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

CORPORATE GOVERNMENT SECTOR
Cluster 5 – Agricultural and Natural Resources

PHILIPPINE CROP
INSURANCE CORPORATION
RECEIVED
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Office of the President

June 13, 2017

THE BOARD OF DIRECTORS
Philippine Crop Insurance Corporation
7th Floor NIA Building A, NIA Complex
EDSA, Quezon City

Gentlemen:

Pursuant to Section 2, Article IX-D of the Philippine Constitution and Section 43 of Presidential Decree (PD) 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 **Philippine Crop Insurance Corporation (PCIC)** for the year ended December 31, 2016.

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

We expressed a qualified opinion on the fairness of presentation of the financial statements of PCIC as of December 31, 2016 in view of the following:

1. As presented in Note 6 to financial statements, the Receivables-Non-Current accounts of P430.011 million or 99.10 per cent of the total book balance of P433.905 million as at December 31, 2016 were not provided with adequate allowance for doubtful accounts despite the fact that recovery of these assets is already remote, since they have been dormant for more than 21 to 36 years due to inability to collect from the National Government (NG) of the premium subsidy of P315.665 million and non-availability of supporting documents or records on several accounts. The inadequacy of allowance provided overstated the total assets and net worth as of December 31, 2016.

2. The correctness and completeness of the Property, Plant and Equipment (PPE) account with carrying value of P66.107 million as at December 31, 2016 could not be relied upon due to significant variance of P20.092 million between the accounting records and the Report on the Physical Count of PPE (RPCPPE) in Head Office (HO) and Region V. Likewise, the validity and correctness of the balance of Accounts Payable-Non-Business Lines-Accrued Expenses of P11.565 million as at December 31, 2016 are doubtful due to adjustment made without source documents of prior years' accrued expenses totaling P4.518 million. We were unable to obtain sufficient appropriate audit

evidence on the correctness of the accounts due to the inadequacy of accounting and property records. Consequently, we were unable to determine whether any adjustments to these accounts were necessary.

For the above-mentioned observations which caused the issuance of a qualified opinion, we recommended that Management:

1.1 Determine the likelihood/probability of collecting the Premium receivable arrearages from the NG totaling P315.665 million and provide Allowance to present fairly the account Receivables-Non-Current in the financial statements.

1.2 Exert all efforts to collect receivables from defaulting borrowers. When all collection measures proved futile, instruct the Regional Accountants to set time frame in complying with the documentation requirements in filing the request for authority to write-off of dormant accounts pursuant to COA Circular No. 2016-005 dated December 19, 2016.

2.1 Direct the concerned Accountants and Property Officers to:

a. Reconcile accounting records and RPCPPE and effect adjustments accordingly to reflect the correct balance of the PPE account; and

b. Maintain PPE Ledger Card and Property Card for every item of property.

2.2 Require the HO Accountant to reclassify the entry on Leasehold Improvements to Office Equipment for the five air-conditioning units to correct the over/understatement of the accounts.

2.3 Instruct the Property Officers in HO and Region XII to prepare the Inventory and Inspection Report for Unserviceable Property (IIRUP) so that disposal of the unserviceable properties be facilitated in accordance with Section 79 of PD No. 1445, and the cost of disposed PPE be dropped from the books.

2.4 Require the HO Property Officer to address the lapses in property management by: (i) updating the RPCPPE as to location and names of persons accountable for each PPE item; (ii) renewing Acknowledgement Receipt of Equipment every three years and updating the same once the property is transferred from one accountable personnel to another; and (iii) correcting the property tags of those PPE items with similar property number and effect corresponding corrections in the RPCPPE.

2.5 Instruct the HO Accountant to:

a. Submit the source documents to support the adjusting entry totaling P4.518 million under Journal Entry Voucher No. 2015-12-174; otherwise non-submission thereof will cause the reversion of the entry made;

b. Accrue all expenses at year-end in compliance with Paragraphs 27 and 28 of Philippine Accounting Standard 1, on the accrual basis of accounting to ensure recognition of expenses in the proper period to which they relate; and

c. Review all the journal entries made to record expenses amounting to P98,212 and adjust accordingly the affected accounts to correct their balances, for proper financial statements presentation.

The other significant observations and recommendations that need immediate action are as follows:

3. In Region IV, expenses for trainings, seminars, conferences, and workshops totaling P2.542 million were paid without complete documentary requirements contrary to Section 4(6) of PD No. 1445, thus, validity of the transactions is doubtful.

3.1 We recommended and Management agreed to instruct the OIC-Manager in Region IV to submit the lacking documents, and henceforth, to ensure that all payments made are supported with complete documentary requirements to prevent suspension or disallowance of the transactions in audit.

4. Government Premium Subsidy (GPS) discounts of P1.346 million were granted in full to 41 farmers who are not eligible under the Department of Agriculture (DA)-Land Bank of the Philippines (LBP) Sikat Saka Program (SSP) and the National Irrigation Administration's (NIA) Early Cropping Program, as the areas of farmlands of the covered farmers were more than the required five hectares and some of the beneficiaries were from the Province of Biliran, which is not among those provinces identified to be covered by the Programs. Moreover, in Region VII, there was an over provision of GPS totaling P1.196 million due to incorrect computation of premium rates. Consequently, other qualified/eligible subsistence farmers were deprived of availing full GPS under these Programs.

4.1 We recommended that Management instruct the Regional Managers to conduct thorough review/assessment, verification and evaluation of data contained in the insurance application of participating farmers to ensure that GPS be granted only to qualified beneficiaries in accordance with the Implementing Guidelines of the Programs.

5. The underwriting policies and procedures on the Agrarian Production Credit Program (APCP) and the Credit Assistance Program-Program Beneficiaries Development (CAP-PBD) were not strictly complied with in granting insurance subsidy to Region III beneficiaries due to lack of copy of Masterlist of Agrarian Reform Beneficiaries (ARBs) and the Certificates of Insurance Cover (CICs) were not supported with Deeds of Assignment (DOAs), thereby, exposing Region III to risk of extending insurance coverage as well as paying indemnity claims to non-eligible farmers.

5.1 We recommended that Management direct the Regional Manager of PCIC Region III to:

a. Strictly comply with the underwriting policies and guidelines in implementing the APCP and CAP-PBD to ensure that the Programs are carried out efficiently; and

b. Instruct the Chief of Marketing and Sales Division (MSD) to submit to the Audit Team copy of the Masterlist of ARBs and the DOAs for the CICs issued, for validation purposes; otherwise, non-submission thereof will result in the issuance of Notice of Suspension.

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 May 17, 2017 are discussed in detail in Part II of the report. We also invite your attention to the prior years' unimplemented and partially implemented audit recommendations embodied in Part III of the Report.

In our transmittal letter of even date, we request the President of PCIC to implement the recommendations contained in the Report and to inform this Commission of the actions taken thereon within 60 days from receipt of 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:

CLEOTILDE M. TUAZON
Director IV
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
The Chairperson – Appropriations Committee
The Secretary of the Department of Budget and Management
The Secretary of the Department of Agriculture
The Governance Commission for Government-Owned or Controlled Corporations
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Republic of the Philippines
COMMISSION ON AUDIT
Commonwealth Avenue, Quezon City, Philippines

CORPORATE GOVERNMENT SECTOR
Cluster 5 – Agricultural and Natural Resources

PHILIPPINE CROP INSURANCE CORPORATION
RECEIVED
JUN 1 3 2017
Office of the President

June 13, 2017

ATTY. JOVY C. BERNABE
President
Philippine Crop Insurance Corporation
7th Floor NIA Building A, NIA Complex
EDSA, Quezon City

Dear Atty. Bernabe:

Pursuant to Section 2, Article IX-D of the Philippine Constitution and Section 43 of Presidential Decree (PD) 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 **Philippine Crop Insurance Corporation (PCIC)** for the year ended December 31, 2016.

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We expressed a qualified opinion on the fairness of presentation of the financial statements of PCIC as of December 31, 2016 in view of the following:

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2. The correctness and completeness of the Property, Plant and Equipment (PPE) account with carrying value of P66.107 million as at December 31, 2016 could not be relied upon due to significant variance of P20.092 million between the accounting records and the Report on the Physical Count of PPE (RPCPPE) in Head Office (HO) and Region V. Likewise, the validity and correctness of the balance of Accounts Payable-Non-Business Lines-Accrued Expenses of P11.565 million as at December 31, 2016 are doubtful due to adjustment made without source documents of prior years' accrued

expenses totaling P4.518 million. We were unable to obtain sufficient appropriate audit evidence on the correctness of the accounts due to the inadequacy of accounting and property records. Consequently, we were unable to determine whether any adjustments to these accounts were necessary.

For the above-mentioned observations which caused the issuance of a qualified opinion, we recommended that Management:

1.1 Determine the likelihood/probability of collecting the Premium receivable arrearages from the NG totaling P315.665 million and provide Allowance to present fairly the account Receivables-Non-Current in the financial statements.

1.2 Exert all efforts to collect receivables from defaulting borrowers. When all collection measures proved futile, instruct the Regional Accountants to set time frame in complying with the documentation requirements in filing the request for authority to write-off of dormant accounts pursuant to COA Circular No. 2016-005 dated December 19, 2016.

2.1 Direct the concerned Accountants and Property Officers to:

a. Reconcile accounting records and RPCPPE and effect adjustments accordingly to reflect the correct balance of the PPE account; and

b. Maintain PPE Ledger Card and Property Card for every item of property.

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b. Accrue all expenses at year-end in compliance with Paragraphs 27 and 28 of Philippine Accounting Standard 1, on the accrual basis of accounting to ensure recognition of expenses in the proper period to which they relate; and

c. Review all the journal entries made to record expenses amounting to P98,212 and adjust accordingly the affected accounts to correct their balances, for proper financial statements presentation.

The other significant observations and recommendations that need immediate action are as follows:

3. In Region IV, expenses for trainings, seminars, conferences, and workshops totaling P2.542 million were paid without complete documentary requirements contrary to Section 4(6) of PD No. 1445, thus, validity of the transactions is doubtful.

3.1 We recommended and Management agreed to instruct the OIC-Manager in Region IV to submit the lacking documents, and henceforth, to ensure that all payments made are supported with complete documentary requirements to prevent suspension or disallowance of the transactions in audit.

4. Government Premium Subsidy (GPS) discounts of P1.346 million were granted in full to 41 farmers who are not eligible under the Department of Agriculture (DA)-Land Bank of the Philippines (LBP) Sikat Saka Program (SSP) and the National Irrigation Administration's (NIA) Early Cropping Program, as the areas of farmlands of the covered farmers were more than the required five hectares and some of the beneficiaries were from the Province of Biliran, which is not among those provinces identified to be covered by the Programs. Moreover, in Region VII, there was an over provision of GPS totaling P1.196 million due to incorrect computation of premium rates. Consequently, other qualified/eligible subsistence farmers were deprived of availing full GPS under these Programs.

4.1 We recommended that Management instruct the Regional Managers to conduct thorough review/assessment, verification and evaluation of data contained in the insurance application of participating farmers to ensure that GPS be granted only to qualified beneficiaries in accordance with the Implementing Guidelines of the Programs.

5. The underwriting policies and procedures on the Agrarian Production Credit Program (APCP) and the Credit Assistance Program-Program Beneficiaries Development (CAP-PBD) were not strictly complied with in granting insurance subsidy to Region III beneficiaries due to lack of copy of Masterlist of Agrarian Reform Beneficiaries (ARBs) and the Certificates of Insurance Cover (CICs) were not supported with Deeds of Assignment (DOAs), thereby, exposing Region III to risk of extending insurance coverage as well as paying indemnity claims to non-eligible farmers.

5.1 We recommended that Management direct the Regional Manager of PCIC Region III to:

a. Strictly comply with the underwriting policies and guidelines in implementing the APCP and CAP-PBD to ensure that the Programs are carried out efficiently; and

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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 May 17, 2017 are discussed in detail in Part II of the Report. We also invite your attention to the prior years' 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:

CLEOTILDE M. TUAZON
Director IV
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 Secretary of the Department of Budget and Management
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The Governance Commission for Government-Owned or Controlled Corporations
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Republic of the Philippines

COMMISSION ON AUDIT
Commonwealth Avenue, Quezon City

ANNUAL AUDIT REPORT

on the

PHILIPPINE CROP INSURANCE CORPORATION (PCIC)

For the Year Ended December 31, 2016

EXECUTIVE SUMMARY

INTRODUCTION

The Philippine Crop Insurance Corporation (PCIC) was created as a socially-oriented agency under Presidential Decree (PD) No. 1467 dated June 11, 1978, as amended by PD No. 1733 dated October 21, 1980 and Executive Order (EO) No. 708 dated July 27, 1981 and further amended by Republic Act (RA) No. 8175 which was enacted on December 29, 1995. Its principal mandate is to provide insurance protection to the country's agricultural producers, particularly the subsistence farmers, against: a) crop losses arising from natural calamities such as typhoons, floods, droughts, earthquakes and volcanic eruptions as well as plant diseases and pest infestations; and b) non-crop agricultural asset losses due to perils for which the asset has been insured.

The PCIC's insurance programs consisted of regular and special insurance. Its regular insurance covers rice and corn crop insurance, high-value commercial crop insurance and non-crop agricultural asset insurance. On the other hand, its special insurance program covers livestock insurance and term insurance power packages.

The policy-making body of PCIC is the Board of Directors with the Secretary of Agriculture as the Chairman and the President of PCIC as the Vice–Chairman.

PCIC has 13 Regional Offices (ROs) located nationwide and as at December 31, 2016 had personnel complement of 208 regular, 413 under job order and 7 consultants.

FINANCIAL HIGHLIGHTS (In Million Pesos)

I. Comparative Financial Position

	2016	2015 As restated	Increase (Decrease)
Assets	2,872.968	3,068.211	(195.243)
Liabilities	1,312.620	1,381.873	(69.253)
Equity	1,560.348	1,686.338	(125.990)

II. Comparative Results of Operations

	2016	2015 As restated	Increase (Decrease)
Income (net of underwriting expenses)	381.869	346.071	35.798
Personal services	141.849	136.172	5.677
Maintenance and other operating expenses	194.681	180.112	14.569
Financial expenses	0.222	0.134	0.088
Total expenses	336.752	316.418	20.334
Reserve for indemnity fluctuations	-	35.388	(35.388)
Net income (loss)	45.117	(5.735)	50.852

PCIC Corporate Operating Budget (COB) for Calendar Year (CY) 2016 amounted to P1,765.091 million.

III. Budget and Actual Expenditures

	COB Approved by DBM	Actual Expenses	Variance
Personal services	205.584	141.849	63.74
Maintenance and other operating expenses	251.952	186.000	65.95
Financial expenses	2.394	0.222	2.17
Capital outlay	177.528	21.917	155.61
Underwriting expenses	1,127.633	2,501.276	(1,373.64)
	1,765.091	2,851.264	(1,086.17)

SCOPE OF AUDIT

Our audit covering the accounts and operations of PCIC for CY 2016 was conducted on a test basis in accordance with International Standards on Auditing. Our audit was also made to assess the propriety of financial transactions and compliance of PCIC with laws, rules and regulations.

INDEPENDENT AUDITOR'S OPINION

We rendered a qualified opinion on the fairness of the presentation of the financial statements in view of the following:

1. As presented in Note 6 to financial statements, the Receivables-Non-Current accounts of P430.011 million or 99.10 per cent of the total book balance of P433.905 million as at December 31, 2016 were not provided with adequate allowance for doubtful accounts despite the fact that recovery of these assets is already remote, since they have been dormant for more than 21 to 36 years due to inability to collect from the National Government (NG) of the premium subsidy of P315.665 million and non-availability of supporting documents or records on several accounts. The inadequacy of allowance provided overstated the total assets and net worth as of December 31, 2016.

2. The correctness and completeness of the Property, Plant and Equipment (PPE) account with carrying value of P66.107 million as at December 31, 2016 could not be relied upon due to significant variance of P20.092 million between the accounting records and the Report on the Physical Count of PPE (RPCPPE) in Head Office (HO) and Region V. Likewise, the validity and correctness of the balance of Accounts Payable-Non-Business Lines-Accrued Expenses of P11.565 million as at December 31, 2016 are doubtful due to adjustment made without source documents of prior years' accrued expenses totaling P4.518 million. We were unable to obtain sufficient appropriate audit evidence on the correctness of the accounts due to the inadequacy of accounting and property records. Consequently, we were unable to determine whether any adjustments to these accounts were necessary.

SUMMARY OF SIGNIFICANT AUDIT OBSERVATIONS AND RECOMMENDATIONS

For the above-mentioned observations which caused the issuance of a qualified opinion, we recommended that Management:

1.1 Determine the likelihood/probability of collecting the Premium receivable arrearages from the NG totaling P315.665 million and provide Allowance to present fairly the account Receivables-Non-Current in the financial statements.

1.2 Exert all efforts to collect receivables from defaulting borrowers. When all collection measures proved futile, instruct the Regional Accountants to set time frame in complying with the documentation requirements in filing the request for authority to write-off of dormant accounts pursuant to COA Circular No. 2016-005 dated December 19, 2016.

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2.2 Require the HO Accountant to reclassify the entry on Leasehold Improvements to Office Equipment for the five air-conditioning units to correct the over/understatement of the accounts.

II.3 Instruct the Property Officers in HO and Region XII to prepare the Inventory and Inspection Report for Unserviceable Property (IIRUP) so that disposal of the unserviceable properties be facilitated in accordance with Section 79 of PD No. 1445, and the cost of disposed PPE be dropped from the books.

II.4 Require the HO Property Officer to address the lapses in property management by: (i) updating the RPCPPE as to location and names of persons accountable for each PPE item; (ii) renewing Acknowledgement Receipt of Equipment every three years and updating the same once the property is transferred from one accountable personnel to another; and (iii) correcting the property tags of those PPE items with similar property number and effect corresponding corrections in the RPCPPE.

II.5 Instruct the HO Accountant to:

a. Submit the source documents to support the adjusting entry totaling P4.518 million under Journal Entry Voucher No. 2015-12-174; otherwise non-submission thereof will cause the reversion of the entry made;

b. Accrue all expenses at year-end in compliance with Paragraphs 27 and 28 of Philippine Accounting Standard 1, on the accrual basis of accounting to ensure recognition of expenses in the proper period to which they relate; and

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The other significant audit observations and recommendations are as follows:

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UNSETTLED AUDIT SUSPENSIONS, DISALLOWANCES AND CHARGES

As of December 31, 2016, the unsettled audit disallowances and suspensions amounted to P18.133 million and P15.094 million, respectively. There was no unsettled audit charge at year-end.

STATUS OF IMPLEMENTATION OF PRIOR YEARS' AUDIT RECOMMENDATIONS

Out of 62 recommendations contained in the prior years' Annual Audit Reports (AARs), 33 were fully implemented, 20 were partially implemented and 9 were not implemented. Details are presented in Part III of this 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
Philippine Crop Insurance Corporation
7th Floor, NIA Building A, NIA Complex
EDSA, Quezon City

We have audited the accompanying financial statements of the **Philippine Crop Insurance Corporation (PCIC)**, which comprise the statement of financial position as at December 31, 2016, and the statement of comprehensive income, statement of changes in net assets/equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with generally accepted 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 whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit 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 basis for our audit opinion.

