances, Productivity Incentive Bonus, Performance Enhancement Incentive, other bonuses, cash gift and cellphone allowances. Interview disclosed that DRD have neither signage nor landscape that were destroyed by Habagat, hence, there is nothing to replace and no reason to use the calamity fund. We found the landscaped area at the main view deck of the Pantabangan dam.

b. Work resumptions were not always done after the cut-off of water delivery and before the start of the next cropping period as claimed. Specifically, the contract for Emergency Works at Rizal dam was suspended on November 9, 2012 and was allowed to resume only in November 2013.

c. The disbursement voucher charged to the P5.0 million ASA was received on June 16, 2014. We noted that the dates of contract and notice to proceed were at least 59 days earlier than the date of the ASA, giving the impression that procurement proceedings were already undertaken and the award made even without the necessary fund support, which is irregular.

DISBURSEMENT ACCELERATION PROGRAM (DAP)

9. In Region VI, non-related project expenses such as purchase of IT equipment, cost of plane tickets and hotel accommodations, conference and registration fees and car rental amounting to P1.363 million that were charged to Jalaur River Multi-Purpose Project II (JRMPP II), a project funded out of the DAP, were without valid basis, hence, considered irregular.

9.1. On December 27, 2011, Management received Notice of Cash Allocation (NCA) No. BMB-F-11-0023836 in the amount of P450.0 million issued by the Bureau of the Treasury (BTr) to cover the funding requirements of the National Government counterpart to finance the investment requirement of the JRMPP II. The release was made pursuant to the approval of the President dated December 11, 2011 covered by Special Allotment Release Order (SARO) No. F-11-02250, chargeable against RA No. 10147, Fiscal Year (FY) 2013 General Appropriations Act (GAA) and part of the DAP.

9.2. The objective of JRMPP II is to promote irrigation and agricultural productivity, and boost rural, economic and social development in the Province of Iloilo. The scope of the project includes: (a) construction of three dams (Jalaur High Dam and Reservoir, Jalaur After-Bay Dam and Alibuhan Catch Dam), (b) construction of Highline Canal of around 81 kilometers and (c) upgrade of the six existing irrigation systems for 22,340 hectares.

9.3. Its major function is to provide year-round irrigation water supply to the 22,340 hectares planted with rice and covered by the six irrigation systems and 9,500 hectares presently rain fed areas, or a total of 31,840 hectares target irrigation service areas.

9.4. Section 37 of PD No. 1177 expressly provides that *All moneys appropriated for functions, activities, projects and programs shall be available solely for the specific purposes for which these are appropriated.*

9.5. Likewise, Section 4.3 of PD No. 1445 states that *Trust funds shall be available and may be spent only for the specific purpose for which the trust was created or the funds received.*

9.6. Audit of transactions for CY 2013 disclosed that various expenses, as shown in Table 5, were charged to JRMPP fund, without valid basis, hence considered irregular.

Table 5 – Expenses not related to JRMMP

Nature of Expenses		Amount	For the Use of
Purchase of various IT Equipment	P	817,857	NIA Central Office officials
Cost of plane tickets, TEVs & Hotel accommodations		229,671	NIA Central Office officials
Conference and Registration fees		72,000	NIA Central Office personnel
Rental of two units of brand new Toyota Fortuner 4x2 A/T for the period Feb. 25 to April 25, 2013		243,750	JRMPP's Coordinator's office and Chief, Engineering Dept., NIA - Central Office
	P	**1,363,278**	

9.7. The inappropriate charging of non-related project expenses to the JRMPP II funds defeated the purpose for which the fund was created.

9.8. **We have recommended that Management:**

a. Discontinue providing service vehicles to NIA Central Office officials or other personnel not involved in the implementation of the JRMPP II and exercise prudence in the utilization of project funds; and

b. Require the concerned agency officials and personnel to refund the amount expended irregularly charged to the JRMPP fund, otherwise, the transactions will be disallowed in audit.

9.9. Management commented that the Central Office promised to request P72,000 from the NIA Central Office Budget Division to refund the expenses charged to JRMPP II funds. The NIA Central Office Budget Division replied that the expenses shall be charged to COB instead. As of the moment, there is no specific action taken by the Central Office pertaining to this issue.

10. In Region XII, implementation of seven contract packages under the Malitubog-Maridagao Irrigation Project II (MMIP II), funded by the DAP were delayed with shortfall in actual accomplishments ranging from 2.5 per cent to 9.8 per cent from the program/target accomplishments, to the detriment of farmer-beneficiaries.

10.1. The MMIP is designed to irrigate 19,601 hectares of agricultural land in five municipalities in Central Mindanao covering the provinces of North Cotabato and Maguindanao. Considering the magnitude of the project, its implementation was divided into two stages. Phase I will irrigate 10,840 hectares in the Municipalities of Carmen and Pikit of Cotabato Province and in the Municipalities of Pagalungan and Datu Montawal of Maguindanao Province. Phase II will irrigate 8,761 hectares in the Municipalities of Pikit, Aleosan, Pagalungan and Datu Montawal. However, due to the presence of areas planted with permanent crops, built up high ground and swampy areas, the original designed area of 19,601 hectares for both stages is now reduced to 16,957 hectares.

