

OBSERVATIONS AND RECOMMENDATIONS

Deficiencies in the Application of PPSAS and in the Adoption of the Revised Chart of Accounts

1. *Inventories* were measured using the Moving Average Method instead of at the lower of cost and current replacement cost as prescribed under Item 17 of PPSAS 12. Further, residual value of five per cent was provided for *Computer Software*, an intangible asset, instead of zero in violation of Item 99 of PPSAS No. 31. Moreover, the procedures prescribed under Item 5.1 of COA Circular No. 2014-003 dated April 5, 2014 were not strictly observed in the conversion of old NGAS accounts to the Revised Chart of Accounts.
 - 1.1. COA Circular No. 2013-002 dated January 31, 2013 revised the existing NGAS Chart of Accounts (RCA) prescribed in COA Circular No. 2004-008 dated September 20, 2004 to provide new accounts for the adoption of the PPSAS to enhance the accountability and transparency of the financial reports, and ensure comparability of financial information. COA Circular No. 2014-003 dated April 5, 2014 provides the guidelines and procedures for the conversion to RCA and PPSAS.
 - 1.2. The standard for the *Measurement of Inventories* in paragraph 17 of PPSAS 12 is as follows:

“Inventories shall be measured at the lower of cost and current replacement cost where they are held for:

 - (a) *Distribution at no charge or for a nominal charge; or*
 - (b) *Consumption in the production process of goods to be distributed at no charge or for a nominal charge.”*
 - 1.3. Paragraph 99 of PPSAS 31 which deals on *Intangible Assets* specifically provides that: *“The residual value of an intangible asset with a finite useful life shall be assumed to be zero unless: (a) There is a commitment by a third party to acquire the asset at the end of its useful life; or (b) There is an active market for the asset, and: (i) Residual value can be determined by reference to that market; and (ii) It is probable that such a market will exist at the end of the asset's useful life.”*
 - 1.4. COA Circular No. 2014-003 dated April 5, 2014 provides the procedures in the conversion of the old accounts to the RCA for National Government Agencies (NGAs).

1.5. Review of the CY 2014 PNVSCA's financial statements disclosed that there were deficiencies in the application of the PPSAS in the following areas:

a. ***Inventories***

- As at December 31, 2014, PNVSCA's *Inventories* has a carrying amount of ₱63,016.87 entirely identified as *Office Supplies Inventory* held for consumption or distribution to the end-users. These are considered as inventory not for sale.
- Based on our examination of this account, the balances provided for each item listed in the inventory schedule were computed based on the Moving Average Method (MAM) as previously prescribed under the Manual on the New Government Accounting System (MNGAS) and embedded in the e-NGAS, instead of lower of cost and current replacement cost prescribed in paragraph 17 of PPSAS 12. This bears on the accuracy of the carrying amount of the *Office Supplies Inventory*.

b. ***Intangible Assets***

- In compliance with the PPSAS 31 which provides the accounting standards for *Intangible Assets*, the agency has transferred all Computer Software in its possession from *Property, Plant and Equipment* account to *Intangible Assets* since these are not integral parts of the related hardware.
- As at December 31, 2014, *Computer Software* account presented as *Intangible Assets* has a total of ₱204,911.49 with Accumulated Amortization of ₱194,665.91 using five per cent residual value. Based on PPSAS 31, however, *Computer Software* should be assumed to have no residual value.
- By providing residual value to Intangible Assets, the *Accumulated Amortization – Computer Software* was understated by ₱10,245.58 and *Computer Software* was overstated by the same amount.

c. ***Deficiencies in the Transfer of Old NGAS Accounts to the Prescribed Revised Chart of Accounts (RCA)***

- Our audit disclosed that a Journal Entry Voucher (JEV) was drawn by PNVSCA to convert the accounts under the old NGAS to the RCA and submitted to the Auditor and the Government Accountancy Sector, COA.

- However, we noted that the entries on the JEV drawn were neither recorded in the General Journal nor reflected in the General Ledgers (GL). Instead, the Accountant just changed the description and code to comply with the accounts presentation required under the RCA except for the Computer Software which was reclassified and now presented under the Intangible Assets.
- While the accounts were presented using the RCA, the procedures in the conversion of accounts were not strictly followed.

1.6. We recommended and Management agreed to instruct the Accountant to comply with the new accounting policies particularly on the measurement of inventories set forth under PPSAS No. 12 and on the assumption of residual value for intangible assets under PPSAS No. 31, and to comply strictly with the procedures in the conversion of the old accounts to the new accounts.