Basis for Qualified Opinion

As presented in Note 6 to financial statements, the Receivables-Non-Current accounts of P430.011 million or 99.10 per cent of the total book balance of P433.905 million as at December 31, 2016 were not provided with adequate allowance for doubtful accounts despite the fact that recovery of these assets is already remote, since they have been dormant for more than 21 to 36 years due to inability to collect from the National Government of the premium subsidy of P315.665 million and non-availability of supporting documents or records on several accounts. The inadequacy of allowance provided overstated the total assets and net worth as of December 31, 2016.

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Opinion

In our opinion, except for the effects of the matters discussed in the Basis for Qualified Opinion section of our report, the financial statements present fairly, in all material respects, the financial position of **PCIC** as at December 31, 2016, and of its financial performance and its cash flows for the year then ended in accordance with generally accepted State accounting principles.

COMMISSION ON AUDIT

COMMISSION ON AUDIT

DIVINA M. TELAN
Officer-in-Charge – Supervising Auditor
Audit Group F – PCIC/QUEDANCOR
Cluster 5 – Agricultural and Natural Resources
Corporate Government Sector

June 2, 2017

June 2, 2017

Republic of the Philippines
Department of Agriculture
PHILIPPINE CROP INSURANCE CORPORATION

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of the **Philippine Crop Insurance Corporation (PCIC)** is responsible for all information and representations contained in the accompanying Statement of Financial Position as of December 31, 2016 and the related Statement of Comprehensive Income, Cash Flow Statement and Statement of Changes in Net Assets/Equity for the year ended. The financial statement have been in conformity with the generally accepted state accounting principles and reflect amounts that are based on the best estimates and informed judgment of the 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.

NOMER D. VIRAY
Manager, Finance Department

ATTY. JOVY C. BERNABE
President

PHILIPPINE CROP INSURANCE CORPORATION
STATEMENT OF FINANCIAL POSITION
December 31, 2016

(In Philippine Peso)

	Note	2016	2015 As restated
ASSETS			
Current assets			
Cash and cash equivalents	3	870,440,374	440,336,060
Receivables - current	4	288,810,305	278,215,237
Other current assets	5	5,070,440	4,252,081
		1,164,321,119	722,803,378
Non-current assets			
Receivables - non-current, net	6	327,859,714	327,318,466
Financial investments held-to-maturity	7	1,314,318,053	1,964,529,053
Property and equipment, net	8	66,106,752	53,468,015
Other assets		362,288	92,221
		1,708,646,807	2,345,407,755
TOTAL ASSETS		**2,872,967,926**	**3,068,211,133**
LIABILITIES			
Current liabilities			
Accounts payable	9	444,421,223	683,796,323
Inter-agency payable	10	6,161,429	4,782,537
Other current liabilities	11	830,691	803,644
		451,413,343	689,382,504
Non-current liabilities			
Due to other national government agencies	12	26,365,242	17,555,839
Due to other funds	13	551,929	174,689
Deferred credits	14	49,010,127	51,883,416
Reserve for unearned premiums	15	785,279,799	622,876,731
		861,207,097	692,490,675
		1,312,620,440	1,381,873,179
EQUITY		1,560,347,486	1,686,337,954
TOTAL LIABILITIES AND EQUITY		**2,872,967,926**	**3,068,211,133**

The Notes on pages 9 to 30 form part of these financial statements.

PHILIPPINE CROP INSURANCE CORPORATION
NOTES TO FINANCIAL STATEMENTS
(All amounts in Philippine Peso unless otherwise stated)

1. CORPORATE INFORMATION

The Philippine Crop Insurance Corporation (PCIC) is a Government-Owned and Controlled Corporation (GOCC) attached to the Department of Agriculture (DA). It was created as a social-oriented agency under Presidential Decree (PD) No. 1467 on June 11, 1978, as amended by PD No. 1733 on October 21, 1980 and Executive Order (EO) No. 708 dated July 27, 1981. It was further amended by Republic Act (RA) No. 8175 enacted on December 20, 1995. The address of PCIC's registered office is at 7th Floor Building A, National Irrigation Administration Complex, EDSA, Diliman, Quezon City.

Its mandate is to provide insurance protection to the country's agricultural producers, particularly the subsistence farmers, against losses of their crops and non-crop agricultural assets arising from natural calamities (such as typhoons, floods, droughts, earthquakes and volcanic eruptions), plant pests and diseases, and/or other perils.

PCIC is an agricultural insurer committed to help stabilize the income of agricultural producers and promote the flow of credit in the countryside by:

a. Providing insurance protection to qualified farmers and other agricultural stakeholders against losses of their crops and produce, including their farm machineries and equipment, transport facilities and related infrastructure arising from natural calamities, pests and diseases, and other perils beyond their effective control; and

b. Extending innovative and client responsive insurance packages and other services thru people's organizations, including farmers' cooperatives, agricultural lenders and service providers.

PCIC has 13 Regional Offices (ROs) nationwide and as at December 31, 2016, it had a personnel complement of 208 regular, 413 under job order and 7 consultants, details are as follows:

Office/RO	**Regular**	**Job Order/Consultant**	**Total**
Head Office (HO)	48	24*	72
I	12	33	45
II	13	32	45
III	12	22	34
III-A	11	25	36
IV	10	41	51
V	13	21	34
VI	13	36	49
VII	14	32	46
VIII	11	45	56
IX	14	29	43
X	12	24	36
XI	12	19	31
XII	13	37	50
	208	**420**	**628**

*17 Job Orders, 7 Consultants

1.1 Regular Insurance Programs

a. Rice and Corn Crop Insurance

An insurance protection extended to farmers against losses in rice and corn crops due to natural calamities as well as plant pests and diseases.

b. High-Value Commercial Crop (HVCC) Insurance

An insurance protection extended to farmers against losses in high-value commercial crops due to natural calamities and other perils such as pests and diseases. High-value commercial crops include abaca, ampalaya, asparagus, banana, cabbage, carrot, cassava, coconut, coffee, commercial trees, cotton, garlic, mango, onion, papaya, peanut, pineapple, sugarcane, sweet potato, tobacco, tomato, white potato and others.

c. Non-Crop Agricultural Asset Insurance

An insurance protection extended to farmers against loss of assets on non-crop agricultural assets like warehouses, rice mills, irrigation facilities and other farm equipment due to perils such as fire and lightning, theft and earthquake.

d. Livestock Insurance

An insurance protection for livestock raisers against loss of carabao, cattle, swine, goat and poultry due to accidental death or diseases.

e. Term Insurance Packages (TIP)

An insurance protection that covers death, dismemberment, or disability of the borrower due to accident or natural causes.

Under the TIP, PCIC offers the following:

Loan Repayment Protection Plan – is an insurance protection that guarantees the payment of the face value or the amount of the approved agricultural loan upon the death or total permanent disability of the insured borrower.

Agricultural Producers Protection Plan – is an insurance protection that covers death of the insured due to accident, natural causes, and murder or assault.

Accident and Dismemberment Security Scheme – is an insurance protection that covers death or dismemberment or disablement of insured due to accident.

f. Fisheries Insurance

An insurance protection to fish farmers/fisherfolks/growers against losses in unharvested crop or stock in fisheries farms due to natural calamities and fortuitous events.

2. ACCOUNTING POLICIES

The principal accounting policies adopted in preparing the financial statements of the Corporation are as follows:

2.1 Basis of preparation

The accompanying financial statements of PCIC for the period ended December 31, 2016 have been prepared by applying accounting policies in accordance with the Philippine Financial Reporting Standards (PFRS) and Philippine Accounting Standards (PAS) to achieve a fair presentation of the financial statements.

PCIC is a going concern entity which financial statements have been prepared on accrual basis, except when stated otherwise, and in accordance with the historical cost convention. The presentation and classification of item in the financial statements shifted from New Government Accounting System (NGAS) to PFRS.

Comparative information has been presented in respect of the previous period for all amounts reported in the financial statements.

2.2 Adoption of the PFRS/PAS

Under PAS 1, unless the financial statements comply with all the requirements of PFRS, they are not described as complying with PFRS/PAS. The PCIC's financial statements have been prepared in compliance with some, but not all, PFRS and PAS as aligned with the provisions of the PFRS. References to the preparation of these statements in accordance with the PFRS/PAS should be viewed with this qualification and related disclosures. The PCIC has adopted the applicable PFRS/PAS and compliance thereto mentioned in the specific accounts where applicable.

In accordance with PAS 1 (Revised 2009), Presentation of Financial Statements (effective January 1, 2009), an entity is required to present all items of income and expense recognized in the period in a single statement of comprehensive income or in a two statements: a separate income statement and a statement of comprehensive income. The income statement shall disclose income and expense recognized in profit and loss in the same way as the current version of PAS 1. The statement of comprehensive income shall disclose profit and loss for the period, plus each component of income and expense recognized outside of profit and loss classified by nature (e.g. gains or losses on available-for-sale assets). Changes in equity arising from transactions with owners are excluded from the statement of comprehensive income (e.g. dividends and capital increase). An entity would also be required to include in its set of financial statements a statement showing its financial position (or balance sheet) at the beginning of the previous period when the entity retrospectively applies an accounting policy or makes a retrospective restatement.

PAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors, removes the concept of fundamental error and allowed alternative to retrospective statement to correct prior period errors. It defines material omissions or misstatements and describes how to apply the concept of materiality when applying accounting policies and correcting errors.

PAS 10 – Events after Balance Sheet date prescribes the accounting policies and disclosures related to adjusting and non-adjusting subsequent events. An entity shall adjust the amounts recognized in its financial statements to reflect adjusting events after the balance sheet date.

Additional disclosures required by the standards were included in the financial statements, principally the date of authorization for release of financial statements.

PAS 16 – Property, Plant and Equipment provides additional guidance and clarification on recognition and measurement of items of property, plant and equipment with a cost that is significant in relation with the total cost of the item shall be depreciated separately. The depreciation charges for each period shall be recognized in profit or loss unless it is included in the carrying amount of another asset.

PAS 36 – Impairment of Assets which prescribes the procedures that an entity applies to ensure that its assets are carried at no more than its recoverable amount; requires recognition of impairment losses and reversal of this; and prescribes disclosures.

PAS 39 – Financial Instruments: Recognition and Measurements. Financial assets and financial liabilities are recognized on the Corporation's balance sheet when the Corporation becomes a party to the contractual provisions of the instrument.

2.3 Changes in Accounting Policies

In the year 2011, there was a change in accounting policies, from NGAS to PFRS.

2.4 Summary of Significant Accounting Policies

a. Property and Equipment

Property and equipment (PE) account includes leasehold and leasehold improvements, office equipment, information technology equipment, furniture and fixtures, and transportation equipment. All PEs are shown at cost less accumulated depreciation. COA Circular No. 2005-002 dated April 14, 2005 entitled, "Accounting policy on items with serviceable life of more than one year but small enough to be considered as property, plant and equipment," sets the policy by which government assets may be categorized as PE and as Inventories.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Corporation and the cost of the item can be measured reliably. All other repairs and maintenance are recognized in the income statement during the period in which they are incurred.

Depreciation on asset is calculated using the straight-line method to allocate the cost of the asset net of residual value of ten per cent of cost over its estimated useful life as prescribed under COA Circular No. 2003-007, "Revised estimated useful life in computing depreciation for government property, plant and equipment." The Circular was issued to provide policies and guidelines on the computation of depreciation of government property, plant and equipment and to provide useful lives, as follows:

Buildings	10-30 years
Office equipment, furniture and fixtures	5-10 years
Transportation equipment	7-10 years
Other property, plant and equipment	5 years

Depreciation is charged to operations on the month following the date of purchase.

Major repairs/renovations are depreciated over the remaining useful life of the related asset. The assets' useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

At each balance sheet date, the Corporation reviews the carrying amount of its tangible assets to determine whether there are any indicators of impairment. If indicators of impairment exist then the recoverable amount of an asset is estimated. If the recoverable amount of the asset is less than its carrying amount, the difference is recognized in the income statement as an impairment loss.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss from derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognized in the income statement in the year of derecognition.

The effect of a change in accounting estimates shall be recognized prospectively by including it in profit or loss in the period of the change, if the change affects that period only; or in the period of the change and future periods, if the change affects both.

To the extent that a change in an accounting estimate gives rise to changes in assets and liabilities, or relates to an item of equity, it shall be recognized by adjusting the carrying amount of the related asset, liability or equity item in the period of change.

An entity shall disclose the nature and amount of a change in an accounting estimate that has an effect in the current period or is expected to have an effect in the future periods, except for the disclosure of the effect on future periods when it is impracticable to estimate that effect.

If the amount of the effect in future periods is not disclosed because estimating it is impracticable, an entity shall disclose that fact.

b. Financial Investments

Financial assets and financial liabilities are recognized on the Corporation's balance sheet when the Corporation becomes a party to the contractual provisions of the instrument. The classification of financial instruments at initial recognition depends on the purpose for which the financial instruments were acquired and their characteristics.

b.1 Held-to-maturity Financial Investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and have fixed maturities that the Corporation has the intention and ability to hold on to maturity. After initial measurement, held-to-maturity financial investments are subsequently measured at amortized cost using the effective interest rate method, less allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are integral part of the effective interest rate. The amortization is included in interest and similar income in the income statement.

An impairment loss is recognized in profit and loss when there is objective evidence that the asset is impaired. Those held-to-maturity financial investments with maturities in less than one

(1) year are included in the current assets, and those with maturities greater than twelve (12) months after the balance sheet date are classified as non-current assets.

c. Impairment of Assets

Assets that are subject to amortization are tested for impairment whenever events or changes in circumstance indicate that the carrying amount may not be recoverable.

An impairment loss is recognized for the amount by which the assets carrying amount exceeds its recoverable amount. The recoverable amount is the higher of the asset's fair value less cost to sell and value in use. Impairment losses are recognized in the income statement in the period in which they were incurred.

Property and equipment were carried at cost less any accumulated depreciation and any impairment losses.

d. Provident Fund

PCIC has a Provident Fund for the benefit of its employees. The contribution made to the Fund is 20 per cent of the basic salaries of employees using the calendar year (CY) 1998 Salary Schedule.

e. Allowance for Doubtful Accounts

Allowance for doubtful accounts is provided at an amount determined after an evaluation of the estimated collectibility of receivable balances considering, among others, the age of accounts. The Agency's current practice is to provide an allowance of 10 per cent after two years when the account becomes past due, except for the guaranteed receivables.

f. Prepaid Expenses

Prepaid expenses particularly taxes on the short-term investments are amortized monthly until maturity of the short-term investments.

g. Reserve for Unearned Premiums

A reserve for unearned premiums is provided to cover premiums recorded but not earned as of the reporting date. This forms part of the liabilities.

Except for palay and corn insurance program, the amount to be set up is equal to 40 per cent of the net premiums written.
For palay and corn, required reserve is computed based on the following:

For production during the month of report	7/8
1st month preceding the date of report	5/8
2nd month preceding the date of report	3/8
3rd month preceding the date of report	1/8

h. Recognition of Income

Revenue is recognized when it is probable that the economic benefits will flow to the Corporation and the revenue can be reliably measured.

h.1 Income from Insurance Operations

Insurance premium is recognized as income upon the effectivity of the policy. The corresponding reinsurance, commission and service fees are deducted from gross revenues.

h.2 Income from Investing Activities

Income from short-term and long-term investments is recognized based on the accrual method of accounting net of the 20 per cent tax.

3. CASH AND CASH EQUIVALENTS

This account consists of the following:

	2016	2015
Cash on hand	2,578,044	1,677,356
Cash in bank-local currency	867,862,330	438,658,704
	870,440,374	**440,336,060**

The Cash in bank-local currency consists of the following:

	2016	2015
Mother account	30,470,967	51,921,588
General and administrative fund	53,496,693	77,184,790
Claims fund	147,417,296	108,989,715
Investment fund	46,432	89,617
Marketable securities	636,430,942	200,472,994
	867,862,330	**438,658,704**

4. RECEIVABLES-CURRENT

This account consists of the following:

	2016	2015
Premium receivable	282,789,956	268,857,276
Interest receivable-bonds	4,662,853	8,055,364
Due from other funds-Special Revolving Trust Fund (SRTF)	1,357,496	1,302,597
	288,810,305	**278,215,237**

The premium receivable is sourced from the following:

	2016	2015
National government (NG)	200,577,278	200,351,819
Other lines	80,044,736	66,367,633
Lending institutions (LIs)	2,149,089	2,118,024
Farmers	18,853	19,800
	282,789,956	**268,857,276**

Premium Receivable-NG represents the amount of unreleased share of government in the total insurance premiums.

Due from other funds-SRTF-represents the amount collectible by PCIC for expenses incurred in connection with the implementation of the SRTF which is due for collection in CY 2016.

5. OTHER CURRENT ASSETS

This account includes the following:

	2016	2015
Inventories	2,981,239	2,249,838
Guarantee deposits	1,087,768	1,066,608
Prepaid rent	415,545	318,707
Other deposits	289,976	289,976
Prepaid insurance	184,795	220,003
Other prepaid expenses	111,117	106,949
	5,070,440	**4,252,081**

6. RECEIVABLES-NON-CURRENT

This account consists of the following:

	2016	2015
Premium receivable-arrearages NG	315,664,677	315,664,677
Guarantee receivable	51,912,007	51,972,343
Adjudicated claims	3,724,229	3,724,229
Special time deposit (STD) claims paid	43,578,842	43,582,755
Claims paid, 3rd International Bank for Rural Development Project	85,511	85,511
	99,300,589	99,364,838
Less: Allowance for doubtful accounts	99,300,589	99,364,838
	-	-
Other receivables	18,939,330	18,398,721
Less: Allowance for doubtful accounts	6,744,293	6,744,932
	12,195,037	11,653,789
	327,859,714	**327,318,466**

The premium receivable pertains to the cumulative premium subsidy arrearages from the NG when RA No. 8175 was enacted in CY 1995. This consists of unappropriated and/or unreleased government premium subsidy for written policies covering the period from May 1, 1981 up to CY 1995. The receivable was programmed for payment by the NG within a period of ten years from CY 1996. The account also includes unpaid Government Premium Share from CYs 1996 to 2011. The details of the Premium Receivable from the NG, is as follows:

	CYs 1981 to 1995	CYs 1996 to 2008	Total
Unrealized GPS	542,941,295	146,906,182	689,847,477
Less: Collections	374,182,800	-	374,182,800

	168,758,495	**146,906,182**	**315,664,677**

Guarantee receivable refers to amounts due from banking institutions and lending conduits that extended production and production-related loans to small farmers.

Moreover, the Special Time Deposit (STD) Claims Paid was governed by PCIC Circular Letter No. 004 dated May 27, 1981. The PCIC pays 85 per cent of the outstanding loan balances of farmers, while Land Bank of the Philippines (LBP) undertakes the collection to be remitted to the PCIC Regional Offices within 30 days from receipt.