10.2. On December 20, 2010, the National Economic Development Authority (NEDA) Board confirmed the approval of MMIP Phase II project with an original cost of P7.791 billion, reduced to P6.997 billion due to the Department of Agriculture's (DA) proposal of deducting the cost of rehabilitation and improvement of MMIP I. Further, NIA made an adjustment on the indirect cost of the project arriving at a cost of P6.149 billion. The **original source** of fund is a loan from Japan International Cooperation Agency (JICA) and the Government of the Philippines (GOP) as counterpart, but it did not materialize.

10.3. On November 12, 2012, the Secretary of Department of Finance (DOF) informed that the Economic Development Cabinet (EDC) Cluster decided to shift the financing of MMIP II from Official Development Assistance (ODA) Fund to National Government Fund to enable the timely implementation of the project.

10.4. The DAP fund in the amount of P317.436 million was released to finance nine (9) packages under MMIP II. The project, Malitubog Irrigation Project – Local Minor Contracts (MIP-LMC-004), was undertaken through competitive public bidding. This was programmed for CY 2012 and implemented in CY 2013 and was originally conceived to be completed within 365 calendar days from its effectivity date of January 2013.

10.5. As culled from the Contract Work Summary Status as of December 31, 2013, there were seven contract packages that were delayed with shortfall in actual accomplishments ranging from 2.5 per cent to 9.8 per cent from the program/target accomplishments, to the detriment of farmer-beneficiaries, as shown in Table 6.

10.6. According to Management, the delay in the accomplishments was brought about by unforeseen events beyond their control. The accomplishments of the MIP-LMC-004 are currently being re-evaluated by the COA-Technical Audit Specialists.

Table 6 – Actual Accomplishment vs. Target Accomplishment

Package	Contractor	Amount (In million pesos)	Effectivity Date	Target Completion Date	Program Accomplishment To Date (%)	Actual Accomplishment (%)	Variance (%)
I	DACODECO	35.704	Jan. 11, 2013	Jan. 10, 2014	76.31	67.08	(9.23)
II	CMCMPC	35.505	Jan. 11, 2013	Jan. 10, 2014	77.40	68.84	(8.56)
IV	RDEN Cons.	35.599	Jan. 08, 2013	Jan. 07, 2014	74.23	71.75	(2.48)
VI	SUNSTONE Cons.	35.800	Jan. 15, 2013	Jan. 14, 2014	75.74	73.01	(2.73)
VII	RDEN Cons.	35.939	Jan. 16, 2013	Jan. 15, 2014	73.98	70.67	(3.31)
VIII	MONOLITHIC Cons.	35.180	Jan. 14, 2013	Jan. 13, 2014	74.31	64.48	(9.83)
IX	FORTSTONE Cons.	35.824	Jan. 16, 2013	Jan. 16, 2014	74.31	66.04	(8.27)
		249.551					

10.7. **We recommended that Management require the contractors to fast-track the accomplishments of the projects considering that they are already delayed.**

11. In Region XIII, the obligations incurred for wages and overhead expenses for the pre-construction and construction activities of the Umayam River Irrigation Project (URIP) funded out of the DAP exceeded the allotment by P3.679 million, due to realignment of funds without prior approval from the authorized official. Also, the charging of CNA Incentive totaling P0.675 million from the fund is considered irregular, as there was no valid basis.

11.1. For the year 2013, URIP received funds under the DAP amounting to P9.5 million to finance the pre-construction and construction activities of the project.

11.2. Review of the October to December 2013 expenditures showed that obligations incurred for payment of wages and overhead expenses exceeded the allotment by P3.043 million and P0.636 million, respectively, or for a total of P3.679 million.

11.3. Inquiry made with the Accounting Head of the project office disclosed that the allotment received for wages was not enough for the labor cost, hence, they requested for realignment of funds which was approved at the level of the Project Manager only. The request for realignment was not forwarded to the Central Office for approval.

11.4. Further, review of the payment for CNA Incentive amounting to P0.675 million disclosed that it was sourced from the allotment for construction activities of the URIP, an on-going project. This is contrary to Section 37 of PD No. 1177 which expressly provides that all moneys, appropriated for functions, activities, projects and programs shall be available solely for the specific purposes for which these are appropriated.

11.5. The DAP is a stimulus package designed to fast-track public spending and push economic growth.

11.6. **We recommended that Management:**

a. Secure post facto approval or authority from the NIA Central Office for the realigned funds of P3.679 million; and henceforth, obtain first the appropriate approval before utilizing savings from another allotment class or activity; otherwise, disbursements will be disallowed in audit; and

b. Refund the total amount of CNA Incentive that was charged against the project, and strictly observe that approved funds should only be utilized for expenses related to the functions, activities, projects and programs to which these are appropriated.

11.7. Management commented that the labor cost reflected in the Advice of Allotment was found to be insufficient due to the delay in the release of funds. The realignment was approved at the level of the Project Manager only; however, request for realignment was already forwarded to the Central Office for approval and concurrence.

11.8. The grant of CNA Incentive was also taken from the allotment for the construction activities of the URIP as a form of a cash advance and Management had already requested funds from the Central Office thru its Regional Office in Butuan City to replenish/revert the amount to the project fund as it was clearly stated in the guidelines that the funding source of the CNA grant is the Corporate Operating Budget.

12. Cash advances, which even increased from P22.271 million in 2012 to P24.409 million in 2013, remained outstanding although the purposes of the grant were already served due to lack of proper monitoring on the enforcement of liquidation, grant of additional cash advances though previous ones are not yet settled, and due to insufficient subsidiary records.