Understatement of Accumulated Depreciation

2. Accumulated Depreciation for Property, Plant and Equipment (PPE) of ₱4,531,902.28 is understated by ₱107,723.00 while PPE is overstated by the same amount due to errors/deficiencies in the computation and recognition of depreciation and in the adjustment of the five percent residual value.
 - 2.1. One of the qualitative characteristics embodied in Chapter 3 of the Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities is *Faithful Representation* which asserts that: *"To be useful in financial reporting, information must be a faithful representation of the economic and other phenomena that it purports to represent. Faithful representation is attained when the depiction of the phenomenon is complete, neutral, and free from material error."*
 - 2.2. Philippine Application Guidance (PAG) 6 of PPSAS 17 provides that: *"A residual value equivalent to at least five percent (5%) of the cost shall be adopted unless a more appropriate percentage is determined by the agency based on their operation."*
 - 2.3. Item 67 of PPSAS 17 provides that: *"The residual value and the useful life of an asset shall be reviewed at least at each annual reporting date and, if expectations differ from previous estimates, the change(s) shall be accounted for as a change in an accounting estimate in accordance with IPSAS 3. Accounting Policies, Changes in Estimates and Errors."*

- 2.4. Item 42 of PPSAS 3 states: "To the extent that a change in an accounting estimate gives rise to changes in assets and liabilities, or relates to an item of net assets/equity, it shall be recognized by adjusting the carrying amount of the related asset, liability, or net assets/equity item in the period of change."
- 2.5. As of December 31, 2014, PNVSCA has a total of ₱6,049,127.92 PPE which were provided with depreciation amounting to ₱4,531,902.28 or the carrying amount of ₱1,517,224.64.
- 2.6. Our examination of the depreciation provided for PPE disclosed a net understatement of ₱107,723.00 due to deficiencies, as shown below:

PPE Account	Understatement / (Overstatement) due to:				Total
	Accounting Errors		Provision of Full Depreciation	Failure to adjust at 5% PPE Residual Value	
	Under-statement	Over-statement			
Information and Communication Technology Equipment	₱ 80,951	₱ (10,857)		₱ 31,642	₱ 101,737
Communication Equipment			(76,083)	131	(75,952)
Furniture and Fixture	64,971	(31)			79,189
Other Property, Plant and Equipment	2,750			14,249	2,750
Total	₱ 148,672	₱ (10,888)	₱ (76,083)	₱ 46,022	₱ 107,723

Understatement and Overstatement of Depreciation Due to Errors

- 2.7. We have noted errors in the depreciation in 107 or 23 per cent of the 461 PPE items resulting in understatement of ₱148,672.00 in the Accumulated Depreciation while there was a total of ₱10,888.00 overstatement noted in 35 items in the PPE (see Annex B). The errors were attributed to the following:
- encoding of incorrect acquisition dates;
 - inaccurate provision of useful life; and
 - non-provision of depreciation for the months of October to December for some items of Other Property, Plant and Equipment.

Overstatement of ₱76,083.00 due to provision of full depreciation for Communication Equipment with still remaining useful life

- 2.8. Nineteen out of 21 items under Communication Equipment were provided full depreciation although these equipments still have remaining economic useful life. Sixteen of these items should be depreciated until year 2018.
- 2.9. The said omission has resulted to the overstatement of ₱76,083.00 depreciation provided for the Communication Equipment.

Understatement of ₱46,022.00 resulting from failure to adjust the depreciation brought about by the change in properties' residual value

- 2.10. The change in the residual value of properties required under PAG 6 of PPSAS 17 necessitates adjustment of depreciation in order to reflect the assets carrying amount.
- 2.11. However, the required adjustments brought about by the change in the properties' residual value were not uniformly applied by the agency. As a result, 224 or 49% of 461 PPE items were not adjusted which resulted in the understatement in PPE's Accumulated Depreciation by ₱46,022.00 as at December 31, 2014.
- 2.12. In summary, the net understatement of Accumulated Depreciation as at December 31, 2014 is ₱107,723.00 and Property, Plant and Equipment is overstated by the same amount, thereby affecting the reliability of the financial statements.
- 2.13. **We recommended and management agreed to instruct the Accountant to:**
 - a. **Compute the depreciation of each PPE item by observing the correct useful life of PPE and residual value;**
 - b. **Revisit PPSAS Nos. 3 and 17 and the accompanying PAG particularly on the provision of a residual value equivalent to at least five percent of the cost; and**
 - c. **Adjust the depreciation to reflect the correct carrying amount of PPE in accordance with Item 42 of PPSAS No. 3.**

Value for Money Audit

3. The Volunteer for Information and Development Assistance (VIDA), a major component of the Volunteer Information and Support Service under the agency's Major Final Output (MFO), has contributed in the achievement of the desired output and development outcomes in the area of Agriculture, Environment, Peace and Security, Social Development, Trade and Industry and Governance, thru the continuous deployment of Volunteers.
 - 3.1. The VIDA Program, a nationwide platform for local volunteering coordinated by PNVSCA since 1979, is designed for Filipino Volunteers who wish to share their knowledge and skills through active involvement in the implementation of development projects in their own community. It provides opportunity for the participants to hone their skills further through volunteering.
 - 3.2. A total of 71 VIDA volunteers (46 women and 25 male) continued to provide technical and administrative support to local partner institutions (LPI) in the implementation of developments projects with social development sector (education, health and social services) having the most number of volunteers followed by the sectors peace and security, trade and industry, environment, agriculture, and governance.
 - 3.3. Projects outputs and accomplishment were identified in the area of Agriculture, Environment, Peace and Security, Social Development, Trade and Industry and Governance. Some of the beneficiaries identified by the team during the VIDA Orientation/Workshop in Cagayan de Oro, were as follows:

