



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

FILE

CORPORATE GOVERNMENT SECTOR  
Cluster 3 – Public Utilities

June 30, 2015

**The Board of Administrators**

National Electrification Administration  
NIA Road, Government Center, Diliman, Quezon City

**Gentlemen:**

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 Electrification Administration (NEA) for the year ended December 31, 2014.

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

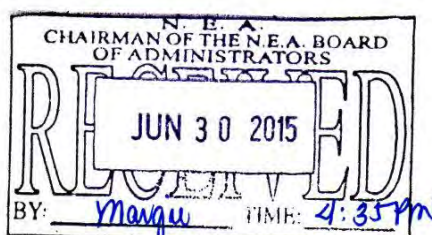
The auditor expressed an unqualified opinion on the fairness of the presentation of the financial statements of the Corporation.

Although unqualified opinion is issued by the Auditor, there are significant audit observations that need immediate action. These, together with the audit recommendations, are presented below.

1. Observations on the audit of Loans Receivable account.
  - a. Of the ₱8.347 billion balance of the Loan Receivable account, the amount of ₱1.576 billion which represents 18%, disclosed a variance of ₱167.155 million compared with the results of confirmation from 13 electric cooperatives aggregating ₱1.410 billion.
  - b. Management provided an allowance for doubtful accounts or impairment of only ₱2,443,634 for the year on outstanding loan arrears totaling ₱244,363,419 due to its current policy of recognizing provisions of only one percent of the estimated uncollectible receivable as of year-end. However, analysis of the Aging of Receivable as of December 31, 2014 revealed that the average period of arrears of the outstanding loan receivables are between 3 months to 30 years.

*Recommendations:*

- a. *Analyze all possible cause/s of the variance between per book balance and the confirmation replies and to reconcile the same immediately to determine their actual balance as of reporting date; and*



- b. *Revisit its existing policy in the computation of the allowance for doubtful accounts or impairment and consider adopting scalar rates to present the receivable accounts to its net realizable value at year end.*
2. Payments of CNA Signing Incentive, Anniversary Incentive and PRAISE Incentive to NEA officials and employees totaling ₱20.563 million were made in CY 2014 without legal basis. For the year, NEA granted the following incentives to its personnel:

<b>Incentives</b>	<b>Amount</b>
CNA Signing Incentive	₱ 7,525,000
Anniversary Incentive	5,783,485
PRAISE Incentive	7,254,167
<b>TOTAL</b>	<b>₱20,562,652</b>

*Recommendations:*

- a. *Discontinue the grant of the abovementioned incentives without the requisite legal basis; and*
- b. *Require its immediate refund to preclude the issuance of a Notice of Disallowance.*
3. Subsidy releases for the Sitio Electrification and Barangay Line Enhancement Program (SEP/BLEP) totaling ₱8.362 billion remained unliquidated as of December 31, 2014 in violation of Item No. 2 of the COA Circular 2012-001 and Sections 3 and 4 of the MOA entered into by NEA with various Electric Cooperatives.

*Recommendations:*

- a. *Strictly comply with Section 2 of COA Circular 2012-001 and the Sections 3 and 4 of the MOA as agreed by NEA and ECs;*
- b. *Require the ECs to immediately submit the required liquidation reports to facilitate the closing of the books of both ECs and NEA pertaining to the subsidy funds and to reflect the accurate amount in the financial statements; and*
- c. *Expedite the inspection of completed and energized project and the issuance of CFIA which is a necessary document to be submitted by the EC for the final liquidation of the subsidy pursuant to Section 4 of the MOA.*
4. Simultaneous and subsequent release of subsidy funds to 95 Electric Cooperatives for CY 2014 amounting to ₱5.502 billion was not in conformity with Section 2 of COA Circular No. 2012-001.

*Recommendations:*

- a. *Strictly comply with Section 2 of COA Circular 2012-001 and Section 4 of the MOA; and*
- b. *Require the ECs to immediately liquidate the completed and energized project before releasing a new project/s.*
5. Of the ₱3.929 billion received for the Yolanda Recovery and Rehabilitation Plan (YRRP) intended for the rehabilitation and reconstruction works of 33 Electric Cooperatives (ECs), the amount of ₱141.932 million were found unallocated; the

✓

amount of ₱579.099 million was not released to ECs; the amount of ₱53.332 million was not liquidated by the ECs and the amount of ₱1.019 million remained unreleased to BOHECO I.