12.1. COA Circular No. 97-002 dated February 2, 1997 provides the rules and regulations on the granting, utilization and liquidation of cash advances, among which are the following:

4.4.1.2 No additional cash advances shall be allowed to any official or employee unless the previous cash advance given to him is first settled or proper accounting thereof is made.

4.4.1.3 A Cash advance shall be reported on as soon as the purpose for which it was given has been served.

5.5.7 When Cash advance is no longer needed or has not been used for a period of two (2) months, it must be returned to or refunded immediately to the collecting officer.

5.5.8 All cash advances shall be fully liquidated at the end of each year. Except for petty cash fund, the AO shall refund any unexpended balance to the Cashier/Collecting Officer who will issue the necessary official receipt.

12.2. Further, on the liquidation of Cash Advance for official travel, Section 16, Title III of Executive Order No. 248 and Paragraph 5.1.3 of COA Circular No. 97-002 state that:

> *Within sixty (60) days after his return to his permanent station in the case of official travel abroad, or within (30) days of his return to his permanent station in the case of official local travel, every official or employee shall render an account of the cash advance received by him in accordance with existing applicable rules and regulations. Failure of the AO to liquidate his cash advance within the prescribed period shall constitute a valid cause for the withholding of his salary and the imposition of other sanctions as provided for under the law.*

12.3. The foregoing rules and regulations were formulated to provide for a more efficient and effective control over the granting, utilization and liquidation of cash advances. However, it was observed that these rules were not strictly observed and implemented as can be observed from financial reports and records.

12.4. Unliquidated cash advances as of December 31, 2013 amounted to P24.409 million. Compared to the amount of unliquidated cash advances as of December 31, 2012 of P22.271 million, the 2013 balance increased by P2.138 million.

12.5. It was noted that the advances were not reported and liquidated as soon the purposes for which these were given have been served; additional cash advances were granted although previous ones were not yet liquidated or settled; and subsidiary records were not also sufficient. All of these, including the apparent lack of proper monitoring, resulted in the accumulation of unliquidated cash advances.

12.6. COA Circular No. 2012-004 dated November 28, 2012 serves as the final notice and demand to all concerned to settle and liquidate all outstanding cash advances as of December 31, 2011 on or before January 31, 2013. Despite the issuance of this Circular, the concerned personnel seemed to disregard the final demand since their accountabilities remained outstanding as of December 31, 2013.

12.7. Section 9 of the same Circular states the following consequences of failure to liquidate the long outstanding cash advances:

> a. Failure of the accountable officer to liquidate his outstanding cash advance on or before January 31, 2013 shall constitute cause for the filing of malversation charge under Article 217, failure to liquidate cash advance under Article 218, both of the Revised Penal Code or criminal prosecution under Section 128 of PD No. 1445.
>
> b. The suspension of salaries of erring accountable officers shall be ordered by the auditor concerned to the proper agency official through the Head of the Agency.
>
> c. Appropriate administrative proceedings shall likewise be instituted.

12.8. **We recommended that Management:**

a. Demand immediate liquidation of outstanding cash advances as of CY 2011 which are not yet settled as of December 31, 2013; and impose the consequences on failure to liquidate these cash advances, pursuant to COA Circular No. 2012-004;

b. Strictly enforce compliance with COA Circular No. 97-002, on the granting, utilization and liquidation of cash advances to avoid accumulation of unsettled accounts as at end of the year; and

c. Require the Regional Accounting Office, together with the head of accounting unit of Irrigation Management Offices, to prepare/update subsidiary ledgers showing detailed information of the cash advances granted, liquidations made and unsettled balances for all accountable officers.

12.9. Management gave the following comments:

a. In NIA Region X, they averred that actions/measures were already taken, i.e., withholding of salary of employees with outstanding cash advances effective August 5, 2013 for Regional Office personnel and last quarter Personal Services release for field offices; discontinued the practice of granting additional cash advances to personnel with unliquidated cash advances; and proper monitoring of cash advances is strictly effected. Demand Letters to concerned employees will be disseminated and copies duly received by concerned NIA employees will be furnished to COA Office.

b. In NIA Region XIII, they are intensively monitoring the unliquidated cash advances and were able to decrease the total amount by 50 per cent for the first quarter of 2014. Memorandum will be issued to all Irrigation Management Offices regarding strict compliance on the granting, utilization and liquidation of cash advances.

GENDER AND DEVELOPMENT

13. The programmed activities and projects identified in the Annual Gender and Development (GAD) Plan for CY 2013 were not fully implemented.

13.1. The total DBM approved budget for CY 2013 amounted to P4.258 billion. However, the total amount allocated for the implementation of GAD project was only P20.284 million or 0.5 per cent, and the total amount of budget utilized for the year amounted to P12.669 million only. Likewise, not all regional, field and project offices were able to prepare and submit their respective GAD Plan for the year, contrary to Section 2.3 of Joint Circular No. 2012-01 of the Philippine Commission for Women (PCW), National Economic and Development Authority (NEDA) and the Department of Budget and Management (DBM).

13.2. Likewise, the General Appropriations Act (GAA) of 2013 requires that:

All government agencies, local government units, government owned and controlled corporations, state colleges and universities, and all instrumentalities of government to allocate at least five per cent of their annual budgets for priority programs and projects or activities that address issues or women's concerns.