Specialization	Organization Assisted	No. of Volunteers Validated	Location
Agriculture	Nagkahiusang Mangingisda Alang sa Kalambo-an sa Sultan Naga (NAMANGKA), Inc.	1	Lanao del Norte
	Barangay Inagongan Farmers' Association (BIFA)	1	Lanao del Norte
Environment	Ranaw Disaster Response and Rehabilitation Assistance Center (RDRRAC), Inc.	1	Lanao del Norte
	Mindanao Indigeneous People Initiative for Research and Assistance Center (MIPIRAC) Project: Educating	1	Mindanao

Specialization	Organization Assisted	No. of Volunteers Validated	Location
	Community on climate change		
Peace and Security	MIPIRAC Project: Conflict Prevention Program and Improving Grassroots Understanding on Peach	1	Mindanao
	Forum ZFD (Forum Civil Peace Service)	1	Mindanao
Social Development	Tenduray Lambangian Youth and Development, Inc. (RIFPAD)	1	Maguindanao
	Department of Labor and Employment Zamboanga Sibugay Field Office	1	Zamboanga
	Local Government Unit – Barangay Lapinig, Kapatagay (Community Based Childhood Development)	1	Lanao del Norte
	Silingang Dapit (SILDAP) Southeastern Mindanao	2	Davao Oriental
	San Isidro Alliance Church	1	Davao del Norte
Trade and Industry	Convergence of NGOs/POs in Zamboanga del Sur on Agrarian Reform and Rural Development	1	Zamboanga del Sur

- 3.4. The audit team resolved the existence of VIDA volunteers and the beneficiary organizations based on the data presented.
- 3.5. Based on our assessment and information gathered, the VIDA Program in 2014 incurred total expenses of ₱1,281,600.00 for the volunteers of which ₱1,192,800.00 were paid for their Monthly Allowance of ₱2,000.00 each and ₱88,800.00 as PhilHealth Contribution.
- 3.6. We view the expenses paid for the volunteers under the VIDA Program as minimal cost on the part of the Government but remained relevant in community development and thus the Program has continuously served the most vulnerable sectors in the grassroots level.

Status of Settlement of Audit Suspension and Disallowances

4. No audit suspension, disallowance or charge was issued to the agency in CY 2014. The ₱58,868.15 balance of disallowance as of December 31, 2014 pertains to previous years which has remained outstanding for several years now.

4.1. The said disallowances have been lifted per NGAO 1 Decision No. 2000-049 and forwarded to the Commission Proper for review and approval. To date, the Agency has not received any feedback or reply on the follow-up letter dated 12 November 2014 sent to the COA regarding their appeal.

Gender and Development (GAD)

5. The agency has complied with the requirement of Section 33 of the General Provisions of 2014 General Appropriations Act. GAD related activities mainstreamed in the agency's regular activities were identified, out of which and GAD related programmed activities amounting to ₱1,152,799.00 were accomplished, details of which are presented in Annex C.

Program/Project Related to Senior Citizens and Persons with Disability

6. Pursuant to Section 34 of the General Provision of the 2014 General Appropriations Act, the agency has implemented and accomplished programs and projects related to Senior Citizen and Persons with Disability.

6.1. The amount of ₱144,304.00 was expended for the activities related to the Senior Citizen and Persons with Disability which formed part of the agency's mandated function and integrated to the regular activities, such:

Program/Activity	Accomplishment	Amount
Deployment of Volunteers for Information & Development Assistance (VIDA) and International Volunteers	<ul style="list-style-type: none"> • 19 foreign volunteers provided assistance in the implementation of programs and projects providing services to PWDs. • 4 VIDAs assisted a community-based rehabilitation (CBR) program in Candelaria, Gumaca, Lucena, Sariaya and Tiaong, all in Quezon Province. • Capacity building for institutions in strengthening training programs and delivery of services to persons with disability • Outreach projects including typhoon recovery interventions, livelihood and educational assistance 	<p>₱ 13,300.00</p> <p>10,000.00</p> <p>94,290.00</p>

Program/Activity	Accomplishment	Amount
VIDA Orientation Seminar	<ul style="list-style-type: none"> 15 VIDAs given orientation on Working with the Vulnerable Sectors that includes PWDs and elderly. This included a discussion on international and national legal frameworks and/or policies that the Philippines adhere to in promoting and protecting the rights of PWDs and the elderly including caring for them especially in time of emergency and disasters. 	26,714.00
Total		₱ 144,304.00

Compliance with Tax Laws

- As of December 31, 2014, the agency has a balance of ₱117,670.31 under Due to BIR account. The amount represented income tax withheld from officers and employees in relation to CNA Incentives which was remitted to BIR on February 2015 per JEV-2015-02-000104.

Priority Development Assistance Fund and Disbursement Acceleration Program

- The agency did not receive any fund coming from the Priority Development Assistance Fund (PDAF) and Disbursement Acceleration Program (DAP) as borne by the agency's record.