The Adjudicated Claims account stemmed from the paid STD claims, where Lending Institutions (LIs) after five years of collecting loans from farmers-borrowers applied for adjudication, thus resulted in the transfer of the collection function to PCIC. This receivable represents claims from Rural Bank of Nasipit in CY 1983.

PCIC was able to recover some of the receivables from both Guarantee and STD Claims paid. These recoveries came from closed banks under liquidation by the Philippine Deposit Insurance Corporation (PDIC).

The Other receivables-non-current account consists of the following:

	2016	2015
Receivables-disallowances/charges	12,331,853	11,685,781
Pool of livestock insurers	367,620	367,620
Due from officers and employees	228,421	155,162
Advances to officers and employees	208,276	61,367
Others	5,803,160	6,128,791
	18,939,330	**18,398,721**

Receivables-disallowances/charges comprise audit disallowances of public/private individuals/entities which have become final and executory.

The Other receivables-others account consists of the following:

	2016	2015
Claims on bank-unremitted recoveries	2,286,634	2,287,273
Due from banks	540,739	540,739
STD advances on claims	178,528	178,528
Other-miscellaneous	2,797,259	3,122,251
	5,803,160	**6,128,791**

One of the PCIC's business lines is Agricultural Guarantee. Under this program, the agricultural loans of farmers from the rural banks or LIs were guaranteed by PCIC using the Agricultural Guarantee Fund (AGF).

Claims on bank-unremitted recoveries account represents recoveries on guarantee loans not yet remitted by LIs.

Due from banks account represents excess payments made by PCIC to LIs under the guarantee program.

Other receivable miscellaneous account consists of the following:

	2016	2015
Loan and educational support program of PCIC employees	270,596	270,596
Receivable LIs	162,259	336,744
United Nations Development Programme (UNDP)	67,407	772
Medical premium	54,570	54,570
Philippine Climate Change Adaptation Project (PhilCCAP)	42,898	635,638
SRTF	2,962	2,962
Others	2,196,567	1,820,969
	2,797,259	**3,122,251**

The bulk of the Other receivables-others-miscellaneous account is the long outstanding premium receivables from farmers.

7. FINANCIAL INVESTMENTS HELD-TO-MATURITY

This account represents investments in the following:

	2016	2015
Investment in bonds-LBP	1,112,308,401	1,512,519,401
Investment in bonds-Bureau of the Treasury (BTr)	199,893,952	449,893,952
Asia Pacific Rural and Agricultural Credit Association (APRACA)	1,500,000	1,500,000
Cooperative Insurance System of the Philippines (CISP)-3,000 shares @ P100 per share	300,000	300,000
Philippine Long Distance Telephone Company (PLDT)-10,140 shares @ P10 per share	173,200	173,200
Club Filipino	100,000	100,000
Pool of Livestock Insurers (PLIs)	40,000	40,000
Eastern Visayas Telephone Company, Inc. (EVTCI)-50 shares @ P50 per share	2,500	2,500
	1,314,318,053	**1,964,529,053**

The breakdown of the Investment in bonds-LBP and BTr are as follows:

	Amount	Term	Interest Rate (in %)	Maturity Date
LBP-FXTN				
	389,750,268	4.54 years	2.125	May 23, 2018
	423,841,088	4.40 years	2.125	May 23, 2018
	48,717,045	4.10 years	2.125	May 23, 2018
	862,308,401			
LBP-LTNCD				
	200,000,000	5.5 years	3.725	April 9, 2021
	50,000,000	5.5 years	3.125	May 5, 2019

	250,000,000			
	1,112,308,401			
BTr Retail Treasury Bonds (RTB) 13 & 10-4				
	100,000,000	10 years	7.375	March 3, 2021
	99,893,952	9.16 years	3.250	August 15, 2023
	199,893,952			

The fair values of investments with APRACA Trust Development Fund, CISP, PLIs, and EVTCI are not available because these are not publicly-listed companies.

8. PROPERTY AND EQUIPMENT

This account consists of the following:

	Building	**Information technology equipment & software**	**Land transport-ation**	**Furniture and fixtures, office equipment and Other PPE**	**Leasehold & leasehold improve-ment**	**Total**
Cost						
January 1, 2016, As restated	364,001	27,626,049	44,573,222	17,029,005	9,345,834	98,938,111
Additions	10,596,245	7,161,849	266,846	2,906,935	985,171	21,917,046
Disposal/transfer/adjustment	-	(782,323)	(766,538)	(600,423)	(255,600)	(2,404,884)
December 31, 2016	10,960,246	34,005,575	44,073,530	19,335,517	10,075,405	118,450,273
Accumulated depreciation						
January 1, 2016, As restated	-	10,689,948	19,926,823	10,373,071	4,480,254	45,470,096
Amortization/depreciation	-	3,059,913	3,641,770	1,532,842	445,636	8,680,161
Disposal/transfer/adjustment	-	(633,608)	(716,600)	(454,570)	(1,958)	(1,806,736)
December 31, 2016	-	13,116,253	22,851,993	11,451,343	4,923,932	52,343,521
Net book value, Dec. 31, 2016	**10,960,246**	**20,889,322**	**21,221,537**	**7,884,174**	**5,151,473**	**66,106,752**
Net book value, Dec. 31, 2015, As restated	**364,001**	**16,936,101**	**24,646,399**	**6,655,934**	**4,865,580**	**53,468,015**

In accordance with Philippine Accounting Standard (PAS) 8, Accounting Policies, Changes in Accounting Estimates and Errors, the Furniture and fixtures, Office equipment and Other PPE for CY 2015 is restated as follows:

Particulars	**Amount**
Furniture and fixtures, Office equipment and Other PPE, Dec. 31, 2015	6,719,993
Add (Deduct): Adjustments on unserviceable property	(64,059)
Furniture and fixtures, Office equipment and Other PPE, Dec. 31, 2015, As restated	**6,655,934**

9. ACCOUNTS PAYABLE

This account consists of the following:

	2016	2015 As restated
Business lines	346,369,833	609,468,195
Non-business lines	98,051,390	74,328,128
	444,421,223	**683,796,323**

In accordance with PAS 8, Accounting Policies, Changes in Accounting Estimates and Errors, the Accounts payable account for CY 2015 is restated as follows:

Particulars	**Amount**
Accounts payable, December 31, 2015	310,027,177
Add (Deduct) Adjustments:	
Accrual of insurance benefit	368,214,680
Accrual of commission expense	4,048,727
Accrual of medical expenses	1,360,321
Accrual of GSIS-life and retirement	108,044
Accrual of office supplies	101,622
Training expenses-refund of clothing allowance	35,000
Accrual of overtime pay	10,205
Other financial charges – unrecorded cost of checks	7,600
Others	8,224
Salaries, clothing allowance and loyalty pay	(125,277)
Accounts payable, December 31, 2015, As restated	**683,796,323**

9.1 The Accounts payable – business lines account consists of the following:

	2016	2015 As restated
Crops	313,087,986	559,142,341
HVCC	16,413,008	47,223,504
Non-crop	6,028,911	99,000
Livestock	5,990,544	1,628,440
Term insurance	3,707,758	1,124,910
Fisheries	921,626	-
Death benefit	220,000	250,000
	346,369,833	**609,468,195**

9.2 The Accounts payable-non-business lines account consists of the following:

	2016	2015 As restated
Dividends payable	22,558,532	36,556,247
Accrued expenses	11,564,906	10,893,695
Return premium payable	5,343,500	5,296,273
Creditors	3,224,706	667,358

Provident fund	262,833	2,138,350
Others	55,096,913	18,776,205
	98,051,390	**74,328,128**

9.3 The Accounts payable-non-business lines-others consists of the following:

	2016	**2015 As restated**
Staled checks reverted to this account	34,993,771	416,697
Premium over-remittance	4,295,126	3,894,292
Service fee payable	1,544,740	2,289,580
Bidder's bond payable	845,138	836,638
Trust liabilities-Agricultural Credit Policy Council (ACPC)	478,791	478,791
Due to solicitors/creditors	207,734	550,653
Employee association	11,675	27,664
National Home Mortgage Finance Corporation (NHMFC)	3,682	3,204
Others	12,716,256	10,001,978
PhilCCAP	-	276,708
	55,096,913	**18,776,205**

10. INTER-AGENCY PAYABLE

This account consists of the following:

	2016	**2015**
Due to Bureau of Internal Revenue (BIR)	4,351,124	3,051,584
Due to Government Service Insurance System (GSIS)	1,394,810	1,390,097
Due to Home Development Mutual Fund (HDMF)	141,815	120,745
Due to Local Government (fire and other taxes)	148,852	107,558
Due to Philippine Health Insurance Corporation (PHIC)	124,828	112,553
	6,161,429	**4,782,537**

11. OTHER CURRENT LIABILITIES

This account consists of the following:

	2016	**2015**
Guarantee deposits payable	365,851	365,851
Due to other Local Government Units (LGUs)	233,989	210,008
Due to officers and employees	230,851	227,785
	830,691	**803,644**

12. DUE TO OTHER NATIONAL GOVERNMENT AGENCIES

This account consists of the following:

	2016	**2015**
Commission on Audit (COA)	11,521,222	-
Others	14,844,020	17,555,839
	26,365,242	**17,555,839**

13. DUE TO OTHER FUNDS

This consists of the following:

	2016	2015
Special Revolving Trust Fund (SRTF)	280,450	78,338
Other liabilities-Agricultural Guarantee Fund (AGF)	175,128	-
Trust liabilities-Comprehensive Agricultural Loan Facility (CALF)	96,351	96,351
	551,929	**174,689**

Trust liabilities-CALF account is a temporary account lodged at the Regional Offices (ROs), debited for cash receipts initially identifiable for the CALF program which will be adjusted to proper account upon submission of documents to support the remittance.

14. DEFERRED CREDITS

This account represents fees received from LIs and farmers whose application for insurance coverage are in process, held in abeyance as well as deficiencies in guarantee fee remittances. This account is also credited for the booked disallowance on the nine per cent interest on car plan. The account is composed of the following:

	2016	2015 As restated
Deferred premium payable	40,823,960	31,801,995
Deferred credits-9 % interest on car plan	7,011,841	7,098,169
Deferred premium income	980,733	12,824,470
Deferred credits-gain on valuation of securities	147,800	147,800
Others	45,793	10,982
	49,010,127	**51,883,416**

In accordance with PAS 8, Accounting Policies, Changes in Accounting Estimates and Errors, the Deferred credits account for CY 2015 is restated as follows:

Particulars	Amount
Deferred credits, December 31, 2015	346,860,433
Add (Deduct) Adjustment:	
Adjustment in the total of Deferred premium income of P295,103,881 received from the Central Bank of the Philippines representing share of PCIC from the collection of fines and penalties from banks for not complying with the Agri-Agra Law. The amount was applied as Premium Subsidy for those farmers and fisherfolks who did not qualify and were not included in the Registry System for Basic Sectors in Agriculture (RSBSA).	(295,103,881)
Increase of insurance premium coverage	126,864
Deferred credits, December 31, 2015, As restated	**51,883,416**

15. RESERVE FOR UNEARNED PREMIUMS

This represents the statutory legal reserve required for all unexpired risks of PCIC. This consists of the following:

	2016	2015
Crop	481,923,093	382,936,209

	2016	2015
Livestock	170,339,640	129,444,948
HVCC	76,628,874	62,789,977
Term insurance	44,469,493	37,453,915
Non-crop	10,417,032	8,313,298
Fisheries	1,501,667	1,938,384
	785,279,799	**622,876,731**

16. PREMIUM RESERVE

This account is a contra account of the Insurance premiums and used to increase or decrease the statutory legal reserve for unexpired risks of PCIC or the Reserve for unearned premium account in the Statement of Financial Position, depending on the required reserve for the period. When the balance of the reserve is more than the required for the period, Premium reserve is credited, therefore, increasing the premiums Earned, but when the balance of reserve is less than the required, Premium reserve is debited which decreases the Premiums earned. The required reserve is computed every month using the formula provided in the Operations Manual of PCIC.

17. NATIONAL GOVERNMENT OR GOVERNMENT PREMIUM SHARE (GPS)

This account represents the share of the National Government (NG) in the premiums. Insurance premiums for palay and corn are being shared by the farmers, lending institutions and the government. The premium rating and the corresponding share of the NG was approved by the President of the Philippines.

For the year 2016, the approved GPS amounted to P1.600 billion representing 100 per cent cost of insurance premium of farmers listed under the Registry System for Basic Sectors in Agriculture (RSBSA).

Aside from the P1.600 billion approved GPS for farmers listed under the RSBSA, PCIC also underwrites P791.292 million worth of premium production. Below is the breakdown of Insurance Premiums-NG share:

Particulars	Amount
Premiums from GPS for RSBSA listed farmers	1,600,000,000
Premiums given to farmers in excess of the approved GPS in the form of premium discount	749,572,716
Premium from other sources (other government agencies)	41,719,609
	2,391,292,325

18. PREMIUM REFUND

This account represents premiums returned to assured farmers and/or LIs arising from insurance cancellations.

19. INSURANCE BENEFITS

This represents losses/claims paid for the period amounting to P1.555 billion as follows:

Insurance Lines	2016	2015 As restated
Regular lines (palay and corn)	1,434,132,636	1,559,450,497
HVCC	78,850,946	77,624,683
Livestock	23,369,375	16,997,942
Term insurance	17,010,863	8,727,594
Fisheries	1,098,546	1,810,290
Non-crop	274,711	2,243,488
	1,554,737,077	**1,666,854,494**

In accordance with PAS 8, Accounting Policies, Changes in Accounting Estimates and Errors, the Insurance benefits account for CY 2015 is restated as follows:

Particulars	Amount
Insurance benefits, December 31, 2015	1,298,639,814
Claims for insurance benefits in CY 2015 and paid in CY 2016 without accrual	368,214,680
Insurance benefits, December 31, 2015, As restated	**1,666,854,494**

20. PREMIUM DISCOUNT

This represents amount of premium discounts granted to assured farmers/LIs/government in accordance with PCIC policy.

	2016	2015 As restated
Farmers	749,572,716	766,090,175

In accordance with PAS 8, Accounting Policies, Changes in Accounting Estimates and Errors, the Premium discount account for CY 2015 is restated as follows:

Particulars	Amount
Premium discount, December 31, 2015	1,061,194,056
Add (Deduct) Adjustment	
Application of premium discounts granted to farmers who were not included in the RSBSA out of the funds released by the Central Bank of the Philippines representing the share of PCIC on the interest and penalties paid by the banks that did not comply with the Agri-Agra Law	(295,103,881)
Premium discount, December 31, 2015, As restated	**766,090,175**

21. REINSURANCE PREMIUMS CEDED TREATY/FACULTATIVE

This represents premium on outward cessions under treaty/facultative agreement with reinsurers.

22. COMMISSION EXPENSE

	2016	2015 As restated
Commission expense	37,009,372	40,809,426

In accordance with PAS 8, Accounting Policies, Changes in Accounting Estimates and Errors, Commission expense account for CY 2015 is restated as follows:

Particulars	Amount
Commission expense, December 31, 2015	36,760,699
Adjustment on unrecorded commission expense in CY 2015	4,048,727
Commission expense, December 31, 2015, As restated	**40,809,426**

23. DEATH BENEFITS

This is a built-in death benefit component of the insurance package for rice and corn assured farmers who may suffer death within the term of coverage. Provided, said farmer is not more than 65 years of age at the inception of insurance.

24. PERSONAL SERVICES

This account consists of the following:

	2016	2015 As restated
Salaries and wages	84,190,972	80,720,806
Other compensation	33,225,414	29,740,037
Other personnel benefits	13,217,466	15,084,779
Personnel benefits contribution	11,215,109	10,626,197
	141,848,961	**136,171,819**

In accordance with PAS 8, Accounting Policies, Changes in Accounting Estimates and Errors, the accounts under Personal Services for CY 2015 are restated as follows:

Particulars	**Amount**
Salaries and wages, December 31, 2015	80,776,778
Add (Deduct) Adjustments:	
Overprovision of salaries	(66,177)
Unrecorded overtime	10,205
Salaries and wages, December 31, 2015, As restated	**80,720,806**
Particulars	**Amount**
Other compensation, December 31, 2015	29,799,137
Add (Deduct) Adjustments:	
Refund of clothing allowance-travel abroad	(35,600)
Payment of Excess Loyalty allowance	(23,500)
Other compensation, December 31, 2015, As restated	**29,740,037**
Other personnel benefit, December 31, 2015	13,724,458
Add (Deduct) Adjustment: Unrecorded medical expenses	1,360,321
Other Personal Benefit, December 31, 2015, As restated	**15,084,779**
Personnel benefits contribution, December 31, 2015	10,518,153
Add (Deduct) Adjustment: GSIS life and retirement premium	108,044
Personnel benefits contribution, December 31, 2015, As restated	**10,626,197**
	136,171,819

25. MAINTENANCE AND OTHER OPERATING EXPENSES (MOOE)

This account consists of the following:

	2016	**2015 As restated**
Professional expenses	84,692,619	76,995,835
Traveling expenses	21,532,336	20,014,085
Advertising and promotional expenses	21,327,531	19,447,097
Rent expenses	10,735,689	9,417,522
Depreciation expenses	8,680,161	7,995,208
Supplies and material expenses	7,955,760	6,008,832
Utility expenses	6,251,465	5,728,476
Gender and development expenses	5,662,696	4,100,000
Training and scholarship expenses	5,199,005	6,122,298
Communication expenses	4,625,782	4,188,075
Cultural and athletic expenses	406,705	195,756
Other MOOE	17,610,871	19,898,878
	194,680,620	**180,112,062**

In accordance with PAS 8, Accounting Policies, Changes in Accounting Estimates and Errors, the accounts under MOOE for CY 2015 are restated as follows:

Particulars	**Amount**
Gender and development expenses, December 31, 2015	3,612,347
Add (Deduct) Adjustment: Inadvertently classified as training and scholarship expense	487,653
Gender and development expenses, December 31, 2015, As restated	**4,100,000**
Depreciation expenses, December 31, 2015	7,939,431
Add (Deduct) Adjustment: Unrecorded depreciation expense	55,777
Depreciation expense, December 31, 2015, As restated	**7,995,208**
Supplies and materials expense, December 31, 2015	5,907,210

Add (Deduct) Adjustment: Unrecorded office supplies in CY 2015	101,622
Supplies and materials expense, December 31, 2015, As restated	**6,008,832**
Training and scholarship expenses, December 31, 2015	6,574,951
Add (Deduct) Adjustment: Reclassification to GAD expenses	(487,653)
Unrecorded training expenses	35,000
Training and scholarship expenses, December 31, 2015, As restated	**6,122,298**

Particulars	**Amount**
Other MOOE, December 31, 2015	19,890,654
Add(Deduct) Adjustment: Unrecorded expenses in 2015	8,224
Other MOOE December 31, 2015, As restated	**19,898,878**

The Other MOOE account is broken down as follows.