13.3. Review of the GAD activities in the Central Office and the regional/field offices that implemented GAD activities disclosed the following:

a. In the Central Office, GAD Accomplishment Report showed that out of the total allocated amount of P4.142 million, only P238,560 or 5.8 per cent was utilized, way below its targeted utilization for the year.

b. In Region I, only P130,470 or 14.6 per cent of GAD budget in the amount of P895,000 was utilized during the year for GAD related activities. Interview with the designated GAD Focal person revealed that Region I supports all GAD related activities but allegedly many of their GAD plans, proposals and activities for the year were disapproved by the NIA Central Office.

c. In UPRIIS, although Management was able to formulate GAD plan and budget to address gender issues for CY 2013, there was no fund allocated, contrary to existing rules and regulations.

d. In Region VI, only P370,464 or 23.9 per cent of the allocated amount for GAD activities of P1.548 million was disbursed.

e. In Region XII, no funds were allocated for GAD programs and activities.

f. In Region XIII, GAD-related expenditures of P444,750 was charged to project funds since no allocation was provided for under the corporate funds.

13.4. **We recommended that Management:**

a. Incorporate in the annual budget proposal the required allocation for the proper implementation of GAD programs and activities in all NIA offices, which is geared towards achieving the objective of the Annual GAD Plan in accordance with the conditions set forth in Joint Circular No. 2012-01 of PCW, NEDA and DBM;

b. Closely monitor the full implementation of the GAD programs and activities to ensure compliance with its targeted accomplishment; and

c. Revert to the project funds the amount expended for GAD activities.

13.5. In Region XII, Management commented that starting CY 2014 they will focus on strengthening the Regional Office and IMO level focal point system by instilling gender sensitivity awareness to all its employees.

COMPLIANCE WITH TAX LAWS

14. For CY 2013, NIA withheld taxes from salaries and wages, suppliers/contractors and remitted P30.692 million to the Bureau of Internal Revenue (BIR). The Due to BIR account as of December 31, 2013 totaled P47.850 million consisting of taxes withheld for December 2013, prior year's accumulated tax dues and unrecorded remittances from regional and field offices which are still subject to further verification and reconciliation.

SUMMARY OF AUDIT SUSPENSIONS, DISALLOWANCES AND CHARGES

15. As of December 31, 2013, audit suspensions, disallowances and charges amounted to P36.295 million, P160.779 million and P1.064 million, respectively. Details shown in Table 7.

Table 7 – Summary of Audit Suspensions, Disallowances and Charges

	Notice of Suspension	Notice of Disallowance	Notice of Charge
Central Office	P 100,591.00	P 20,973,036.00	P -
CAR	165,828.69	6,728,190.20	216,223.79
Region I	-	4,897,880.00	-
Region II	406,311.89	506,000.00	-
Region III	-	1,595.10	-
Region IV A	-	-	-
Region IV B	8,333,189.06	8,333,189.06	-
Region V	-	43,954,662.06	-
Region VI	19,275,548.34	52,896,153.90	28,265.95
Region VII	1,158.00	-	-
Region VIII	6,880,497.50	581,000.00	-
Region IX	-	436,697.60	-
Region X	-	-	-
Region XI	905,500.00	11,576,958.06	817,320.00
Region XII	4,080.00	9,884,170.00	2,745.00
Region XIII	187,198.00	8,001.05	-
UPRIIS	34,751.00	1,240.00	-
Total	**P 36,294,653.48**	**P 160,778,773.03**	**P 1,064,554.74**

PART III - STATUS OF IMPLEMENTATION OF PRIOR YEAR'S AUDIT RECOMMENDATIONS

Of the 67 audit recommendations embodied in the previous year's Annual Audit Report, four were fully implemented, 47 were partially implemented and 16 were not implemented. The summary is shown below.

Observations and Recommendations	Actions Taken/Comments
1. The existence, valuation and accuracy of the balance of Property, Plant and Equipment (PPE) account with a net book value of P24.157 billion could not be ascertained due to inadequacies and deficiencies in accounting and property records, thus affecting the fair presentation of the account balance in the financial statements. We recommended that Management:	Reiterated in Part II, Observation No. 1 of this report.
a. Create a special group/task force to undertake the immediate reconciliation of the variance between the balance appearing in the Property Inventory Report and the accounting records and analyze the composition of the CIP – Irrigation Projects account and reclassify them to their proper PPE account;	Partially Implemented. Authority to render overtime services was granted to undertake the reconciliation. More time was needed to locate documents for reconciliation.
b. Prepare subsidiary ledgers for each project where the budgetary support from DBM was sourced out and record the related expenses incurred per project to properly identify the balance at any given time;	Partially Implemented. Subsidiary records (CIP ledger cards) have been prepared and are being updated.
c. Maintain/update adequate accounting and property records and conduct periodic reconciliation between accounting and property records;	Partially Implemented. PPE ledger cards are being maintained and updated. Partial reconciliation of PPE accounts was done by the Bookkeeping Section personnel.
d. Submit a report on the actions taken to address the issue of the unaccounted firearms in the custody of the Civil Security Affair A-Armorer and copy of the Memorandum Receipts (MRs) of the firearms issued to concerned officers. Non-submission of the same shall be a	Fully Implemented. Management submitted a report that firearms were in their custody and accounted for.