*Recommendations:*

- a. *Submit explanations/justifications for the following:*
    - *Unallocated fund amounting to ₱141.932 million;*
    - *Non-release of the remaining balance to ECs in the amount of ₱579.099 million;*
    - *Non-liquidation of ₱53.332 million by the concerned ECs and see comments on Part 2 paragraph 3.3.3.2; and*
    - *Non-release of ₱1.019 million to BOHECO I;*
  - b. *Require the concerned ECs to promptly submit liquidation reports of completed projects in compliance with the MOA; and*
  - c. *Adjust the books to reflect the correct balance of the Due from NGOs/POs (Account Code 139) and the Loans Receivable (Account Code 126) as of December 31, 2014.*
6. Unexpended balance amounting to ₱42.955 million for the 70 projects of 13 ECs and interest earned of ₱1.974 million from 11 ECs were not refunded/ remitted to NEA pursuant to Section 7 of the MOA and NEA Memorandum Nos. 2009-026 and 2013-022.

*Recommendations:*

- a. *Require the EC to return/refund to NEA the amounts of ₱42.562 million representing the unutilized/unliquidated balance of the subsidy received and interest earned amounting to ₱1.974 million in accordance with Section 7 of the MOA and Memoranda No. 2009-026 and 2013-022; and*
- b. *In case of realignment, see to it that the unexpended balance and interest earned accruing to the fund are requested for activities allied to the project, within one month after final Inspection of NEA, otherwise, the same should be refunded to NEA.*

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 15, 2015 are discussed in detail in Parts II and III of the report.

In a letter of even date, we requested the Corporation's Administrator to implement the recommendations contained in the report and to inform this Office of the actions taken thereon within 60 days from the date of receipt.



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

Very truly yours,

**COMMISSION ON AUDIT**

By:

  
**RUFINA S. LAQUINDANUM**  
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  
The Chairperson – Appropriations Committee  
The Secretary of the Department of Budget and Management  
The Governance Commission for Government-Owned or Controlled Corporations  
The Presidential Management Staff, Office of the President  
The UP Law Center  
The National Library



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

FILE

CORPORATE GOVERNMENT SECTOR  
Cluster 3 – Public Utilities

June 30, 2015

**MS. EDITA S. BUENO**  
Administrator  
National Electrification Administration  
NIA Road, Government Center, Diliman, Quezon City

**Dear Ms. Bueno:**

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 Electrification Administration (NEA) for the year ended December 31, 2014.

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

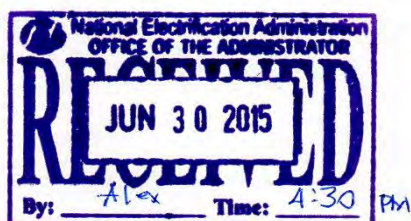
The auditor expressed an unqualified opinion on the fairness of the presentation of the financial statements of the Corporation.

Although unqualified opinion is issued by the Auditor, there are significant audit observations that need immediate action. These, together with the audit recommendations, are presented below.

1. Observations on the audit of Loans Receivable account.
  - a. Of the ₱8.347 billion balance of the Loan Receivable account, the amount of ₱1.576 billion which represents 18%, disclosed a variance of ₱167.155 million compared with the results of confirmation from 13 electric cooperatives aggregating ₱1.410 billion.
  - b. Management provided an allowance for doubtful accounts or impairment of only ₱2,443,634 for the year on outstanding loan arrears totaling ₱244,363,419 due to its current policy of recognizing provisions of only one percent of the estimated uncollectible receivable as of year-end. However, analysis of the Aging of Receivable as of December 31, 2014 revealed that the average period of arrears of the outstanding loan receivables are between 3 months to 30 years.