	2016	**2015 As restated**
Representation expenses	3,539,893	4,166,555
Repairs and maintenance	3,209,768	3,464,488
Fuel, oil, and lubricant expenses	3,090,348	3,205,392
Extraordinary and miscellaneous expenses	1,983,678	1,972,550
Council/board members/directors' allowance	1,596,000	1,466,000
Insurance expenses	385,368	315,690
Fidelity bond premiums	332,976	282,607
Honoraria	234,600	297,167
Delivery expenses	206,052	197,325
Subscription expenses	129,518	130,214
Licenses	106,112	84,617
Taxes and duties	40,675	55,219
Membership dues and contribution to organization	14,630	19,700
Donations	4,000	25,506
Others	2,737,253	4,215,848
	17,610,871	**19,898,878**

26. FINANCIAL EXPENSES

	2016	**2015 As restated**
Bank charges	160,805	74,553
Other financial charges	61,493	60,198
	222,298	**134,751**

In accordance with PAS 8, Accounting Policies, Changes in Accounting Estimates and Errors, the Financial expenses account for CY 2015 is restated as follows:

Particulars	**Amount**
Financial expenses, December 31, 2015	127,151
Add (Deduct) Adjustment: Cost of checks	7,600
Financial expenses, December 31, 2015, As restated	**134,751**

27. OTHER INCOME

This account consists of the following:

	2016	2015
Interest income - bonds	34,811,430	39,301,846
Interest income - deposit with local banks	3,366,523	3,107,639
Gain on sale of assets	58,323	27,887
Miscellaneous	1,057,648	1,399,418
	39,293,924	**43,836,790**

28. GOVERNMENT EQUITY/CAPITAL STOCK

Under RA No. 8175, authorized Capital Stock of PCIC increased from P750 million to P2 billion divided into 15 million common shares each with a par value of P100 for government subscription, and five million preferred shares also with a par value of P100 per share.

As of December 31, 2016, the Corporation’s paid-up capital stood at P1.351 billion. This consists of 12,509,544 shares of common stock with a par value of P100 per share subscribed by the NG and one million shares of preferred stock with a par value of P100 per share subscribed by the LBP.

29. CONTRIBUTED CAPITAL/ADDITIONAL PAID-IN CAPITAL

Additional paid-in capital of P159,451,431 represents the amount by which the assets (mostly receivables of the AGF net of valuation reserves) exceeded the P150 million initial contribution of the government to the capital of the Corporation.

30. RETAINED EARNINGS

Particulars		Amount
Retained earnings, January 1, 2015		69,683,048
Add (Deduct) Adjustments:		
Dividends declared/paid		(36,556,247)
Disposal of unserviceable properties		(8,282)
Retained earnings, January 1, 2015, as restated		33,118,519
Net Income		73,112,495
Add (Deduct) Adjustments:		
Premium discount	295,103,881	
Salaries	66,177	
Clothing allowance	35,600	
Loyalty longevity expense	23,500	
Other financial charges	(7,600)	
Other expenses	(8,224)	
Overtime pay	(10,205)	
Training expense	(35,000)	
Depreciation expense	(55,777)	
Office supplies	(101,622)	
GSIS life and retirement premium	(108,044)	
Insurance prem-deferred coverage	(126,864)	
Fringe benefits-medical expense	(1,360,321)	
Commission/service fees/incentives	(4,048,727)	
Losses-direct business	(368,214,680)	(78,847,906)

Particulars	**Amount**
Net loss, December 31, 2015, As restated	(5,735,411)
Retained earnings, December 31, 2015, As restated	**27,383,108**

31. RECLASSIFICATION OF ACCOUNTS

Some accounts were reclassified due to the adoption of NGAS revised Chart of Accounts per COA Circular Nos. 2004-002 dated April 29, 2004 and 2004-008 dated September 20, 2004. The Insurance premium account in the Income Statement (Statement of Comprehensive Income) was later adopted/included in the revised Philippine Government Chart of Accounts with account description that was covered by a Memorandum dated January 23, 2007 by the then COA Government Accountancy and Financial Management Information System (GAFMIS) Sector.

32. COMPLIANCE WITH REVENUE REGULATION (RR) NO. 15-2010

In compliance with the requirements set forth by RR No. 15-2010, hereunder are the information on taxes, duties and license fees paid or accrued during the taxable year.

The PCIC is a non-VAT registered Corporation engaged in the business of Crop Insurance. It is exempted from all kinds of taxes. This is in accordance with Section 16 of PD No. 1467, the law creating the PCIC.

Other taxes and licenses:

Particulars	**2016**	**2015**
Taxes paid	40,675	55,219
Licenses and registration	106,112	84,618
	146,787	**139,837**

The amount of withholding taxes paid/accrued for the year amounted to:

	2016	**2015**
Tax on compensation and benefits	15,817,089	13,066,509
Creditable withholding taxes	7,745,624	5,705,263
Final withholding taxes	4,125,310	2,993,595
	27,688,023	**21,765,367**

33. RESERVE FOR INDEMNITY FLUCTUATIONS

Portion of the income is reserved in anticipation of future variations in the insurance claims payment

	2016	**2015**

Beginning balance	148,549,000	113,161,000
Add : Provision for the year	-	35,388,000
Less: Application for the year	(148,549,000)	-
	-	**148,549,000**

34. DIVIDENDS TO THE NATIONAL GOVERNMENT

For the year 2016, PCIC declared dividends to the NG amounting to P22,558,532 representing the 50 per cent of the year's income. In CY 2014, PCIC declared dividends to NG in the amount of P100,082,698 which was remitted to the Bureau of the Treasury (BTr) per Official Receipt (OR) No. 8202188 dated March 30, 2015. In CY 2015, PCIC declared dividends to NG in the amount of P36,556,247 which was remitted to the BTr in two equal installments per OR Nos. 8204773 and 8204975 dated May 24, 2016 and July 18, 2016, respectively.

In the years 2012 and 2013, PCIC registered net income of P142.940 million and P555.727 million, respectively, but did not declare dividends due to the negative retained earnings of P632.919 million in CY 2012 and P87.458 million in CY 2013. PCIC requested exemption from the Department of Finance (DOF) to declare dividends in CYs 2012 and 2013, citing Section 5(f) of the Implementing Rules and Regulations of RA No. 7656 which states "*GOCCs with net income but have negative retained earnings may be exempt from declaring and remitting dividend upon proper submission to the Secretary of Finance of a request for exemption*." Up to this writing, PCIC is still waiting for the DOF response to its request.

PART II – OBSERVATIONS AND RECOMMENDATIONS

1. **The correctness and completeness of the Property, Plant and Equipment (PPE) account with carrying value of P66.107 million as at December 31, 2016 could not be relied upon due to significant variance of P20.092 million between the accounting records and the Report on the Physical Count of PPE (RPCPPE) in Head Office (HO) and Region V, which could be attributed to, among others, the non-maintenance of PPE Ledger Cards (PPELCs) and Property Cards (PCs), misclassification of accounts worth P394,990, and unaccounted cost of unserviceable properties in the absence of Inventory and Inspection Report for Unserviceable Property (IIRUP) as basis to record dropping of these unserviceable PPE items from the books as provided in Section 64 of the Manual on the New Government Accounting System (MNGAS), Volume II. Moreover, unserviceable properties found at the storeroom of HO and Region XII were not disposed of contrary to Section 79 of Presidential Decree (PD) No. 1445.**

1.1 The PPE account of the Philippine Crop Insurance Corporation (PCIC) had a carrying value of P66.107 million as at December 31, 2016. Audit disclosed several deficiencies as discussed in the succeeding paragraphs.

Significant variance of P20.092 million between the accounting records and the RPCPPE in HO and Region V

1.2 Item V.4 of COA Circular No. 80-124 dated February 18, 1980 on the Inventory of Fixed Assets provides that, "*Xxx. The reports shall be properly reconciled with accounting and inventory records.*"

1.3 In HO and Region V, comparison of the book balances of certain PPEs with the RPCPPE showed significant variance aggregating P20.092 million as at December 31, 2016, details are shown in Table 1.

Table 1 - Summary of Variances between Accounting Records and RPCPPE
As at December 31, 2016

Account Title	Books	RPCPPE	Variance (Absolute Figure)
HO			
Leasehold improvement	P 4,149,280	P -	P 4,149,280
Office equipment	2,515,989	1,552,458	963,531
IT equipment	9,428,926	3,781,924	5,647,002
IT software	6,129,260	-	6,129,260
Furniture and fixtures	1,731,326	3,272,477	1,541,151
Land transportation	8,006,111	7,302,873	703,238
Communication equipment	-	31,207	31,207
Fire fighting equipment	-	7,000	7,000
Other PPE	767,899	145,272	622,627
			19,794,296
Region V			
Land transportation	2,052,265	2,350,259	297,994
			P 20,092,290

1.4 Verification revealed that the variance could be attributed to, among others, the non-maintenance of PPELCs and PCs, misclassification of accounts worth P394,990, and unaccounted cost of unserviceable properties in the absence of IIRUP as basis to record dropping of these unserviceable PPE items from the books as provided in Section 64 of the MNGAS, Volume II.

1.5 Section 43, MNGAS, Volume I, states that:

> *The Accounting Unit shall maintain xxx Property, Plant and Equipment Ledger Cards for each category of plant, property and equipment xxx.*
>
> *For check and balance, the Property and Supply Office/Unit shall maintain Property Cards (PC) for property, plant and equipment, and Stock Cards (SC) for inventories. The balance in quantity per PC and SC should always reconcile with the ledger cards of the Accounting Unit.*

1.6 At the HO, the Audit Team noted that the Accounting Division did not maintain the PPELC for each item of PPE. Only the General Ledger (GL) and Subsidiary Ledgers (SLs) have been kept by Accountant. Also, the Property Officer did not maintain PCs.

1.7 In view of the absence of PPELCs and PCs, reconciliation of the variances shown in Table 1 could not be immediately facilitated.

1.8 Further verification disclosed that the newly acquired five air conditioning units costing P394,990 at HO were recorded as Leasehold Improvements-Building. The air conditioning units do not form part of the building; hence, there was misclassification in recording thereof, as these should have been recorded under Office Equipment.

1.9 During the conduct of physical inventory taking for CY 2016, the Audit Team noted that several unserviceable properties mostly IT equipment and furniture and fixtures were piled up at the bodega/storeroom of HO and Region XII. These PPE items were not included in the RPCPPE. Likewise, the IIRUP was not prepared to warrant the dropping of the cost of the unserviceable properties in the books of accounts.

1.10 Section 64 of the MNGAS Volume II provides that:

> *The Inventory and Inspection Report for Unserviceable Property (Appendix 61) shall be used as basis to record dropping from the books the unserviceable properties carried in the Property, Plant and Equipment accounts.*

Non-disposal of unserviceable properties

1.11 Section 79 of 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 his duly authorized representative in the presence of the auditor concerned and, if found to be valueless or unsalable, it may be destroyed in their presence. If found to be valuable, it may be sold at public auction to the highest bidder under the supervision of the proper*

committee on award or similar body in the presence of the auditor concerned or other authorized representative of the Commission, xxx.

1.12 It was noted that unserviceable properties in HO and Region XII have not yet been disposed of contrary to the above-stated provision of Section 79 of PD No. 1445. Non-disposal exposes the subject properties to further deterioration and deprived the PCIC of additional funds for its operations.

1.13 Other deficiencies noted on property management are as follows:

a. PPE items transferred to other accountable personnel or returned to the Property Officer were not properly documented and not reflected in the RPCPPE;

b. Various items included in the RPCPPE were not updated as to location and name of accountable personnel;

c. Acknowledgement Receipts of Property (AREs) in lieu of the former Memorandum Receipts (MRs) under Item V.3 of COA Circular No. 80-124 were not renewed every three years*;* and

d. There were properties with similar property numbers/tags as also reflected/shown in the RPCPPE.

1.14 In view of the aforementioned deficiencies, the PPE account carrying value of P66.107 million could not be relied upon.

1.15 We recommended and Management agreed to direct:

a. The concerned Accountants and Property Officers to:

a.1 Reconcile accounting records and RPCPPE and effect adjustments accordingly to reflect the correct balance of the PPE account; and

a.2 Maintain PPELC and PC for every item of property;

b. The HO Accountant to reclassify the entry on Leasehold Improvements to Office Equipment for the five air-conditioning units to correct the over/understatement of the accounts;

c. The Property Officers in HO and Region XII to prepare the IIRUP so that disposal of the unserviceable properties be facilitated in accordance with Section 79 of PD No. 1445, and the cost of disposed PPE be dropped from the books; and

d. The HO Property Officer to address the lapses in property management by: (i) updating the RPCPPE as to location and names of persons accountable for each PPE item; (ii) renewing ARE every three years and updating the same once the property is transferred from one accountable personnel to another; and (iii) correcting the property tags of those PPE items with similar property number and effect corresponding corrections in the RPCPPE.

2. **The collectability and recovery of Receivables-Non-Current accounts of P430.011 million or 99.10 per cent of the total book balance of P433.905 million as at December 31, 2016 are doubtful since these accounts have been dormant for more than 21 to 36 years, due to inability to collect from the National Government (NG) of the premium subsidy, absence of supporting documents of several accounts and laxity by the Regional Offices (ROs) to enforce collections from farmer-borrowers, among others.**

2.1 Item 5.4 of COA Circular No. 2016-005 dated December 19, 2016 on the "Guidelines and Procedures on the Write-off of Dormant Receivable Accounts, Unliquidated Cash Advances, and Fund Transfers of National Government Agencies (NGAs), Local Government Units (LGUs) and Government-Owned and Controlled Corporations (GOCCs), defines Dormant Receivable Accounts as:

> *accounts which balances remained inactive or non-moving in the books of accounts for ten (10) years or more and where settlement/collectability could not be ascertained*

2.2 In Item 8.0 of the same Circular, the procedures in writing-off the dormant accounts are specific while Item 8.2 states the responsibility of the head of the government entity in filing the request for authority to write-off to the COA Audit Team Leader and/or Supervising Auditor. The list of documents to support the said request for write-off is provided in Item 8.3.

2.3 Audit of Receivables-Non-Current accounts disclosed that P430.011 million or 99.10 per cent of the total balance of P433.905 million as at December 31, 2016 have been dormant for more than 21 to 36 years, as shown in Table 2. This observation is a reiteration from previous years' audit reports, since the corresponding recommendations to address the issues affecting the accounts have not been implemented.

Table 2 - Aging of Receivables-Non-Current Accounts

Account Name	Total	1 to 10 yrs.	More than 20 to 36 yrs.	Remarks
Premium receivable-arrearages-NG*	P 315,664,677	P -	P 315,664,677	21
Guarantee receivable	51,912,007	-	51,912,007	36
Special time deposit (STD) claims paid	43,578,842	-	43,578,842	35
Adjudicated claims	3,724,229	-	3,724,229	33
Claims paid- 3rd IBRD Project	85,511	-	85,511	33
	99,300,589	-	99,300,589	
Other receivables				
Receivables-disallowances/charges	12,331,853	659,672	11,672,181	23
Claims on banks-unremitted recoveries	2,286,634	-	2,286,634	34
Due from banks	540,739	-	540,739	34
Pool of livestock insurers (PLI)	367,620	-	367,620	34
Due from officers and employees	228,421	228,421	-	1-2
Advances to officers and employees	208,276	208,276	-	1
STD-advances on Claims	178,528	-	178,528	34
Others-miscellaneous	2,797,259	2,797,259	-	1
	18,939,330	3,893,628	15,045,702	
	P 433,904,596	**P 3,893,628**	**P 430,010,968**	
Percentage versus Total	**100**	**0.90**	**99.10**	

IBRD-International Bank for Reconstruction and Development

2.4 In Note 6 to the Financial Statements, the Premium Receivable account pertains to cumulative premium subsidy arrearages from the NG pursuant to Republic Act (RA) No. 8175 enacted in calendar year (CY) 1995. This consists of unappropriated and/or unreleased Government Premium Subsidy (GPS) for written policies covering the period from May 1, 1981 up to CY 1995. The receivable totaling P168.759 million which was programmed for payment by the NG within a period of 10 years from CY 1996 did not materialize. The account also includes unpaid

GPS from CYs 1996 to 2011 of P146.906 million. According to the Manager, Finance Department, any excess from the GPS from the NG will be applied to the receivable account; however, as at audit date, records showed that the GPS was not even sufficient to cover the amount of insurance of subsistence beneficiaries.

2.5 The accounts Guarantee Receivable, STD Claims Paid, Adjudicated Claims, and Claims Paid-3rd IBRD Project in the amounts of P51.912 million, P43.579 million, P3.724 million and P85,511, respectively, or totaling P99.301 million, came from the Comprehensive Agricultural Loan Fund (CALF) Guarantee Program. The CALF Guarantee Program was a tripartite scheme implemented between 1980's to 1990's. Under the scheme, PCIC administered and guaranteed 85 per cent of the loans of the defaulting borrowers, while the lending institutions (LIs) were tasked to collect from the defaulting borrowers.

2.6 Another similar program lodged under the account Guarantee Receivable was a program tied up with the Land Bank of the Philippines (LBP) where the beneficiaries' loans were paid by the said bank and were transferred to the PCIC ROs as receivables. The Program had the same provision with CALF Guarantee Program covered by PCIC Circular Letter No. 004 dated May 27, 1981.

2.7 The account Adjudicated Claims of P3.724 million was formerly part of the account STD Claims Paid, as the LIs after five years of collecting loans from farmer-borrowers applied for adjudication, resulting in the transfer of the collection function to the PCIC-RO. The claim represents receivable from the Rural Bank of Nasipit, Agusan del Norte in CY 1983.

2.8 The account Other Receivables totaling P18.939 million includes dormant accounts for more than 21 to 34 years of P15.046 million. Of this account, the sub-account components which include Due from Banks, STD-Advances on Claims, Claims on Banks-Unremitted Recoveries, PLI and Others-Miscellaneous totaling P6.169 million had been fully provided with allowance for doubtful accounts.

2.9 Reports from the ROs disclosed that the non-collection of the receivables could be attributed to the following:

a. Supporting documents for uncollected Guarantee receivables from various LIs under the CALF Guarantee Program are no longer available;

b. Undermanned personnel in Region VII; hence, inspection of books of accounts as well as sending of Status of Reported Defaulted Loans to lenders were not prioritized; and

c. Laxity on the part of the LIs to collect the 85 per cent of the remaining balance of the loans from their respective borrowers representing guarantee payment.

2.10 While most of the sub-accounts under Receivables – Non-Current had been fully provided with Allowance for doubtful accounts, except for the Premium Receivables-Arrearages-NG and some accounts under Other Receivables, the net book balance of P327.860 million of the Receivables-Non-Current is no longer presented fairly in the financial statements, in view of the dormancy of the accounts for more than 21 to 36 years as discussed above, casting doubt on their collectability/recovery.

2.11 We recommended that Management:

a. **Determine the likelihood/probability of collecting the Premium receivable arrearages from the NG totaling P315.665 million and provide Allowance to present fairly the account Receivables-Non-Current in the financial statements; and**

b. **Exert all efforts to collect receivables from defaulting borrowers. When all collection measures proved futile, instruct the Regional Accountants to set time frame in complying with the documentation requirements in filing the request for authority to write-off of dormant accounts pursuant to COA Circular No. 2016-005 dated December 19, 2016.**

2.12 During the Exit Conference held on May 19, 2016, Management informed that the receivable from NG had always been included in the PCIC annual budget proposal. It added that collectability of the said premium share may not be remote, considering that their annual budget has been programmed to increase yearly to cover the grant of GPS to subsistence farmers. With this, PCIC is hopeful that its future fund releases will not be fully utilized for the GPS so that they can apply the unused balance to the Premium Receivable-NG per instruction from the Department of Budget and Management (DBM). As to the other dormant receivables, Management committed to exert their best effort to collect and to request for write-off in CY 2017 the accounts deemed to be no longer collectible.