Observations and Recommendations		Actions Taken/Comments
	valid ground for the filing of the appropriate disciplinary/administrative action against him;	
	e. Strictly require the Inventory committee to give priority and complete the physical count of all PPE items;	Partially Implemented. Not all regional offices complied.
	f. Stop the distribution of land in Region III to NIA personnel and elevate the matter to higher authorities to determine the legality of the program; and	Partially Implemented. Management instructed the Legal Services to act on the matter.
	g. Ensure strict adherence to the applicable laws, rules and regulations on PPE to prevent the incurrence of the deficiencies noted.	Partially Implemented. Applicable laws, rules and regulations on PPE are now being observed by NIA.
2.	Land valued at P3.469 billion covered by the Transfer Certificate of Title (TCT) Nos. 327772 and 260182 is doubtful as the original TCTs cannot be located; the Inventory Report of Property, Plant and Equipment as of December 31, 2012 did not include vital information on the subject land such as date/cost of acquisition, total area covered and the specific location of the Land. Also, Property Ledger Card was not maintained for this account.	Reiterated in Part II, Observation No. 1 of this report.
	We recommended that Management:	
	a. Include in the Inventory Report of Land the details such as, area, location acquisition cost, date of acquisition and encumbrance and reconcile the inventory report with the accounting record;	Partially Implemented. The Inventory Report of Land has been reconciled with the accounting record and that Property Section will continue coordinating with the Accounting Division in reconciliation of records.
	b. Maintain property ledger card for the Land account to support the balance per books of P3.469 billion as of December 31, 2012;	Partially Implemented. Reconciliation is on-going.

Observations and Recommendations	Actions Taken/Comments
c. Conduct a thorough investigation to locate the whereabouts of the TCTs and the Deeds of Sale. Determine the officer/s responsible for their safekeeping and ensure that these documents are always intact and available for inspection by the COA; and	Partially Implemented. Investigation is on-going.
d. Strengthen the existing control on the custodianship of important documents to pinpoint responsibility at any given time by assigning a permanent employee to handle the job.	Partially Implemented.
3. Various irrigation projects completed since 1996 amounting to P4.962 million recorded under Construction in Progress (CIP) - Agency Assets account was reclassified to Land Improvements account without proper documentation, such as: a. Final Accomplishment Report; b. Certificate of Completion and Acceptance; c. Project Completion Reports (CPR); and d. Photographs of completed projects, if any.	
We recommended that Management submit immediately all the above cited documents to support the reclassification of various completed irrigation projects to the Land Improvements account.	Not Implemented. Documents not yet submitted to COA for audit.
4. The validity and accuracy of the year-end balance of Cash in Bank account amounting to P2.037 billion as of December 31, 2012 cannot be substantiated due to accounting deficiencies.	Reiterated in Part II, Observation No. 2 of this report.
We recommended that Management:	
a. Require the Finance Division to: (i) conduct periodic reconciliation of records, i.e., general ledger and subsidiary records; and (ii) properly maintain subsidiary ledgers and other control records; and	Partially Implemented. Reconciliation is on-going.

Observations and Recommendations	Actions Taken/Comments
b. Require the Accounting Division to: (i) determine the nature of disparities noted among the reciprocal cash records and reports and adjust records accordingly; (ii) perform periodic reconciliation of the GLs, SLs, BRS and cashbooks; (iii) regularly prepare bank reconciliation statements; (iv) determine the nature and propriety of the unidentified reconciling items; and (v) take up in the books the reconciling items with valid documents.	Partially Implemented. Reconciliation is on-going.
5. The balance of the Cash in Bank accounts under the General Fund (F102) totaling P12.019 million as of December 31, 2012 included unexpended balance of special projects funds transferred to Corporate Fund (F501) amounting to P11.507 million and P0.512 million, respectively. These fund transfers were never recorded in the books of accounts of both funds, but continuously appear as among the reconciling items in the Bank Reconciliation Statements of Corporate Fund (F501). We reiterated our previous year's recommendations that Management:	
a. Ensure strict adherence to Section 37 of PD No. 1177 and Section 4(3) of PD No. 1445 and refrain from transferring project funds under General Fund (F102) to the Corporate Fund (F501).	Partially Implemented. Strict adherence to the applicable laws, rules and regulations is now being observed.
b. Remit to the Bureau of the Treasury the unexpended balances of Fund 102 closed accounts in the total amount of P12,019,459; and	Not Implemented. Management informed that reversion of the said amount to the Bureau of the Treasury would be made after the reconciliation process is completed.
c. Establish the amount of interest income accruing to the amount transferred to the Corporate Fund, as this amount forms part of the special project funds, and likewise remit the same to the Bureau of the Treasury.	Not Implemented. Management explained that the amount of interest income is not yet established.

Observations and Recommendations		Actions Taken/Comments
6.	The unexpended balance of foreign assisted project funds amounting to P5.140 million exclusive of interest earned which was previously deposited under Fund 102 account was subsequently transferred to Fund 501 contrary to the provisions of PD No. 1445. Moreover, this account was still being maintained by both Fund 501 and Fund 102 as of December 31, 2012.	
	We recommended that Management:	
	a. Close the Foreign Currency – Time Deposit PVB Account No. 61071 under Fund 501 and remit to the Bureau of Treasury the amount of the unexpended balance of the foreign-assisted project funds inclusive of interest; and	Not Implemented. Management justified that reversion of the said amount to the Bureau of the Treasury will be done after the reconciliation process is completed.
	b. Ensure strict adherence to the provisions of Section 37 of PD No. 1177 and Section 4(3) of PD No. 1445.	Partially Implemented. Adherence to the aforecited laws is now being observed by NIA.
7.	Unrecorded withdrawals/disbursements prior to 1988 amounting to P151.656 million were treated as reconciling items in the Bank Reconciliation Statements. These disbursements were included in the list of checks issued and were encashed but have no covering disbursement vouchers or any supporting documents submitted to the Audit Team.	
	We recommended that Management:	
	a. Cause the immediate submission of the disbursement vouchers, copy of check register/report of checks issued containing the date/number of the checks, payee and amount together with all the necessary documents; and	Not Implemented. The required documents were not yet submitted to the audit team.
	b. Conduct a thorough investigation to identify persons liable for the unaccounted disbursements of P151,655,662, and file appropriate legal actions against the accountable/liable officials, if warranted.	Not Implemented. Thorough investigation has not yet been conducted by Management.