*Recommendations:*

- a. *Analyze all possible cause/s of the variance between per book balance and the confirmation replies and to reconcile the same immediately to determine their actual balance as of reporting date; and*



- b. Revisit its existing policy in the computation of the allowance for doubtful accounts or impairment and consider adopting scalar rates to present the receivable accounts to its net realizable value at year end.*
2. Payments of CNA Signing Incentive, Anniversary Incentive and PRAISE Incentive to NEA officials and employees totaling ₱20.563 million were made in CY 2014 without legal basis. For the year, NEA granted the following incentives to its personnel:

<b>Incentives</b>	<b>Amount</b>
CNA Signing Incentive	₱ 7,525,000
Anniversary Incentive	5,783,485
PRAISE Incentive	7,254,167
<b>TOTAL</b>	<b>₱20,562,652</b>

*Recommendations:*

- a. Discontinue the grant of the abovementioned incentives without the requisite legal basis; and*
- b. Require its immediate refund to preclude the issuance of a Notice of Disallowance.*
3. Subsidy releases for the Sitio Electrification and Barangay Line Enhancement Program (SEP/BLEP) totaling ₱8.362 billion remained unliquidated as of December 31, 2014 in violation of Item No. 2 of the COA Circular 2012-001 and Sections 3 and 4 of the MOA entered into by NEA with various Electric Cooperatives.

*Recommendations:*

- a. Strictly comply with Section 2 of COA Circular 2012-001 and the Sections 3 and 4 of the MOA as agreed by NEA and ECs;*
- b. Require the ECs to immediately submit the required liquidation reports to facilitate the closing of the books of both ECs and NEA pertaining to the subsidy funds and to reflect the accurate amount in the financial statements; and*
- c. Expedite the inspection of completed and energized project and the issuance of CFIA which is a necessary document to be submitted by the EC for the final liquidation of the subsidy pursuant to Section 4 of the MOA.*
4. Simultaneous and subsequent release of subsidy funds to 95 Electric Cooperatives for CY 2014 amounting to ₱5.502 billion was not in conformity with Section 2 of COA Circular No. 2012-001.

*Recommendations:*

- a. Strictly comply with Section 2 of COA Circular 2012-001 and Section 4 of the MOA; and*
- b. Require the ECs to immediately liquidate the completed and energized project before releasing a new project/s.*
5. Of the ₱3.929 billion received for the Yolanda Recovery and Rehabilitation Plan (YRRP) intended for the rehabilitation and reconstruction works of 33 Electric Cooperatives (ECs), the amount of ₱141.932 million were found unallocated; the amount of ₱579.099 million was not released to ECs; the amount of ₱53.332 million

✓

was not liquidated by the ECs and the amount of ₱1.019 million remained unreleased to BOHECO I.

*Recommendations:*

- a. *Submit explanations/justifications for the following:*
    - *Unallocated fund amounting to ₱141.932 million;*
    - *Non-release of the remaining balance to ECs in the amount of ₱579.099 million;*
    - *Non-liquidation of ₱53.332 million by the concerned ECs and see comments on Part 2 paragraph 3.3.3.2; and*
    - *Non-release of ₱1.019 million to BOHECO I;*
  - b. *Require the concerned ECs to promptly submit liquidation reports of completed projects in compliance with the MOA; and*
  - c. *Adjust the books to reflect the correct balance of the Due from NGOs/POs (Account Code 139) and the Loans Receivable (Account Code 126) as of December 31, 2014.*
6. Unexpended balance amounting to ₱42.955 million for the 70 projects of 13 ECs and interest earned of ₱1.974 million from 11 ECs were not refunded/ remitted to NEA pursuant to Section 7 of the MOA and NEA Memorandum Nos. 2009-026 and 2013-022.

*Recommendations:*

- a. *Require the EC to return/refund to NEA the amounts of ₱42.562 million representing the unutilized/unliquidated balance of the subsidy received and interest earned amounting to ₱1.974 million in accordance with Section 7 of the MOA and Memoranda No. 2009-026 and 2013-022; and*
- b. *In case of realignment, see to it that the unexpended balance and interest earned accruing to the fund are requested for activities allied to the project, within one month after final Inspection of NEA, otherwise, the same should be refunded to NEA.*

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 15, 2015 are discussed in detail in Parts II and 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 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 the Management extended to the Audit Team, thus facilitating the completion of the report.

Very truly yours,

**COMMISSION ON AUDIT**

By:

  
**RUFINA S. LAQUINDANUM**  
Director IV

**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  
The Chairperson – Appropriations Committee  
The Secretary of the Department of Budget and Management  
The Governance Commission for Government-Owned or Controlled Corporations  
The Presidential Management Staff, Office of the President  
The UP Law Center  
The National Library