2.13 As a rejoinder, **we further recommended that the Premium Receivable from the NG be presented as a disclosure in the Notes to Financial Statements, since this has been dormant for more than 20 years.**

3. **The validity and correctness of the balance of Accounts Payable-Non-Business Lines-Accrued Expenses of P11.565 million as at December 31, 2016 are doubtful due to adjustment made without source documents of prior years' accrued expenses totaling P4.518 million and erroneous recording of prior year's expenses totaling P98,212 which were not accrued in CY 2015, thereby affected the fair presentation of the Accounts Payable-Non-Business Lines-Accrued Expenses account and other related accounts in the financial statements.**

3.1 The Accounts Payable-non-business lines-Accrued expenses account has a balance of P11.565 million as at December 31, 2016. Audit thereof disclosed the following observations which affected the fair presentation of the account in the financial statements.

3.2 On December 31, 2015, Journal Entry Voucher (JEV) No. 2015-12-174 was drawn in HO to close the over set-up of accruals prior to CY 1994. The accrued expenses totaling P4.518 million was closed to Prior Year's Adjustment (PYA) account without the source documents. The said JEV had no any attachment at all.

3.3 The source documents are necessary to describe the original records that contain the details to substantiate the financial transactions entered into the accounting system of the Corporation. These would further provide documentary evidence on the accounting transactions that would establish the authenticity and tracking history of an accounting system's financial records.

3.4 The absence of said source documents to validate/support the adjustments made rendered the transaction of doubtful validity, which consequently might cause the reversion of the adjusting entry made, if not submitted.

3.5 Meanwhile, expenses in HO were not recognized in the books when incurred and reported in the financial statements in the period to which they relate. Review of CY 2016 disbursements showed that CY 2015 expenses totaling P98,212 were paid during the year, although these were not included in the accruals in CY 2015, details of which is shown in Table 3.

Table 3 - Summary of CY 2015 Expenses Paid in CY 2016

Nature of Expenses	Period Incurred	Payment Date	Amount	Original Accounting Entries
Traveling	December 2015	1/6/2016	P 9,837	
Overtime pay	December 2015	1/12/2016	1,245	Dr Other Payables- xxx
Overtime pay	December 2015	1/8/2016	969	Accrued Expense
Overtime pay	November & December 2015	1/18/2016	427	Cr Cash xxx
Overtime pay	November & December 2015	1/29/2016	2,066	
Other professional services	December 2015	1/8/2016	311	
Water expenses	December 2015	1/28/2016	7,892	
Rent	December 2015	1/28/2016	26,272	
Telephone-landline	December 2015	1/28/2016	5,968	
Telephone-landline	December 2015	2/5/2016	1,000	
Telephone-mobile	November & December 2015	2/12/2016	5,169	
			61,156	
Telephone-landline	November 2015	1/5/2016	24,768	
Telephone-internet	November 2015	1/5/2016	8,960	Dr Expense account xxx
Auditing services	November 2015	1/5/2016	2,828	Cr Cash xxx
Telephone-mobile	December 2015	1/4/2016	500	
			37,056	
			P 98,212	

3.6 As shown in Table 3, there was erroneous recording of expenses totaling P98,212. The amount of P61,156 was debited to Other Payables-Accrued Expenses account although these were not accrued in CY 2015, while the amount of P37,056 was recorded as expenses, instead of Prior Period Adjustments (PPAs) as these were incurred in November and December 2015.

3.7 In July 2016, JEV No. 2016-07-070 was drawn to adjust the entries credited to Other Payables-Accrued Expenses totaling P61,156; however, the amount was inadvertently adjusted for P62,863, resulting in overstatement of Accounts Payable-Non-Business Lines-Accrued Expenses account and understatement of Retained Earnings by P1,707. On the other hand, the direct debit to Communication and Professional Expenses totaling P37,056 were not adjusted to PPAs account at year-end.

3.8 Paragraphs 27 and 28 of the Philippine Accounting Standard (PAS) 1, on the Accrual Basis of Accounting, provide that:

> *An entity shall prepare its financial statements, except for cash flow information, using the accrual basis of accounting.*
>
> *When the accrual basis of accounting is used, an entity recognizes items as assets, liabilities, equity, income and expenses (the elements of financial*

> *statements) when they satisfy the definitions and recognition criteria for those elements in the Framework.*

3.9 In view of the adjustment made of P4.518 million without source documents and the erroneous recording of prior year's expenses paid in CY 2016 totaling P98,212, the validity and correctness of the balance of Accounts Payable-Non-Business Lines-Accrued Expenses of P11.565 million are doubtful, thereby affected the fair presentation of the account and other related accounts in the financial statements.

3.10 **We recommended and Management agreed to instruct the HO Accountant to:**

a. **Submit the source documents to support the adjusting entry totaling P4.518 million under JEV No. 2015-12-174; otherwise non-submission thereof will cause the reversion of the entry made;**

b. **Accrue all expenses at year-end in compliance with Paragraphs 27 and 28 of PAS 1, on the accrual basis of accounting to ensure recognition of expenses in the proper period to which they relate**; **and**

c. **Review all the journal entries made to record expenses amounting to P98,212 and adjust accordingly the affected accounts to correct their balances, for proper financial statements presentation.**

4. **Office supplies procured worth P2.555 million were recorded in the books as outright expense and the Inventory account for supplies on hand was only set up at the end of accounting period; thereby, showing lack of control over receipt and issuance of supplies as it could not be readily determined if these were completely delivered, and issuances were properly accounted for. Likewise, the accounting and valuation policies for Inventories were not disclosed in the Notes to Financial Statements contrary to Paragraphs 6 and 36 of PAS 2, on Presentation of Financial Statement and PAS 1 on Inventories, respectively.**

4.1 Paragraph 6 of PAS 2 defines inventories as, "*in the form of materials or supplies to be consumed in the production process or in the rendering of services."*

4.2 Section 4(j) of the MNGAS, Volume I, prescribed the Perpetual Inventory System for Supplies and Materials, which states that:

> *Perpetual Inventory of Supplies and Materials. Supplies and materials purchased for inventory purpose shall be recorded using the perpetual inventory system. Regular purchases shall be coursed thru the inventory account and issuances thereof shall be recorded as they take place except those purchased out of Petty Cash Fund which shall be charged directly to the appropriate expense accounts.*

4.3 Audit of expenses disclosed that PCIC partially adopted the Periodic Inventory System for accounting of supplies and materials. Office supplies procured in CY 2016 totaling P2.555 million were recorded or accounted for as outright expense. At the end of the year, the Supplies on hand costing P0.755 million was set up as Office Supplies Inventory using the unit cost at the last purchase as basis for valuation, instead of the moving average method prescribed under

Section 4(k) of the MNGAS, Volume I. Although the Stock Cards (SCs) are being maintained by the Property Officer, but the postings therein were not updated.

4.4 In general, the Periodic Inventory System is used when supplies and materials procured involved small amounts or supplies and materials are procured out of Petty Cash Fund for immediate use; hence, these are charged directly to the appropriate expense accounts. However, as prescribed in the MNGAS, when the items purchased are for inventory purposes and are not for immediate use, the Perpetual Inventory System shall be used, where supplies purchased are accounted for under Inventory account and expense is only recognized upon issuance of the supplies to the end-users.

4.5 The Perpetual Inventory System in accounting for inventories is recommended in Section 4 of MNGAS, Volume I. This System requires the maintenance of SCs (Appendix 38, Section 41 of MNGAS, Volume II) for control of receipts and issuances, and the preparation of Report of Supplies and Materials Issued (RSMI, Appendix 39 of MNGAS, Volume II) by the Property Custodian as basis of the Accounting Section in preparing the Journal Entry Voucher (JEV) to record supplies and materials issued by the Property Section.

4.6 The practice of accounting supplies and materials purchased as outright expense signified lack of control over the receipt and issuance thereof, since it could not be determined if supplies and materials were completely delivered, and issuances were properly accounted for.

4.7 Further, it was observed that the Notes to Financial Statements as at December 31, 2016 had no disclosure as to PCIC's policy in accounting and valuation for its Inventory account. PAS 1, on the "Presentation of Financial Statements," requires disclosure of summary of accounting policies which include the measurement basis (or bases) used in preparing the financial statements, and other accounting policies used that are relevant to an understanding of the financial statements. Under Paragraph 36 of PAS 1, the summary of significant accounting policies on Inventories required to be disclosed in the Notes to Financial Statements are as follows:

> *(a) the accounting policies adopted in measuring inventories, including the cost formula used;*
>
> *(b) the total carrying amount of inventories and the carrying amount in classifications appropriate to the entity;*
>
> *(c) the carrying amount of inventories carried at fair value less costs to sell;*
>
> *(d) the amount of inventories recognised as an expense during the period;*
>
> *(e) the amount of any write-down of inventories recognised as an expense in the period in accordance with paragraph 34;*
>
> *(f) the amount of any reversal of any write-down that is recognised as a reduction in the amount of inventories recognised as expense in the period in accordance with paragraph 34;*

> (g) *the circumstances or events that led to the reversal of a write-down of inventories in accordance with paragraph 34; and*
>
> (h) *the carrying amount of inventories pledged as security for liabilities.*

4.8 The disclosure of the policies in accounting and valuation of inventory is necessary for better understanding of the inventory account presented in the financial statements.

4.9 We recommended and Management agreed to:

> **a. Require the Accountant to: (i) adopt the Perpetual Inventory System in accounting for supplies and materials and the Weighted Average Method in costing inventory on hand, and (ii) provide adequate disclosure on inventory account in compliance with Paragraph 36 of PAS 1; and**
>
> **b. Require the Property Officer to: (i) update the SCs with complete data as to unit cost of each item to facilitate reconciliation with the Supply Ledger Cards, and (ii) prepare the RSMI to be used by the Accounting Unit as basis in preparing the JEV to record issuances of supplies and materials.**

5. In HO, outstanding checks totaling P0.755 million which included stale and cancelled checks were not adjusted/reverted back to cash in bank and corresponding liability accounts; thus, understating their balances by the same amount at year-end. In Regions VII and X, negative balances in the amounts of P401,858 and P0.577 million, respectively, exist in their cash-in bank accounts. Moreover, in Regions VI and VII, Bank Reconciliation Statements (BRSs) covering CYs 2015 and 2016 were not prepared and submitted to COA, contrary to Section 52 of MNGAS, Volume I and Section 74 of PD No. 1445.

5.1 Audit of the Cash in Bank accounts disclosed several observations as discussed in the succeeding paragraphs.

In the HO, outstanding checks totaling P0.755 million which include stale and cancelled checks not adjusted/reverted back to cash and corresponding liability accounts

5.2 Section 52 of MNGAS, Volume II, on the Accounting for Stale Checks, provides that:

> *Checks may be cancelled when they become stale. The depository bank considers a check stale, if it has been outstanding for over six months from date of issue or as prescribed. A stale check shall be marked cancelled on its face and reported as follows:*
>
> 1. *Unclaimed stale checks which are still with Cashier shall be cancelled and reported in the List of Unreleased Checks as cancelled. The List of Unreleased Checks is attached to the RCI.*

> 2. *For stale checks which are in the hands of the payees or holders in due course and requested for replacements, new checks may be issued upon submission of the stale checks to the Accounting Unit. A certified copy of the previously paid DVs shall be attached to the request for replacement. A JEV shall be prepared to take up the cancellation. The replacement check shall be reported in the RCI.*

5.3 COA GAFMIS Circular Letter No. 2002-001 dated December 16, 2002, re: Modification in the Preparation of the Report of Checks Issued (RCI) and Additional Guidelines in Recording and Reporting of Checks Disbursements provides, *viz.*:

> *At the end of each month, a Schedule of Unreleased Checks shall be prepared by the Cashier for submission to the Accounting Unit. Based on this Schedule, a working paper entry shall be prepared to restore the amount of cash equivalent to the total amount of unreleased xxx.*
>
> *At the end of the year, the same procedures under item 2.3 shall be done except that a JEV shall be prepared to record the entry for the restoration of cash equivalent to the unreleased checks and recognition of the appropriate payable/liability accounts. xxx However, there shall be no physical cancellation of unreleased checks covered by the JEV.*

5.4 A check is considered stale when it has not been presented by the payee within the stipulated time set aside by the financial institution or regulatory body, usually 6 to 12 months of issue, while the unreleased checks are the Agency's checks drawn and recorded but are not yet actually issued to the payees as of reporting date or balance sheet date.

5.5 In HO, review of the BRS for Cash-in-Bank account with the Land Bank of the Philippines (LBP), specifically Current Account (CA) No. 1872-1030-97, showed that of the 41 outstanding checks, 7 checks in the total amount of P76,576 are already stale as these were issued in CY 2015; 7 checks totaling P372,245 were already cancelled on various dates; and 7 checks totaling P305,814 are still in the custody of the Cashier at year-end. However, these 21 checks totaling P754,635 appeared in the BRS as outstanding checks, since the HO Accounting Section did not restore/revert back the cash equivalent of these checks to the Cash-in-Bank account. Consequently, the Cash-in-Bank account and the corresponding liability account are understated by P754,635.

Negative balances of P401,858 and P0.577 million exist in the Cash-in-Bank accounts of Regions VII and X, respectively

5.6 The PCIC maintains a One Way Savings Deposits Account (OSDA) with LBP as a depository account for insurance premiums coverage collected from farmers and fisherfolks. The collections are deposited to OSDA through online by Insurance Underwriters (IUs), Provincial Extension Personnel (PEP) and Tellers in the ROs. The deposits are automatically transferred by the respective LBP Branch Offices to HO-LBP CA No. 1872-1030-70 in Quezon City.

5.7 Negative balances in the Cash-in-Bank account per books of Regions VII and X in the amount of P401,858 and P0.577 million, respectively, were reported as at year-end. The negative balance in the books of Region VII is attributed to unrecorded deposits totaling P403,696, composed of collections in CYs 2012 to 2015 of P275,657 and in CY 2016 of P128,039. As reported by the Audit Team concerned, the collections by the IUs and PEPs deposited through online are recorded in the books only when complete supporting documents are submitted to the Marketing Sales Division (MSD), which in turn presents the documents to the Teller for issuance of Official Receipt (OR). As a matter of practice, in the absence of complete documentation, the collections could not be recorded in the books of Region VII. In the case of Region X, the negative balance is attributed to errors in encoding of collections in the Administrative and Finance Management System (AFMS) during the months of January and February 2016.

In Regions VI and VII, BRSs were not prepared and submitted to COA contrary to Section 74 of PD No. 1445

5.8 Section 74 of PD No. 1445, on the Monthly reports of depositories to agency head, states that:

> *At the close of each month, depositories shall report to the agency head, in such from as he may direct, the condition of the agency account standing on their books. The head of the agency shall see to it that a reconciliation is made between the balance shown in the reports and the balance found in the books of the agency.*

5.9 In Regions VI and VII, the Audit Teams reported that the BRSs, as shown in Table 4, were not prepared and submitted to COA, contrary to the above-quoted provision of PD No. 1445.

Table 4 - List of Unsubmitted BRSs in Regions VI and VII

RO	Bank Account	Account No.	Latest BRS Submitted	Unsubmitted as at December 31, 2016
VI	LBP-General and Administrative Fund	2322-1000-20	March 2016	April to December 2016
	LBP-Claim Fund (CF)-Iloilo	2322-1000-30	April 2016	May to December 2016
	LBP-CF-Bacolod	0422-1010-98	February 2016	March to December 2016
VII	LBP-General Fund (GF)	0142-0017-80	October 2015	November 2015 to December 2016
	LBP-CF	0142-0021-16	April 2015	May 2015 to December 2016
	DBP-GF	0735-021593-030	March 2016	April to December 2016

5.10 Bank reconciliation is an indispensable procedure in ascertaining the correctness of the balance of the Cash in Bank account as it compares and brings into agreement the cash balances per books and per bank. The non-submission of BRSs precluded the Audit Teams concerned to validate the correctness of the Cash in Bank account balances.

5.11 We recommended that Management instruct:

a. **The HO Accountant to make necessary adjustments on the stale and cancelled checks in compliance with Section 52 of MNGAS, Volume II, and to restore the cash equivalent to the unreleased checks to the Cash-in-Bank and corresponding liability accounts at year-end for proper financial statements presentation;**

b. **The Regional Manager of Region VII to require the concerned IUs and PEPs to set time frame to submit complete supporting documents corresponding to the**

unrecorded deposits covering CYs 2012 to 2016 as basis for issuance of the OR to support recording of the transactions in the books by the Accountant;

c. **The Regional Manager of Region X to direct the personnel in-charge in the encoding of collections in the AFMS to submit the transaction documents for the months of January and February 2016 to the Accountant so that necessary correcting entry can be effected in the books of accounts; and**

d. **The Regional Managers of Regions VI and VII to require the concerned Accountants to prepare and submit to COA the BRSs in compliance with Section 74 of PD No. 1445.**

5.12 In HO, the Finance Manager informed that the adjustment on the outstanding checks had been already effected, while Management of Region VII explained that the delay in the preparation of BRSs was due to lack of manpower to cope up with the current volume of transactions, and informed that verbal instructions were given to the IUs and PEPs giving them 15 days to submit complete supporting documents of crop insurance to MSD from the date of deposit so that this could be immediately presented to the Teller for issuance of OR. Further, Region X Management assured that it will prepare the necessary adjusting entries to correct the negative balance in its books of accounts, while Region VI Management assured to fast-track the preparation and submission to COA of the BRSs.

5.13 As a rejoinder, the Audit Team acknowledges the above comments of Management. However, PCIC's implementation of the audit recommendations will be monitored in CY 2017.

6. In Region IV, expenses for trainings, seminars, conferences, and workshops totaling P2.542 million were paid without complete documentary requirements contrary to Section 4(6) of Presidential Decree (PD) No. 1445, thus, validity of the transactions is doubtful.

6.1 Section 4(6) of PD No. 1445 provides that "*Claims against government funds shall be supported with complete documentation.*"

6.2 Audit of CY 2016 expenses in Region IV disclosed that P2.542 million was incurred for trainings, seminars, conferences and workshops; however, payments made were not supported with complete documentary requirements contrary to the afore-quoted provision of PD No. 1445. The lacking documents are summarized in Table 5.