Observations and Recommendations		Actions Taken/Comments
8.	Accounts Receivable-Irrigation Service Fees (ISF) and Communal Irrigation System as of December 31, 2012 amounting to P17.252 billion were doubtful and unreliable in view of inaccurate/inadequate accounting records and accounting deficiencies, thus impairing the fair presentation of the account in the financial statements.	Reiterated in Part II, Observation No. 3 of this report.
	We recommended that Management:	
	a. Require the Accounting Section to: (i) maintain subsidiary ledgers for receivable accounts and regularly reconcile the balances with the general ledger balances; (ii) update recording/posting of transactions at all times; (iii) exert all efforts to reconcile accounts receivable recorded in the books of the regional office as against the books of the field offices; and (iv) maintain subsidiary ledgers for accounts receivable per irrigation association;	Partially Implemented.
	b. Institute appropriate action for dormant accounts and effect adjustments in the books; request for write-off of outstanding/dormant/ uncollectible accounts from COA in accordance with COA Circular No. 97-001 dated February 5, 1997;	Partially Implemented.
	c. Require the billing personnel and Accounting Section to reconcile regularly records on receivables; and	Partially Implemented.
	d. Require the Regional Accounting Office and the Accounting Processor of the Provincial Irrigation Management Offices to exhaust all means to reconcile their records every end of each month to ensure the accuracy of the amounts of accounts receivable in the books of accounts.	Partially Implemented.
9.	The validity and accuracy of the account balances of completed projects included in the Balance Sheet of the Corporate Fund (F501) as of December 31, 2012	

Observations and Recommendations	Actions Taken/Comments
amounting to P5.174 billion could not be substantiated due to non-submission of supporting documents, financial statements and reports for review/verification. Likewise, the elimination entries reflected in the consolidated balance sheet lacked the necessary supporting documents.	
We recommended that Management:	
a. Assign a permanent employee to perform the analysis and validation of the accounts of the above completed projects included in the consolidation of account balances of all the regions and projects specifically the Office Supplies Inventory recorded under the BBMP, et al. amounting to P16.578 million;	Partially Implemented.
b. Exhaust all possible means to locate the missing books of accounts, financial statements and reports pertaining to the completed projects and effect the necessary adjustments to reflect the correct balances of the affected accounts;	Partially Implemented. Submission of Financial Statements, reports and supporting documents by Regional Offices is on-going.
c. Create a special team to undertake the physical inventory of all the Property, Plant and Equipment of the above completed projects to validate their actual existence, considering that the total value represented ninety per cent of the total asset account; and	Partially Implemented.
d. Submit the Journal Entry Vouchers with supporting documents relative to the elimination entries appearing in the consolidated balance sheet.	Partially Implemented.
10. The validity and accuracy of the balances of Government Equity and Retained Earnings accounts of P18.027 billion and P(10.030) billion, respectively, could not be ascertained due to the absence of documents to substantiate the balances of these accounts as shown in the Statement of Changes in Government Equity (SCGE).	

Observations and Recommendations	Actions Taken/Comments
We recommended that Management cause the immediate submission of the supporting documents of the Government Equity and Retained Earnings accounts with complete information as to the nature of adjustments included therein.	Not Implemented. Supporting documents of the Government Equity and Retained Earnings were not yet submitted by Management.
11. The existence, validity and accuracy of the Due from National Government Agencies, Due from GOCCs and Other Receivables accounts could not be ascertained due to non-maintenance/improperly maintained subsidiary ledgers, existence of dormant accounts and accounts with abnormal balances. Likewise, the Statement of Balances lacked the necessary information such as complete name/address of the debtor, date when the receivable was granted and the age of the account. Since these observations are reiteration of the previous years' audit findings, we strongly recommended that Management:	
a. Assign a permanent employee to perform the regular analysis and validation of the Due from NGAs/GOCCs and Other Receivable accounts specifically those dormant and abnormal accounts which continue to exist for more than 10 years now;	Partially Implemented. A permanent employee was assigned to perform analysis, maintenance, and regular updating of subsidiary ledgers.
b. Maintain and regularly update subsidiary ledgers for all accounts to support the general ledger balances; facilitate the early detection of errors, expedite adjustments, and determine if total of individual accounts reconcile with the general ledger;	Partially Implemented. Subsidiary ledgers are now maintained and regularly updated. Analysis of accounts is on-going. Adjustments were already made on some accounts.
c. Create a special task force to enforce collection of past due accounts, and if warranted, impose legal sanctions to those whose accounts are material and remained in default for several years now; and	Not Implemented. A special task force is not created yet.