Table 5 – List of CY 2016 Trainings, Seminars, Conferences and Workshops in Region IV, Payment of which not Supported with Complete Documents

Payee	Particulars	Amount	Lacking Documents/ Deficiencies
Sola Luna Estrella Resort	Hotel accommodation for Capability Building of 50 participants from May 18-20, 2016	P 269,400	➢ Authority to conduct capability building ➢ Training design/work program ➢ List of participants/attendees ➢ Notarized and dated contract ➢ No. of rooms occupied

Payee	Particulars	Amount	Lacking Documents/ Deficiencies
			and food served ➢ Job order was accepted only on the last day of the capability building
Sola Luna Estrella Resort	Hotel accommodation for conference and workshop of 54 participants on the integrated PCIC Automated Business System (PABS) and Review of Insurance Operations for the 4-month period ended April 30, 2016	325,000	➢ Notarized and dated contract ➢ No. of rooms occupied and food served ➢ Job order was accepted only on the last day of the capability building
Tagaytay View Park Hotel, Inc.	Mid-year Planning, Gender and Development (GAD) Sensitivity Training and Capability Building for 36 participants	298,275	➢ Authority to conduct the undertaking ➢ Training design/work program ➢ Quotations from at least three suppliers ➢ List of attendees/participants ➢ Notarized contract
Batis Aramin Resort and Hotel Corp.	Mid-year Planning GAD Sensitivity Training and Capability Building for 50 participants	150,000	➢ Authority to conduct the undertaking ➢ Contract
Tanza Oasis Hotel and Resort	Civil Service Commission (CSC) Prime-Human Resource Management (HRM) and GAD Training for 371 participants	1,499,220	➢ Room assignments of attendees/participants
		P 2,541,895	

6.3 The afore-mentioned lacking documents are necessary to support the validity of the transactions paid.

6.4 We recommended and Management agreed to instruct the OIC-Manager in Region IV to submit the lacking documents, and henceforth, to ensure that all payments made are supported with complete documentary requirements to prevent suspension or disallowance of the transactions in audit.

7. Replenishments of the P50,000 Petty Cash Fund (PCF) were made when total disbursements reached between P20,201 to P25,213 or 40.40 per cent to 50.43 per cent only of the PCF, contrary to Item 4.3.1 of COA Circular No. 97-002, thus exposing the cash in the hands of the Custodian to risk of possible misuse. Moreover, supplies and materials purchased involving P1,000 and above paid out of the PCF in the total amount of P86,995 were not supported with canvass or price quotations from at least three suppliers and summary or abstract of canvass or quotations, in violation of Item 1.2.2 of COA Circular No. 2012-001, thus validity of the transactions is doubtful.

7.1 On January 4, 2016, PCF was established in the total amount of P50,000 to cater petty and emergency needs of the PCIC.

7.2 Audit of the PCF disclosed that 39 replenishments were made with amounts ranging between P20,201 to P25,213 or 40.40 per cent to 50.43 per cent only of the total Fund of P50,000. This practice was based on PCIC Memorandum Circular (MC) No. 09-001 dated April 20, 2009 which provides that "*Replenishment of the PCF shall be made whenever expenditures at any one time shall have reached P20,000.*" However, this provision of the PCIC MC No. 09-001 is not in consonance with Item 4.3.1 of COA Circular No. 97-002 dated February 10, 1997, which states that:

> *The cash advance shall be sufficient for the recurring expenses of the agency for one month. The AO may request replenishment of the cash advance when the disbursements reach at least 75%, or as the need requires, by submitting a replenishment voucher with all supporting documents duly summarized in a report of disbursements.* [Underlining supplied for emphasis]

7.3 The unutilized cash of more or less than 50 per cent of the total PCF of P50,000 in the hands of the Custodian is exposed to risk of possible misuse.

7.4 Further review of the PCF transactions in CY 2016 revealed that supplies and materials which were not available in stock and for immediate use were procured through the PCF. However, supplies and materials purchased, involving amounts of P1,000 and above, in the total amount of P86,995 were not supported with canvass or price quotations from at least three bonafide suppliers and the summary or abstract of canvass or quotations.

7.5 Item 1.2.2 of COA Circular No. 2012-001 dated June 14, 2012, on *"The Revised Documentary Requirements for Common Government Transactions"* provides, among others, the documentary requirements in the liquidation of cash advances for PCF relative to purchases of supplies involving P1,000 and above, which include the canvass from at least three suppliers and summary or the abstract of canvass except for disbursements made on official travel.

7.6 Thus, absence of canvass or price quotations from at least three bonafide suppliers and the summary or abstract thereof rendered the transactions of doubtful validity, and precluded the Audit Team in determining whether the prices obtained were the most advantageous to the government.

7.7 We recommended and Management agreed to:

a. Revisit PCIC MC No. 09-001 relative to the provision on Petty Cash Replenishment, and align the same to Item 4.3.1 of COA Circular No. 97-002 dated February 10, 1997;

b. Instruct the Custodian to replenish the PCF when disbursements reached 75 per cent or as the need arises to prevent exposure of cash to risk of possible misuse; and

c. Instruct the Supply Officer to support purchases of supplies and materials involving P1,000 and above out of the PCF with canvass or price quotations from at least three suppliers and the summary/abstract thereof, to avoid suspension or disallowance in audit.

8. Government Premium Subsidy (GPS) discounts of P1.346 million were granted in full to 41 farmers who are not eligible under the Department of Agriculture (DA)-LBP Sikat Saka Program (SSP) and the National Irrigation Administration's (NIA) Early Cropping

Program, as the areas of farmlands of the covered farmers were more than the required five hectares and some of the beneficiaries were from the Province of Biliran, which is not among those provinces identified to be covered by the Programs. Moreover, in Region VII, there was an over provision of GPS totaling P1.196 million due to incorrect computation of premium rates. Consequently, other qualified/eligible subsistence farmers were deprived of availing full GPS under these Programs.

8.1 A Memorandum of Agreement (MOA) was entered into by the DA and the PCIC for the DA-LBP's SSP and NIA's Early Cropping Program on June 28, 2012. In the said MOA, the DA will release a total of P150 million as GPS for crop insurance coverage of participating marginalized subsistence rice farmers.

8.2 These Programs were aligned to the objectives of the Agriculture and Fisheries Modernization Act (AFMA) of CY 1997, where the DA is tasked to increase farmers' productivity and augment their income with the end view of reducing if not eliminating poverty particularly in the farming communities in the country. In the implementation of the Programs, the LBP serves as the lending conduit bank.

8.3 Item III.3 of the Implementing Guidelines provides that:

> *The computation of DA payment of GPS shall be as follows: for special project with NIA, each farmer beneficiary per hectare will be paid an average of One Thousand Eighty One Pesos (P1,081.00), covering one cropping season of rice crop, wherein the amount of insurance coverage per hectare is Ten Thousand Pesos (P10,000.00). On the other hand, for Sikat Saka Program, the DA payment of average GPS per farmer beneficiary per hectare is also One Thousand Eighty One Pesos (P1,081.00), covering one cropping season of rice crop, for an amount of insurance coverage per hectare of Ten Thousand Pesos (P10,000.00). However, the maximum amount of cover shall not exceed Fifty Thousand Pesos (P50,000.00) and the maximum Government Premium Subsidy shall not exceed Five Thousand Four Hundred Five Pesos (P5,405.00).*

8.4 Review of the Programs' implementation showed that these were started in November 2012 until November 2013 and subsequently extended until CY 2016. In Region VIII, the Provinces of Leyte, Northern Samar and Western Samar were identified as rice producing provinces; hence, the marginalized subsistence farmers in these three provinces were entitled as beneficiaries of the Programs.

8.5 Verification of the Report on the List of Beneficiaries from PCIC Region VIII revealed that it was able to provide full insurance subsidy to 457 farmer-beneficiaries in the total amount of P3.770 million. However, 25 farmers who were granted GPS in the total amount of P1.279 million were tilling farmlands which are more than the five hectares limitation provided in the Implementing Guidelines.

8.6 Likewise, 16 subsistence farmers from the Province of Biliran were provided with GPS in the total amount of P67,315, but said Province is not among the identified provinces entitled to the Programs.

8.7 Further, in Region VII, the Regular Low Premium Rates (RLPR) during wet season of 12.38 per cent and 12.23 per cent during dry season were used in computing the amount of insurance cover (AIC) which resulted in over provision of P1.196 million.

8.8 The granting of GPS of P1.346 million to farmers who were not qualified beneficiaries and the over provision of GPS totaling P1.196 million due to erroneous computation of premium rates deprived other qualified farmers in availing full GPS under DA-LBP SSP and the NIA's Early Cropping Program.

8.9 We recommended that Management instruct the Regional Managers to conduct thorough review/assessment, verification and evaluation of data contained in the insurance application of participating farmers to ensure that GPS be granted only to qualified beneficiaries in accordance with the Implementing Guidelines of the Programs.

8.10 During the exit conference, Management in Region VIII informed that they had already talked with the Agricultural Training Institute (ATI) regarding the inclusion of farmers from the Province of Biliran. It also acknowledged that LBP had erred in issuing Certificates of Insurance Cover (CICs) for free insurance to the farmers and committed to comply with the audit recommendations.

9. The underwriting policies and procedures on the Agrarian Production Credit Program (APCP) and the Credit Assistance Program-Program Beneficiaries Development (CAP-PBD) were not strictly complied with in granting insurance subsidy to Region III beneficiaries due to lack of copy of Masterlist of Agrarian Reform Beneficiaries (ARBs) and the Certificates of Insurance Cover (CICs) were not supported with Deeds of Assignment (DOAs), thereby, exposing Region III to risk of extending insurance coverage as well as paying indemnity claims to non-eligible farmers.

9.1 The PCIC provides full GPS/Discount (GPS/D) to APCP and CAP-PBD beneficiaries under the joint credit programs of the DA, the Department of Agrarian Reform (DAR) and the LBP.

9.2 The GPS/D was initially implemented for a period of one year starting June 1, 2014 by the PCIC with program fund allocation of P134 million. The program was extended from June 1, 2015 until May 31, 2016 pursuant to Board Resolution No. 2015-028 dated May 28, 2015. The said Resolution approved an additional premium subsidy of P46 million as well as the inclusion of fisheries/aquaculture crop/stock, properties and related facilities in the insurance coverage starting May 28, 2015. On July 28, 2016, another Board Resolution No. 2016-050, series of 2016 was approved granting an additional allotment of P100 million for the insurance coverage of ARBs participating in APCP and CAP-PBD and credit facilities of DA-DAR-LBP, but not listed under the Registry System for Basic Sectors in Agriculture (RSBSA). Thus, a total of P280 million was provided for the Programs by PCIC from CYs 2014 to 2016.

9.3 Based on the Management Letter (ML) of the Audit Team which conducted the audit on PCIC-Region III, the total insurance premium subsidy utilization for CYs 2014 to 2016 under the APCP and CAP-PBD amounted to P27.691 million and the corresponding indemnity claims paid amounted to P9.319 million, breakdown is presented in Table 6.

Table 6 - Summary of Accomplishment for GPS *vis-a-vis* Indemnity Claims Paid under APCP-CAP-PBD in Region III from CYs 2014-2016

	Insurance Lines	2014	2015	2016	Total
Insurance	Rice	P 3,921,288	P 8,982,644	P 10,649,550	P 23,553,482
	Corn	162,527	-	932,747	1,095,274

Premium	HVCC	2,030,899	672,997	338,600	3,042,496
		P 6,114,714	**P 9,655,641**	**P 11,920,897**	**P 27,691,252**
Indemnity Claims	Rice	P 280,549	P 4,493,237	P 4,545,691	P 9,319,477
	Corn	-	-	-	-
	HVCC	-	-	-	-
		P 280,549	**P 4,493,237**	**P 4,545,691**	**P 9,319,477**

9.4 Review of the CICs issued in CY 2016 under the Programs revealed the following deficiencies:

a. The PCIC Region III has no copy of the Masterlist of ARBs. Farmer-beneficiaries were based from the list submitted by the LBP which came from the Municipal Agriculturists; hence, validation could not be made to ensure that the farmer-beneficiaries included in the borrowers' list are in the Masterlist of ARBs which should be the basis for granting the GPS; and

b. The CICs submitted to the PCIC Region III were not supported by DOAs in favor of the LBP-Lending Center (LC) where the loans were released.

9.5 According to the Chief, Marketing and Sales Division (MSD) of Region III, the copy of CICs submitted by LBP-LC were supported only by the List of Borrowers and Location of Farm, which are their basis in preparing the Underwriting Processing Slip and encoding of the CICs in the PCIC Automated Business System (PABS).

9.6 In the absence of Masterlist of ARBs as basis for granting the GPS, and the DOAs executed by the farmer-beneficiaries, the Audit Team was precluded to validate whether these farmer-beneficiaries were really bonafide or eligible beneficiaries of the Programs, while the LBP's right to the assigned property might not be binding.

9.7 Moreover, there is the possibility that PCIC-Region III might have extended insurance coverage as well as paid indemnity claims to non-eligible farmers, thus depriving those qualified beneficiaries of the benefits that can be derived under the APCP and CAP-PBD.

9.8 We recommended that Management direct the Regional Manager of PCIC Region III to:

a. Strictly comply with the underwriting policies and guidelines in implementing the APCP and CAP-PBD to ensure that the Programs are carried out efficiently; and

b. Instruct the Chief of MSD to submit to the Audit Team copy of the Masterlist of ARBs and the DOAs for the CICs issued, for validation purposes; otherwise, non-submission thereof will result in the issuance of Notice of Suspension.

10. Absence of security features in the PABS of Regions III, III-A and VII to serve as control for insurance application of farmers resulted in the granting of double insurance coverage to 267 farmer-beneficiaries who were given GPS totaling P3.880 million under the RSBSA and other insurance programs, contrary to the provisions of the Operations Manual for Rice and Corn Insurance; thus, defeating the purpose of the automated system to detect errors which affect the efficient delivery of services.

10.1 Section 2.B.10, Part III on the Rules and Regulations of the Operations Manual for Rice and Corn Insurance provides that there is “Double Insurance” for rice and corn insurance purposes when:

(a) *the assured is the same;*
(b) the subject matter/object of insurance is the same;
(c) the subject matter is separately insured two or more times;
(d) the interest of the assured is the same; and
(e) the risk or peril insured against is likewise the same.

10.2 Double insurance is prohibited to prevent over-insurance. Where there is over-insurance by double insurance, the assured can recover no more than his insurable interest whether the insurance is contained in several policies.

10.3 Based on the reports on the list of farmer-beneficiaries in Regions III, III-A and VII, there were 267 farmers, as shown in Table 7, who availed of double insurance from different programs.

Table 7 - Summary of ROs with Double Insurance

		No. of Farmers				
Region	**Programs**	**Subject of insurance is separately insured two or more times**	**Subject of insurance is the same**	**Subject of insurance is more than the required area per hectare**	**Total**	**Amount of GPS**
III	RSBSA and APCP	6	-	-	6	P 38,042
III-A	RSBSA and DA SSP	20	7	23	50	1,492,372
VII	RSBSA and DA SSP	211	-	-	211	2,350,000
		237	**7**	**23**	**267**	**P 3,880,414**

APCP-Agrarian Production Credit Program; DA SSP – Department of Agriculture Sikat Saka Program

10.4 In Region III, audit disclosed that six farmers who were insured under the RSBSA were also covered under APCP, with total GPS of P38,042.

10.5 In Region III-A, 20 farmers insured under the RSBSA likewise availed the DA SSP with total GPS of P1.350 million; seven farmers under the same program, but with different CICs were granted GPS of P27,831; while 23 farmers were granted insurance coverage in excess of the allowed five hectares per household with GPS of P114,540. In summary total GPS of P1,492,372 were granted to 50 farmers.

10.6 In Region VII, 211 farmers were provided with double insurance under the different insurance programs, i.e. RSBSA, DA-SSP, APCP, and by the Cebu Provincial Government with total GPS of P2.350 million and indemnity claims paid of P0.838 million. These farmers availed more than one insurance cover on the same cropping season and the same farm location/boundaries based on the CICs and Location Sketch Plans.

10.7 Inquiry made from the concerned personnel of the MSD revealed that the PABS could only detect/recognize double insurance promptly for farmers who have an aggregate insured area of seven hectares or more in every cropping season; however, the farmers with an aggregate insured area below seven hectares can be verified manually by the use of the printouts generated from PABS.

10.8 The granting of insurance and payment of indemnity claims are encoded and processed in the PABS. Ideally, under an automated system, double insurance which might result in double payment of indemnity claims could be immediately detected and corrected if controls are imbedded therein. The deficiency in PCIC PABS indicates lapses or weakness of the computerized system, which resulted in granting double insurance contrary to the afore-cited provision in the Operations Manual for Rice and Corn Insurance.

10.9 In addition, the grant of more than one insurance coverage to 267 farmer- beneficiaries which resulted in giving them double GPS had deprived other qualified farmers to benefit free insurance coverage from the Programs implemented by PCIC.

10.10 We recommended and Management agreed to enhance the PABS of the Regional Offices to ensure that no double insurance and double payment of GPS exist that may also result in payment of double indemnity claims.

11. The PCIC's production accomplishment of 651,132 or 93.60 per cent compared with the production target of 695,673 farmer-beneficiaries under the RSBSA could be considered significant. However, this production target set by PCIC of 695,673 was only 7.19 per cent of the 9,670,900 farmer-beneficiaries endorsed by Department of Agriculture (DA) due to lack of sufficient budgetary support from the National Government, thus the objective of the Program to provide full insurance premium to substantial number if not all of the farmer-beneficiaries identified in the RSBSA was not achieved.

11.1 Based on the General Provisions of the General Appropriations Act (GAA) for Fiscal Year (FY) 2016, PCIC was given appropriations of P1.600 billion as budgetary support to be used exclusively for the full (100%) insurance premiums of subsistence farmers and fisherfolks. The insurance premium shall cover crop, livestock, fisheries, or non-crop agricultural asset of the beneficiaries listed in the RSBSA and are not insured for the same type of insurance, with priority given to those in localities declared as critical geo-hazard areas or no build zones identified by the Mines and Geo-Sciences Bureau.

11.2 The implementing guidelines on the utilization of GPS from the National Government include, among others, the following:

a. Releases of funds shall be subject to the submission of the list of subsistence farmers and fisherfolks duly endorsed by the DA; and

b. Types of Insurance Lines eligible for 100% full premium subsidy or GPS include rice crop, high-value commercial crops, livestock, fisheries and non-crop agricultural asset.

11.3 The RSBSA is a nationwide baseline information of farmers, farm laborers and fisherfolks from identified provinces. In CY 2016, a total of 9,670,900 farmers and fisherfolks listed under RSBSA from 75 identified provinces were endorsed by the DA to the PCIC.

11.4 Verification of the CY 2016 Work and Financial Plan for the Program showed that PCIC targeted to serve 695,673 farmer-beneficiaries, which was only 7.19 per cent of the production target of 9,670,900 beneficiaries endorsed by the DA. Records showed that PCIC had production accomplishment of 651,132 subsistence farmer-beneficiaries or 93.60 per cent of its target during the year which could be considered significant. The details of the RSBSA farmers' data production targets, accomplishments and corresponding percentages of accomplishments are shown in Table 8.

Table 8 – CY 2016 Production Targets versus Accomplishments under RSBSA

		PCIC Production Targets		PCIC Accomplishments		RSBSA vs PCIC Targets (No. of Farmers) (f)=(a-b)	PCIC Production vs Targets	
Region	**DA-RSBSA** (a)	**No. of Farmers** (b)	**GPS (In Million)** (c)	**No. of Farmers** (d)	**GPS (In Million)** (e)		**No. of Farmers** (g)=(b-d)	**GPS** (h)=(c-e)
I	829,747	66,297	P 148.021	50,823	P 134.621	763,450	15,474	P 13.400
II	830,615	63,731	148.350	66,482	198.707	766,884	(2,751)	(50.357)
III	412,536	27,881	64.124	30,592	84.827	384,655	(2,711)	(20.703)
III-A	280,472	24,767	55.918	31,842	74.107	255,705	(7,075)	(18.189)
IV	1,076,364	72,745	167.308	86,868	240.060	1,003,619	(14,123)	(72.752)
V	828,932	56,022	128.848	31,328	108.986	772,910	24,694	19.862
VI	1,270,721	69,348	159.497	83,563	215.161	1,201,373	(14,215)	(55.664)
VII	678,323	62,379	143.468	101,775	185.385	615,944	(39,396)	(41.917)
VIII	721,274	67,193	159.269	42,804	159.109	654,081	24,389	0.160
IX	507,926	39,926	91.826	34,821	149.671	468,000	5,105	(57.845)
X	710,133	55,832	128.409	27,767	100.618	654,301	28,065	27.791
XI	563,880	48,543	111.645	37,289	123.166	515,337	11,254	(11.521)
XII	959,977	41,009	94.317	25,178	131.517	918,968	15,831	(37.200)
	9,670,900	**695,673**	**P 1,601.000**	**651,132**	**P 1,905.935**	**8,975,227**	**44,541**	**P (304.935)**
Percentage				**93.60**		**7.19**	**6.40**	

11.5 Inquiry disclosed that the failure to meet production targets in Regions II, III, III-A, IV, VI and VII were attributed to the following:

a. Lack of awareness by the farmers of the Program;

b. Farming is not feasible due to prolonged drought;

c. Inability of some livestock raisers to comply with the registration requirements;

d. Refusal of several fisherfolks to register their banca;

e. Most fish growers had no permit to operate, hence, could not apply for free insurance subsidy; and

f. Undermanned personnel to fully monitor the implementation of the Program.

11.6 In view of the aforementioned deficiencies in the implementation of the Program by PCIC and lack of sufficient budgetary support from the National Government to fully carry out the Program, the objective of providing full insurance premium to 9,670,900 subsistence farmers endorsed by the DA to PCIC was not attained.

11.7 We recommended and Management agreed to:

a. Conduct information dissemination of the RSBSA Program in the Regions which were not able to meet their targets;

b. Prepare budget plan for the 9.671 million farmer-beneficiaries submitted by the DA under the RSBSA Program for inclusion in the PCIC's future Corporate Operating Budget (COB) to support request for augmentation of the National Government budgetary support in order to attain the Program's objective; and

c. Propose for augmentation of plantilla position of personnel in the ROs affected in the implementation of the Program. Pending approval of the plantilla position, hire competent insurance underwriters as well as personnel in the Accounting Division in order to carry out the Program efficiently.

GENDER AND DEVELOPMENT (GAD)

12. The PCIC had partially carried out its GAD's programs, projects and activities utilizing a total of P5.663 million or 52.44 per cent only of P10.800 million budget allocation for CY 2016, thereby depriving its employees and clients of the benefits that could have been derived from the activities that were not fully or carried out at all. Moreover, the budget allocation of P10.800 million was lower by P8.011 million than the required of at least five per cent of its total appropriations of P376.223 million, contrary to the pertinent provision of the GAA for FY 2016.

12.1 Section 35 of the GAA of FY 2016 states that:

> *All agencies of the government shall formulate a Gender and Development (GAD) Plan designed to address gender issues within their sectors or mandate and implement the applicable provisions under RA 9710 or Magna Carta of Women on Elimination of All Forms of Discrimination Against Women, the Beijing Platform for Action, the Philippine Plan for Gender-Responsive Development (1995-2025), and the Philippine Development Plan (2011-2016).*

12.2 As required, the GAD Plan shall be integrated in the regular activities of the agency with at least five per cent (5%) of its budget. The PCIC's DBM-approved budget for CY 2016 amounted to P376.223 million; thus, the five per cent or P18.811 million should have been allocated for GAD programs, projects and activities during the year.

12.3 However, for CY 2016, the PCIC allocated a total of P10.800 million or 2.87 per cent only for its GAD-related programs, projects and activities out of its approved budget. The said budget for GAD was lower by P8.011 million, contrary to the pertinent provision of the GAA for FY 2016.

12.4 Meanwhile, review of the GAD's Schedule of Expenses showed that a total of P5.663 million or 52.44 per cent of the budget of P10.800 million was utilized for GAD activities. Table 9 presents GAD targets *vis-à-vis* accomplishments for CY 2016.

Table 9 - GAD Targets per Activity *vis-à-vis* GAD Accomplishment in CY 2016

GAD Issue	GAD Activity	Output Indicators/ Target	Actual Accomplish-ment	GAD Budget	Actual Expenses	Remarks
Organization-Focused						
The need to	a. Conduct seminar and consultation	80 - focal	80 GAD focal	P 2,500,000	P 1,284,228	The target was

GAD Issue	GAD Activity	Output Indicators/ Target	Actual Accomplish-ment	GAD Budget	Actual Expenses	Remarks
regularly analyze, monitor and evaluate GAD's Plan and Budget (GPB).	meetings for GAD Focal Point System (GFPS) b. Seek technical assistance from PCW or GAD experts	persons including GFPS for preparation and formulation (2 Batches) Target: January-June 2016	persons capacitated			attained. Not attained, no accomplishment was reported
Employee's awareness on gender laws (international and local), issues and concerns	a. Conduct National Women's Month Celebration b. Conduct trainings/ seminars on gender-responsiveness thru invitation of resource speaker	Participation of 400 representatives to the National Women's Month Target: March – every year for HO and ROs	400 participants	1,500,000	144,657	The target was attained. The activity was not carried due to time constraints.
Employees awareness on gender laws (international and local), issues and concerns	Continuing training for 500 personnel	500 personnel attended seminar/ training Participants: HO, RO I to XII	500 participants	4,000,000	4,164,586	Fully attained; actual expenses exceeded the allocation by P164,586.
Integrate the identified gender responsive issues in the preparation of GPB and Accomplishment Report (AR).	Conduct conferences and/ or consultation meetings with 80 representatives from Regional Offices (ROs) including PABS and GFPS representatives	80 representatives including officers involved in policy making and PABS and GFPS representatives		2,000,000	-	The activity was not attained due to time constraints.
Client-Focused						
Client's awareness on gender laws (international and local), issues and concerns	a. Post GAD updates and activities on the Bulletin Board in every RO. b. Provide racks for magazines and information/ reading	GAD corner for updates 1 magazine rack	100 female clients were served.	800,000	69,225	Partially attained. The budget per RO is P50,000 and P150,000 for HO.

GAD Issue	GAD Activity	Output Indicators/ Target	Actual Accomplish-ment	GAD Budget	Actual Expenses	Remarks
	materials.					
	c. Distribute GAD information/ reading materials.	1 reading material per walk-in client				
	Provide client lounge for breast-feeding mothers, children's play area, diaper changing table and children's reading materials.	Division for breast-feeding mothers, children' play area, procure tables and other furniture for the lounge.				
				P 10,800,000	P 5,662,696	

12.5 Based on Table 9, the PCIC had partially carried out GAD's programmed activities in CY 2016. It was able to fully attain some of its targets under Organization-Focused issue; however, the conduct of trainings and conferences was not undertaken due to time constraint. On the other hand, a total P69,225 or 8.65 per cent only of the budget allocation of P0.800 million for Client-Focused activities was expended at the end of June 2016.

12.6 The partial or non-implementation of some of the targeted activities deprived the employees and clients of the benefits that could have been derived from GAD programs and activities.

12.7 We recommended and Management agreed to implement GAD activities in accordance with the approved plan and budget to ensure that all programmed activities during the year are carried out efficiently.

COMPLIANCE WITH TAX LAWS

13. Taxes withheld for compensation of officials and employees, creditable tax and e-VAT for procurements of goods and services were remitted on time in CY 2016, while the income tax withheld for the month of December 2016, percentage and documentary stamp taxes were remitted in January 2017. However, other taxes due to local government units (LGUs) at the ROs for fire and property floater in the amounts of P96,042 and P7,360, respectively, remained not remitted. Verification of records revealed that the amounts started accumulating in CY 2011 and no reductions were made to the accounts since then. Inquiry from Management revealed that the amounts are due to LGUs but payments are not accepted by the latter.

COMPLIANCE WITH GOVERNMENT SERVICE INSURANCE SYSTEM (GSIS) LAW

14. For CY 2016, the employees and government shares were computed properly and accurately based on employees' salaries. For the month of December 2016, the total amount of employees' share deducted from the payroll for HO was P140,267 and the corresponding employers' share was P187,026. These amounts were remitted on time to GSIS on January 9, 2017 under Official Receipt No. 890026698.

UNSETTLED AUDIT SUSPENSIONS, DISALLOWANCES AND CHARGES

15. As of December 31, 2016, the unsettled audit disallowances and suspensions amounted to P18.133 million and P15.094 million, respectively, details and status are shown in Annex A, Part-IV of this Report. There were no unsettled audit charges at year-end.

PART III – STATUS OF IMPLEMENTATION OF PRIOR YEARS' AUDIT RECOMMENDATIONS

Out of 62 recommendations contained in the prior years' Annual Audit Reports (AARs), 33 were fully implemented, 20 were partially implemented and 9 were not implemented. The details are summarized below.

Observations and Recommendations	Actions Taken / Comments
CY 2015 AAR	
1. The non-collection of Premium receivables from the National Government (NG) which already accumulated to P516.016 million from calendar years (CYs) 1981 to 2015 might impede the Philippine Crop Insurance Corporation (PCIC) from attaining fully its mandate and execute its strategies as provided under Republic Act (RA) No. 8175. Likewise, the Premium receivables account of P516.016 million indicated in the Notes to Financial Statement (FS) is not reconciled with the amounts indicated in the General Ledger (GL) of P515.791 million and Subsidiary Ledger (SL) of P460.976 million or discrepancies of P0.225 million and P55.040 million, respectively, due to lack of documentation, thus, casting doubt on the reliability of the Premium Receivables account as at year-end. We recommended that Management:	The observation was updated and reiterated in Part II, Observation and Recommendation No. 2 of this Report.
a. Request the DBM to release to PCIC the unpaid premium share of the NG based on the required GPS per Actual Production; and	Fully Implemented. Management has been requesting yearly from the DBM through its Corporate Operating Budget (COB). However, the release of said premium receivable is within the discretion of the DBM.
b. Require the Accounting Division to reconcile the GL, SL and Notes to FS for Premium Receivables account, effect the necessary corrections/adjustments to arrive at reconciled balances and submit the	Fully Implemented.

Observations and Recommendations	Actions Taken / Comments
document(s) on the reconciliation of the account to the Audit Team for audit purposes.	
2. The correctness of the Retained Earnings account is doubtful due to unreconciled difference of P8.162 million between books/trial balance of P198.708 million and PCIC Automated Business System (PABS) Report of P190.546 million in the Underwriting Expenses of Regions I and VIII, recording of accrued indemnities in CY 2014 of P8.593 million as expense in CY 2015, and inclusion under Insurance Claims Payable/Accrued account of denied claims amounting to P8.815 million which should have been dropped from the books. Likewise, in Region I, claims for indemnities were not completely supported with appropriate supporting documents contrary to the provision of Section 4(6) of PD No. 1445.	Related observation in PCIC Head Office (HO) discussed in Part II, Observation and Recommendation No. 3 of this Report.
We recommended and Management agreed to instruct the Regional Managers of Regions I and VIII to require the Accountants and concerned personnel at the Claims and Adjustment Department to reconcile their records regularly in order to come up with more reliable data, effect the necessary adjusting/correcting entries and require the submission of complete documents to prove the insurable interest of the farmer-beneficiary as a condition *sine qua non* for the payment of indemnity claims.	Fully Implemented.
3. In Region I, unreleased checks of P30.941 million and outstanding checks which have become stale of P0.114 million or totaling P31.055 million remained unadjusted in the books contrary to COA Government Accounting and Financial Information System (GAFMIS) Circular Letter No. 2002-001 dated December 16, 2002;	Related observation in PCIC HO discussed in Part II, Observation and Recommendation No. 5 of this Report.

Observations and Recommendations		Actions Taken / Comments
	thus, understating the cash in bank account and the corresponding liability account in the financial statements at year end.	
	We recommended that Management instruct the Regional Manager of Region I to:	
a.	Require the Cashier to submit monthly a list of unreleased checks to the Accountant; and	Fully Implemented.
b.	Require the Accountant to strictly follow the provisions of COA GAFMIS Circular No. 2002-001 on the accounting treatment of unreleased and stale checks.	Fully Implemented.
4.	Certificates of Insurance Cover (CIC) issued in Region I with a total face amount of P1.122 billion for various government premium subsidy programs, Region III with face amount of P9.656 million for Agrarian Production Credit Program (APCP), and Region IV with face amount of P91.912 million under the Department of Agriculture's (DA) Sikat Saka Program were not fully supported with the required documents contrary to the provisions of Section 4(6) of PD No. 1445; hence, CICs might not have been granted to the rightful beneficiaries.	Related observation in PCIC Region III discussed in Part II, Observation and Recommendation No. 9 of this Report.
	We recommended and Management agreed to require the concerned Regional Managers to complete the required documentation and see to it that documents are duly/fully accomplished and free from any inconsistencies in areas, names and other pertinent data to ensure that insurance coverages are given to the rightful farmer-beneficiaries of the various PCIC programs.	Partially Implemented.

Observations and Recommendations	Actions Taken / Comments
5. In Region III, 164 farmer-beneficiaries availed of more than one insurance program in the same cropping season on the same farm lots; thus, resulting in the grant of double insurance aggregating to P1.163 million. Further, out of the 164 farmers, seven were paid indemnity claims for losses incurred in the same cropping season in the total amount of P111,811.	Related observation in PCIC Regions III, III-A and VII discussed in Part II, Observation and Recommendation No. 10 of this Report.
We recommended and Management agreed to revisit the existing rules and regulations on the grant of subsidized insurance premium to targeted beneficiaries to ensure that no double insurance is incurred and no double payment of deficiency claims is made to safeguard the funds granted by the National Government.	Partially Implemented.
6. The actual expenditures for Underwriting Expenses exceeded the Corporate Operating Budget (COB) approved by the Department of Budget and Management (DBM) by P310.669 million contrary to Section 4(1) of PD No. 1445 and the conditions set forth by the DBM in the review and approval of PCIC's COB, thus making the transaction irregular.	
We recommended and Management agreed to:	
a. Prepare a more accurate and realistic budget for expenses based on historical costs to avoid material unfavorable variance against actual expenses; and	Not Implemented. Management commented that the underwriting expenses is the counterpart of the Cost of Goods Sold in merchandising business and should not be considered as part of operating expenses like Personal Services and Maintenance and Other Operating Expenses. Henceforth, provision of budget allocation is no longer necessary.
b. Limit the incurrence of expenditures within the DBM approved COB.	Not Implemented.

Observations and Recommendations	Actions Taken / Comments
	Management explained that the amounts of Premium Discount, Premium Refund, Insurance Benefits, Reinsurance Premium, Commission Expense and Honoraria/incentives to Adjusters depend on how much is being underwritten. Thus, the more Insurance Premiums generated, the bigger the amount of underwriting expenses.
7. Reimbursement of medical expenses of the top officials of PCIC HO and Region VII in the total amount of P387,182 was not supported with budget approved by the DBM in violation of Section 4(1) of PD No. 1445, thus, considered irregular expenses. We recommended that Management:	
a. Require the concerned officials to refund the amount reimbursed totaling P387,182 in CY 2015; and	Not Implemented. An Appeal dated November 2, 2016 from the Notice of Disallowance was filed on December 12, 2016 before the CGS Cluster 5 Director.
b. Discontinue the reimbursement of actual medical expenses of PCIC officials.	Fully Implemented.
8. The existence, accuracy, and validity of the Property, Plant and Equipment (PPE) account cannot be established due to unreconciled book balance and inventory reports in Regions VIII and IX aggregating P0.533 million and non-reclassification of unserviceable properties in Regions IV, VI and XI totaling P0.550 million from PPE to Other Assets account. Meanwhile, the regularity of the procurement of vehicles in CYs 2014 and 2015 by the Head Office (HO) totaling P19.367 million is questionable in view of the absence of complete and appropriate documents as well as non-compliance with the pertinent provisions of RA No. 9184.	Related observation for HO, Regions V and XI discussed in Part II, Observation and Recommendation No. 1 of this Report.

Observations and Recommendations	**Actions Taken / Comments**
We recommended that Management:	
a. Instruct the Regional Managers of Regions IV, VI, VIII, IX and XI to: (i) require the Property Officer to prepare the Inventory and Inspection Report of Unserviceable Property and undertake steps toward the disposal of all unserviceable and idle properties to generate income from sale thereof, as required by Section 79 of PD No. 1445; (ii) direct the Accountant to prepare necessary journal entries to reclassify unserviceable properties to Other Assets account; and (iii) require the concerned Regional Accounting and Supply Offices to reconcile the PPE account balances and issue AREs to the persons having custody and control of the property.	Partially Implemented. For PCIC Regions IV, VIII, IX and XI, the recommendations are fully implemented.
b. Direct the Head of Finance Department to submit the original copies of the supporting documents, i.e., Certificates of Acceptance, Vehicle Sales Invoice and Inspection Reports, etc. that were not submitted as well as documents submitted in Xerox/Photo copies;	Partially Implemented. As at audit date, the sales invoice remained unsubmitted.
c. Comply strictly with the guidelines on procurement under RA No. 9184 particularly on stages of procurement activities;	Fully Implemented.
d. Require the person responsible for the conduct of inspection of deliveries to indicate the condition of items delivered as well as compliance with the specifications stated in the Supply Contract or Purchase Order; and	Partially Implemented. The condition of the items delivered was not yet indicated in the Inspection Report.
e. Submit a written explanation on the disparity in the number of bidders indicated in BAC Resolution No. 2014-017 dated April 28, 2014 and the Attendance Sheet on the opening of bids dated April 25, 2014 relative to the purchase of Hyundai Starex and on the	Not Implemented. Management has not yet submitted to the Audit Team the requested written explanation.