Observations and Recommendations	Actions Taken/Comments
d. Include in the Statement of Balances all the necessary information such as name, address of the debtor, date the receivable was granted and aging of the account.	Not Implemented. Aging of receivables was not yet prepared.
12. Deficiencies and contraventions on the provisions of RA No. 9184, otherwise known as the "Government Procurement Reform Act" and the lease contract between NIA as the "lessor" and New Kanlaon Construction, Inc. as the "lessee" resulted in the understatement of bid security posted by participating bidders totalling P2.092 million and understatement of the total billed amount for rental for the period March 1, 2009 to February 28, 2012 amounting to P1.120 million.	
We recommended that Management:	
a. Exhaust all legal means to collect total amount due of P17,588,744 from the New Kanlaon Construction, Inc. representing all unpaid amount as of December 31, 2012;	Partially Implemented. Legal means were exhausted but no collection was received.
b. As additional sanction, forfeit the cash deposit and collect all previous bills applied to the cash deposit as well as all current bills due from the New Kanlaon Construction, Inc.; and	Not Implemented. No sanction was imposed neither was the cash deposit forfeited.
c. Submit written consent or other related document signifying that NIA has allowed the lessee to sub-lease a portion of the property to other establishments such as the convenience store and restaurant.	Fully Implemented. Required document was submitted.
13. The existence, validity and accuracy of the balance of Accounts Payable totaling P483.106 million could not be ascertained due to non-maintenance/improperly maintained subsidiary ledgers, and existence of undocumented/dormant accounts and accounts with abnormal balances. Likewise, the Schedule of Accounts Payable lacked the necessary	

Observations and Recommendations	Actions Taken/Comments
information such as complete name/address of the creditor, date when the obligation was incurred and the age of the account.	
Considering that this is a reiteration of the previous years' audit observation, we strongly recommended the following:	
a. Assign a permanent employee to perform regular analysis and validation of the Accounts Payable specifically those dormant and abnormal accounts which continue to exist for more than 10 years now;	Not Implemented. No task force was created neither an employee was assigned to perform regular analysis and validation of accounts.
b. Maintain and regularly update subsidiary ledgers of the Accounts Payable for proper monitoring and to support the general ledger balances;	Fully Implemented. Maintenance and updating of subsidiary ledger is on-going.
c. Include in the Schedule of Accounts Payable all the necessary information such as name, address of the creditor, date the obligation was incurred and aging of the account;	Partially Implemented. The Schedule of Accounts Payable already included the necessary information but no aging of the accounts was provided.
d. Provide valid support document for the accounts payable that lacked documentation; otherwise revert the same to government equity; and	Not Implemented. No valid supporting documents were submitted.
e. Ensure that future recognition of accounts payable is based on valid obligations, supported with complete documents and benchmarked on NGAS.	Fully implemented. Recognition of accounts payable is now based on valid obligations, supported with proper documents and benchmarked on NGAS.
14. The accuracy and validity of the year-end balance of Other Liabilities account amounting to P1.335 billion remained doubtful due to lack of subsidiary records/documents and the inclusion of various accounts which remained dormant for more than 19 years now. Likewise,	

Observations and Recommendations		Actions Taken/Comments
	supporting schedules for the Performance/Bidders Bond Payable and Other Payable accounts to support the general ledger account balances were not prepared and submitted for audit.	
	Since this is reiteration of the previous years' audit observation, we strongly recommended the following:	
	a. Assign a permanent employee who will perform regular analysis, validation and reconciliation of the Other Liabilities account specifically those dormant and abnormal accounts which continue to exist for more than 19 years now;	Not Implemented. No permanent employee was assigned to perform regular analysis, validation and reconciliation.
	b. Maintain and regularly update subsidiary ledgers of the Other Liabilities accounts for proper monitoring and to support the general ledger balances; and	Not Implemented.
	c. Include in the Schedules all the necessary information such as complete name and address of the contractors, dates when the projects started/finished and aging/status of the accounts.	Not Implemented.
15.	Deficiencies in recording the advances made by the Bureau of the Treasury (BTr) to CE Casecnan Water and Energy Company, Inc. (CECWE, Inc.) for NIA obligations covered by the Build, Operate and Transfer Contract resulted in a variance of P46.847 billion between BTr's records and NIA's records and understatement of liabilities and operating expenses.	
	We reiterated our previous years' recommendations that Management:	
	a. Exert extra effort to secure copies of JEVs from the BTr pertaining to its advances for the account of NIA to ensure proper recording in the books;	Partially Implemented. Copies of documents relative to the advances made by BTr to CE Casecnan have been secured.

Observations and Recommendations		Actions Taken/Comments
	b. Record all transactions pertaining to the advances made by the BTr since these are valid obligations; and	Partially Implemented. Advances pertaining to water delivery fees and tax reimbursements had already been recorded in the books.
	c. Prioritize the immediate reconciliation of the difference/variance existing between the records of the BTr and NIA to avoid reiteration of the same observation in the ensuing year.	Partially Implemented. Reconciliation of the difference/variance is on-going.
16.	Deficiencies were noted in the payment for consultancy services amounting to P6.136 million. We recommended that Management:	
	a. Ensure strict compliance with the provisions of RA No. 9184 and other government rules and regulations on the hiring of consultants;	Partially Implemented. The provisions, rules and regulations in hiring of consultants are now being observed.
	b. Analyze the cost effectiveness of hiring consultants before a decision is made to engage their services;	Partially Implemented. Management informed that cost effectiveness analysis prior to the hiring of consultants is being made.
	c. Perform periodic monitoring/oversight in the use of consultants to determine the extent to which economy, efficiency and effectiveness have been achieved; and	Partially Implemented.
	d. Exercise prudence in the disbursement/disposition of government funds and limit expenses to that which are cost effective to the Corporation.	Partially Implemented. Management is now observing prudence in the disbursement/disposition of government funds.
17.	Payment of the Collective Negotiation Agreement (CNA) Incentives for CY 2012 was not compliant with the related DBM Budget Circulars and therefore considered irregular as defined in COA Circular No.	Reiterated in Part II, Observation No. 7 of this report.

Observations and Recommendations	Actions Taken/Comments
85-55A, as amended by COA Circular No. 2012-003 dated October 29, 2012.	
We recommended that Management:	
a. Cause the immediate submission of the following documents to be used in the determination of the propriety of the CNA Incentive payments:	Not Implemented. Documents submitted by Management are not in accordance with what were required by the team.
a.1. Duly accomplished Form I-7 of the IATF MC No. 2012-03 dated November 12, 2012 to be used as basis in determining whether NIA has accomplished at least 90 per cent of its FY 2012 targets on the average under the Major Final Outputs (MFOs);	
a.2. Computation of actual agency savings from released allotments for MOOE for FY 2012;	
a.3. Proof that actual operating income at least met the targeted operating income in the approved Corporate Operating Budget for FY 2012; and	
a.4. Proof that those actual operating expenses were less than the DBM-approved level of operating expenses in the COB.	
b. Require the concerned NIA officers and employees to refund the CNA Incentive received in excess of the DBM required ceiling of P25,000 per qualified employee.	Partially Implemented.
18. Non-recording of the withdrawals of diesel estimated at P5.410 million for CYs 2011 and 2012 casts doubt on the balance as of December 31, 2012 of the Other Prepaid Expenses - Gasoline, Oil and Lubricants account in the amount of P9.144 million. Likewise, government laws, rules and regulations pertaining to the use of government motor vehicles were not strictly observed by the agency.	

Observations and Recommendations		Actions Taken/Comments
	We recommended that Management:	
	a. Assign a permanent employee to analyze the Gasoline, Oil and Lubricant Inventory account and see to it that all withdrawals of fuel made during the year are properly recorded in the books;	Partially Implemented.
	b. Review the recommended fuel allocation embodied in Memorandum Circular (MC) No. 39 and revise the specific number of liters each office/official should be entitled to in accordance with the current needs of the office for proper monitoring and control; and	Partially Implemented.
	c. Ensure strict compliance with the provisions of COA Circular No. 75-6 on the proper use of government vehicles.	Partially Implemented.
19.	Non-adherence to pertinent regulations on the granting, utilization and liquidation of cash advances, insufficient accounting records and absence of proper monitoring resulted in the accumulation of Due from Officers and Employees and Advances to Officers and Employees accounts in the amounts of P14.849 million and P7.422 million, respectively, which remained unliquidated or unsettled as of December 31, 2012.	Reiterated in Part II, Observation No. 12 of this report.
	Since this was a reiteration of our prior years' audit observation, we strongly recommended that Management:	
	a. Create a special group/task force to undertake the immediate analysis and reconciliation of the Advances to Officers and Employees account;	Partially Implemented.
	b. Impose legal sanctions mandated by law for those accounts that have remained outstanding and the concerned accountable officers who are still connected with NIA and exhaust all possible means to locate and collect the amount due from those who are no longer connected with NIA;	Partially Implemented.

Observations and Recommendations		Actions Taken/Comments
	c. Ensure strict compliance with the applicable laws, rules and regulations on the grant, utilization and liquidation of cash advances;	Partially Implemented.
	d. Require the Accountant to monitor and strictly enforce the liquidation of cash advances within the prescribed period and see to it that no additional cash advance shall be allowed unless the previous ones are settled or properly accounted for; and	Partially Implemented.
	e. Require the Accounting Section to prepare and maintain complete and updated subsidiary records for control and monitoring purposes.	Partially Implemented.
20.	Management did not fully implement the programmed activities and projects identified in their Annual Gender and Development (GAD) Plan for CY 2012. GAD Accomplishment Report showed that out of the total allocated amount of P2.510 million, only P0.119 million or 4.76 per cent was utilized in the Central Office, way below its targeted accomplishment for the year.	Reiterated in Part II, Observation No. 13 of this report.
	We recommended that Management:	
	a. Incorporate in their annual budget proposals the required allocation necessary to cover the related expenses for the proper implementation of GAD programs and activities in the different regional, field and project offices;	Partially Implemented.
	b. Strictly formulate programs and activities towards the achievement of the main objective of their Annual GAD Plan in accordance with the conditions set forth in Joint Circular No. 2012-01 of PCW, NEDA and DBM; and	Partially Implemented.
	c. Closely monitor the full implementation of the conduct of GAD programs and activities to ensure compliance with its targeted accomplishment for the year.	Partially Implemented.

Observations and Recommendations	Actions Taken/Comments
21. Taxes withheld and statutory monthly contributions totaling P6.590 million as of December 31, 2012 were not remitted by NIA Regional Offices to the concerned agency/corporations, contrary to laws and government rules and regulations.	
We reiterated our prior years' recommendations that Management require the Accounting Section to:	
a. Maintain subsidiary ledgers and reconcile the amount withheld against the amount remitted every month; and	Partially Implemented.
b. Analyze the account to determine the cause of the outstanding balances and remit immediately the contributions found to be unremitted and make necessary adjustments, if warranted.	Partially Implemented.