Observations and Recommendations	Actions Taken / Comments
inconsistencies on the VSI and VDR which were issued by non-winning bidder.	
9. Various receivables accounts totaling P113.793 million remained dormant in the books for 17 to 40 years, since the borrowers were either deceased, have retired or their whereabouts could no longer be located; absence of Subsidiary Ledgers and complete documentation; and no request for write-off was made with the Commission on Audit (COA) for long outstanding accounts contrary to Section III of COA Circular No. 97-001.	The observation was reiterated in Part II, Observation and Recommendation No. 2 of this Report.
We recommended and Management agreed to:	
a. Reconstruct secondary evidence to establish validity of the undocumented receivables;	Partially Implemented. The PCIC Internal Audit Division sent collection letters to various debtors with complete addresses in CY 2016.
b. Re-examine collection strategies and implement them vigorously to enforce collection of dormant and long outstanding receivables; and	Partially Implemented.
c. Require the Finance Manager and concerned Regional Managers to comply with the requirements for request for write-off guided by the steps in the proper disposition/closure of dormant accounts as provided for under COA Circular No. 97-001 and Section 4 of the 2009 Revised Rules of Procedure of the COA.	Not Implemented.
10. The Bank Reconciliation Statements (BRSs) of Region XI for cash in bank account amounting to P31.969 million were not submitted to the Auditor contrary to Section 74 of PD No. 1445, while in Region I paid disbursement vouchers (DVs) totaling P16.852 million from Claims Fund and their	Related observation in PCIC Regions VI and VII discussed in Part II, Observation and Recommendation No. 5 of this Report.

Observations and Recommendations	Actions Taken / Comments
corresponding supporting documents were not submitted on time for audit contrary to Section 7.2.1 of COA Circular No. 2009-006 dated September 15, 2009.	
We recommended that Management instruct the:	
a. Regional Manager of Region XI to require the personnel concerned to submit to COA the monthly BRS pursuant to Section 74 of PD No. 1445; and	Fully Implemented.
b. Regional Manager of Region I to require the personnel concerned to submit the DVs for Claim Fund as soon as possible to enable the Auditor to conduct necessary audit, and henceforth, to ensure that DVs for Claim fund are submitted to the Auditor within 10 days of the succeeding month pursuant to COA Circular No. 2009-006.	Partially Implemented.
11. The propriety and validity of 121 Purchase Orders (POs) for procurement of supplies in the total amount of P5.740 million for CY 2015 could not be ascertained due to absence of necessary information, i.e. date, delivery terms, payment terms, date of receipt by the supplier, among others. Likewise, the POs were not submitted to COA within the prescribed period as required under COA Circular No. 2009-001 dated February 12, 2009.	
We recommended and Management agreed to require the PMGSD to:	
a. Ensure that all the necessary information are provided/indicated in the POs;	Partially Implemented.
b. Strictly comply with the provisions of COA Circular No. 2009-001 on the submission of POs to the Office of the	Partially Implemented.

Observations and Recommendations	Actions Taken / Comments
Auditor;	
c. Observe due diligence in the preparation of the POs and assigning of number; and	Fully Implemented.
d. Define responsibilities that would provide adequate internal control and communicate clearly each responsibility and ensure that personnel are aware of their respective responsibilities.	Fully Implemented.
12. Disbursement Vouchers (DVs) for the grant and liquidation of cash advances for local and foreign travels of PCIC officers and employees in Head Office (HO) and Region VII amounting to P1.759 million and P0.273 million respectively, were not duly supported with approved Office Orders/Travel Orders and authority to travel signed by the Secretary of the Department of Agriculture (DA), in case of foreign travel, contrary with Items 1.1.4.1 and 1.1.4.2 of COA Circular No. 2012-001 dated June 14, 2012; hence, the propriety of transactions cannot be determined.	
We recommended that Management:	
a. Comply strictly with the required issuance of Travel Order to officials and employees to show that the travel is authorized;	Fully Implemented.
b. Seek the approval of the Secretary of DA for every foreign travel of officials and employees;	Fully Implemented.
c. Instruct the Accounting Department to refrain from processing cash advances for travelling expenses without the required Travel Order and travel authority from DA Secretary, in the case of foreign travel; and	Fully Implemented.
d. Require Regional Officer of Region VII to submit Certification approved/noted	

Observations and Recommendations	Actions Taken / Comments
by the Head of the Agency that the travelling expenses for actual meals and accommodation are necessary.	Partially Implemented.
13. The remittance of collections by underwriters in Region IV totaling P3.659 million was delayed by 1 to 93 days contrary to Section 14 of PCIC Rules and Regulations on Insurance of Rice and Corn Crops; thus, exposing the fund to possible loss and misuse and depriving the Agency of the immediate use of the collections.	
We recommended that Management require the Regional Manager of Region IV to:	
a. Monitor strictly the remittance of insurance premiums by the Insurance Processors/underwriting agents; and	Fully Implemented.
b. Enforce the Insurance Processors/underwriting agents to strictly remit their collections within 15 days from issuance of the CIC as provided under Rules and Regulations on Insurance of Rice and Corn Crops.	Fully Implemented.
14. In Region XII, Job Order (JO)/Contractual personnel were allowed to travel and claim per diems amounting to P141,135 in CY 2015 and performed other duties like collections of insurance premiums, claims adjustments and follow up of insurance programs, contrary to existing Civil Service Commission (CSC) Regulations.	
We recommended that Management require the Regional Manager of Region XII to:	
a. Discontinue the practice of allowing JOs to perform the functions of the regular insurance underwriters/ adjusters and that of a collecting officer to protect the interest of the PCIC; and	Not Implemented.

Observations and Recommendations	Actions Taken / Comments
b. Strictly adhere to the provisions of Section 1, Rule XI of CSC MC No. 40, Series of 1998 as amended by CSC MC No. 15, Series of 1999, and stop the practice of allowing the JOs/ contractual personnel to claim transportation/travelling allowance and per diems.	Not Implemented.
15. The PCIC has successfully attained its target of providing free insurance coverage in the total amount of P478.016 million for CYs 2014-2015 to 263,610 farmer-beneficiaries in Regions VI, VII and VIII who were adversely affected by Typhoon Yolanda in consonance with the directive of the Office of the President under Memorandum Circular No. 59, Series of 2013, requiring the Department of Agriculture (DA) attached agencies to provide support to the victims of Typhoon Yolanda.	
We recommended and Management agreed to sustain/further advance the positive results by increasing the number of insured farmers every year, through the roll out of more programs in partnership with other agencies that share the same purpose so as to make PCIC a viable service-oriented Agency protecting the marginal farmers and contributing in the growth of the agriculture industry.	Fully Implemented.
16. The amount allocated of P4.100 million for PCIC GAD programs, projects and activities as required under Section 34 of the General Appropriations Act (GAA) for Fiscal Year (FY) 2015 and Joint Circular No. 2004-1 of the Department of Budget and Management (DBM), National Economic Development Authority (NEDA) and National Commission on the Role of Filipino Women (NCRFW) was not equivalent to or at least five	The observation was reiterated and updated in Part II, Observation and Recommendation No. 12 of this Report.

Observations and Recommendations	Actions Taken / Comments
per cent of the total COB of P1.504 billion or P75.200 million. Likewise, actual expenses for two GAD activities exceeded their budgets while one activity was not implemented; thus, the GAD Plan and Budget (GPB) for CY 2015 was not efficiently carried out.	
We recommended and Management agreed to:	
a. Strictly follow the provision of Section 28 of the GAA and ensure that the budget for GAD is equivalent to five per cent of the COB; and	Not Implemented.
b. See to it that all activities in the GPB are implemented and actual expense per activity does not exceed the budget allotted.	Partially Implemented.
CY 2014 AAR	
17. The Government Premium Subsidy (GPS) in excess of the insurance coverage under the Department of Agriculture-Land Bank of the Philippines (DA-LBP) Sikat Saka and National Irrigation Administration (NIA) Early and Third Cropping Rice Programs in the amount of P47.472 million was recognized as Due from Other National Government Agencies (NGAs) – DA in the absence of Memorandum of Agreement (MOA), thus overstating the receivable account and corresponding income by the same amount.	
We recommended that Management:	
. Strictly monitor program implementation and fund utilization to prevent excess insurance coverage; and	Fully Implemented.
b. Consider the applicability of the P32 million premium subsidy discount approved by the Board of Directors to	

Observations and Recommendations	Actions Taken / Comments
the excess insurance coverage under the programs, and to determine the appropriate disposition of the remaining excess premium subsidy of P15.472 million.	Fully Implemented.
18. The PCIC was not able to regularly collect the 10 per cent of the lotto earnings of Philippine Charity Sweepstakes Office (PCSO) as payment of the subscription receivable from the National Government as mandated under Section 6.5 of Republic Act (RA) No. 8175 due to inadequate collection effort, which could affect the financial viability of Agency.	
We recommended that Management, henceforth, closely coordinate with PCSO for the timely remittance of subsequent share from the lotto earnings.	Fully Implemented. Management regularly makes a follow-up with PCSO; however, the release of the fund is still the discretion of PCSO.
19. The non-adherence with the pertinent provisions of the Rice and Corn Crop Insurance Operations Manual on the composition of the team of adjusters raises doubt on the fairness of the assessed losses in Region IV. In addition, Claims for Indemnity totalling P17.776 million were processed and paid despite deficient/lacking supporting documents, contrary to Section 6, PD No. 1445, thus the validity and propriety of such disbursements could not be thoroughly established.	
We recommended that Management instruct the Chief, Claims and Adjustment Division and the Chief, Administrative and Finance Division of Region IV to:	
a. Stop processing and paying claims with deficient documentations/ lacking supporting documents;	

Observations and Recommendations	Actions Taken / Comments
	Partially Implemented.
b. Submit for audit purposes all lacking documents and correct all noted deficiencies in the attachments supporting the claims totaling P17.776 million and all unsubmitted disbursement vouchers, supporting documents and other mandatory reports for CY 2014; and	Partially Implemented.
c. Henceforth, ensure strict compliance with the regulations on: (i) complete documentary requirements, particularly the presence of two adjusters in the assessment of loss or damages in the Claim Adjustment and Verification Report and the printing of their names thereat for proper identification; and (ii) submission of monthly reports of their transactions not later than the fifth day of the ensuing month.	Partially Implemented.
20. There is no assurance that the farmer-beneficiaries insured under the WARA Insurance Program in two regions with insurance premium totaling P5.775 million were all eligible due to incomplete list of farmer-beneficiaries provided by the DA, incomplete documents supporting the Certificates of Insurance Cover (CICs), and supporting documents were not properly accomplished by the insured farmer-beneficiaries.	
We recommended that Management give instructions to the concerned regional Marketing and Services Division to require the Insurance Processor in Region IV to make the necessary steps to have all the documents supporting the 312 CICs be properly accomplished and to secure the lacking documents from the insured farmers, instruct the insurance underwriters to stop processing and approving applications for insurance coverage with incomplete/deficient documentations, and henceforth,	Partially Implemented.

Observations and Recommendations	Actions Taken / Comments
comply strictly with the provision set forth in the MOA.	
21. Double insurance under WARA program and other insurance programs was provided to 1,838 farmer-beneficiaries in Regions II and III due to, among others, Farmers' Ledgers in the PCIC Automated Business System (PABS) for the different insurance covers are not linked to each other, depriving other qualified farmers of benefiting from the programs and also resulting in wastage of funds due to payment of same damage claimed under two insurance programs.	Related observation in Region III, III-A and VII discussed in Part II, Observation and Recommendation No. 10 of this Report.
We recommended that Management:	
a. Prioritize the enhancement of the underwriting facility of the PABS to provide a system validation check to prevent double insurance coverage; and	Partially Implemented.
b. In the meantime that the PABS is still undergoing enhancement, provide instructions to the concerned Regional Marketing and Sales Divisions to thoroughly check the names of farmer-beneficiaries from the Farmer's Ledgers of all insurance programs which the target beneficiaries are the same to avoid overlapping of benefits or simultaneously extending similar insurance programs.	Partially Implemented
22. Rates used in the computation of DA-GPS for crop insurance to farmer-beneficiaries for CYs 2012 to 2014 were not in accordance with the prescribed rates under the DA-LBP Sikat Saka and the NIA Early and Third Cropping Programs, thereby incurring an over grant of insurance premiums of P1.761 million in Regions V, VII and VIII, which could have been used to cover other eligible farmers.	

Observations and Recommendations	Actions Taken / Comments
We recommended that Management require the Regional Managers to direct/instruct the Insurance Processors to comply strictly with the prescribed rates in computing the GPS and amount of cover, and to apply the amount of cover provided in the Implementing Guidelines in the computation of claim of assured farmers granted with excessive subsidy, in case of crop damage or loss.	Fully Implemented.
<u>CY 2013 AAR</u>	
23. The old indemnity schedule that was embedded in the PCIC Automated Business System (PABS) resulted in the net overpayment of indemnity claims amounting to P340,696 covering 40.7 per cent of the vouchers examined in only two Regional Offices, but the error could be more as the PABS was already fully operational since January 2013, hence, very disadvantageous to the PCIC and the affected farmers.	
We recommended that Management:	
a Give instruction to all concerned to review all indemnity claims processed in the PABS during the year 2013; and thereafter, send collection letters to farmers who were overpaid and make additional payments to those who were underpaid; and	Fully Implemented.
b Review/enhance the PABS specifically on the computation of indemnity claims to ensure that all claims processed through the system are accurately computed.	Fully implemented.
24. The accuracy of the Office Supplies Inventory account amounting to P0.738 million cannot be established due to recording of purchases including	

Observations and Recommendations	Actions Taken / Comments
undelivered supplies as outright expense, the absence of stock ledger cards and stock cards, and non-conduct of physical inventory.	Related observation discussed in Part II, Observation and Recommendation No. 4 of this Report.
We recommended that Management require:	
a. The Head Office Accountant and the Supplies Custodian to determine the value of office supplies on hand as basis for the preparation of stock ledger cards and stock cards;	Partially Implemented.
b. The Head Office Accountant to record the stocks still on hand as at year-end as inventories; and henceforth, record all bulk purchases as Office Supplies Inventory account;	Partially Implemented.
c. The Supplies Custodian to:	
c.1 Regularly monitor undelivered items from PS; but if the paid items are no longer available, deduct or offset from the succeeding procurements the value of the undelivered items; and	Fully Implemented.
c.2 Be systematic in the physical arrangement of office supplies and as applicable, consider the expiration date of supplies in the issuance to prevent wastage.	Fully Implemented.
25. Five personnel in the Head Office (HO) served as Officer-in-Charge (OIC) for more than one year without valid Special Order (SO), contrary to Item D of Civil Service Commission (CSC) Memorandum Circular (MC) No. 06, S. 2005.	
We recommended that Management strictly comply with the CSC guidelines on designations of Officer-In-Charge.	Fully Implemented.

Observations and Recommendations	Actions Taken / Comments
26. Deviations from the required documentation in the processing of insurance coverage under the Weather Adverse Rice Areas Program with fund amounting to P167.235 million that is intended to mitigate losses that may be incurred by rice farmers in flood-prone areas brought about by the effect of climate change may have benefitted some non-eligible or non-existing farmers.	
We recommended that Management:	
a. Instruct the insurance underwriters to strictly process only application for insurance coverage with complete documentation duly signed by the authorized officials, in compliance with the MOA;	Fully Implemented.
b. Require the Marketing and Sales Division to follow up the reply of DA-RFUs on the deficiency letters of PCIC Region X;	Fully Implemented.
c. Submit justification for the issuance of insurance coverage for some localities/municipalities which were not identified as flood prone areas by the Mines and Geosciences Bureau-Region V; otherwise, the insurance coverage should be immediately cancelled or voided; and	Fully Implemented.
d. Conduct investigation as to the legitimacy of the “list of participants” in Regions III and III-A that were granted insurance subsidy but with only the name of barangay and one contact number per list as the reference.	Fully Implemented.
27. The non-adherence in Region X to the pertinent provisions of the Rice and Corn Crop Insurance Operations Manual on the composition of team of adjusters raises doubt on the fairness of the assessment of losses that were undertaken.	

Observations and Recommendations	Actions Taken / Comments
We recommended that Region X officials make representation with the Head Office to consider the modification of the rules and regulations set in the Operations Manual in the composition of team of adjusters considering the applicability and practicality of the present rules and regulations with the current operation and volume of transactions in the Region.	Fully Implemented.
CY AAR 2012	
28. The manner of granting the clothing/uniform allowance of P0.855 million was not in accordance with DBM Budget Circular No. 2012-1; hence, might be disadvantageous to the Agency.	
We recommended that Management strictly observe the guidelines provided for in the DBM Budget Circular in the grant of clothing/uniform allowance where if the grant of clothing/uniform allowance shall be in the form of uniform to be procured from supplier, the procurement shall undergo public bidding as required in the Budget Circular.	Fully Implemented.
29. Subsidiary Ledgers for Cash – Collecting Officers in Regions VI and VIII and for Advances to Officers and Employees in Region VIII were not maintained by the Accounting Section in violation of Section 114(2) of PD No. 1445 and Section 12 of Manual on the New Government Accounting System, Volume II, thus the difficulty in determining and monitoring the individual accountability/balance.	
We recommended that Management:	
a. Require the Accounting Section to maintain subsidiary ledger for every	

Observations and Recommendations	Actions Taken / Comments
Accountable Officer to facilitate the determination of the individual accountability of the CO/DCO; and	Fully Implemented.
b. Require the Accounting Section to maintain subsidiary ledgers on cash advances to facilitate monitoring thereof and to serve as basis for granting another cash advance.	Fully Implemented.
30. As of December 31, 2012, the balance of COA audit suspensions and disallowances amounted to P3.181 million and P11.642 million, respectively.	
We recommended that Management vigorously enforce the settlement/ collection of the outstanding disallowances especially those that have become final and executory.	Not Implemented.

Philippine Crop Insurance Corporation
Status of Unsettled Audit Disallowances and Suspensions
As of December 31, 2016

I. Notices of Disallowance (NDs)

ND No./ Date	Persons Liable	Nature/Reason(s) for Disallowance	Amount	Status
16-010-766/ Nov. 4, 2016	PCIC officers and employees	PBB - overpayment	P 113,229.60	Within reglementary period to appeal
16-009-889(2015)/ Oct. 25, 2016	PCIC officer	Loyalty - overpayment	2,500.00	Within reglementary period to appeal.
16-008-889(2015)/ Sept. 30, 2016	PCIC officers and employees	Grant of Gift Check without basis	2,600,000.00	Within reglementary period to appeal.
16-007-889(2015)/ Sept. 30, 2016	PCIC officers and employees	Grant of Gift Check without basis	3,185,000.00	With appeal dated February 13, 2017
16-006-721/ July 29, 2016	PCIC employees	Loyalty - overpayment	1,999.96	For issuance of NFD
16-005-721/ July 29, 2016	PCIC employees	Loyalty - overpayment	7,500.00	For issuance of NFD
16-004-721/ July 29, 2016	PCIC employees	Loyalty - overpayment	4,000.00	For issuance of NFD
16-003-721/ July 15, 2016	PCIC officer	Loyalty - overpayment	2,500.00	For issuance of NFD
16-003-721/ July 15, 2016	PCIC officer	Loyalty - overpayment	2,500.00	For issuance of NFD
16-002-721/ July 14, 2016	PCIC employee	Loyalty - overpayment	2,500.00	For issuance of NFD
16-001-738d(15)/ undated	PCIC officials	Medical – no appropriation	387,182.22	With appeal dated November 2, 2016
014-003-889(10)/ Feb. 25, 2014	PCIC officers and employees	Anniversary bonus – overpayment	580,000.00	With appeal dated August 18, 2014
Various NDs	PCIC regional officers and employees	Anniversary bonus – overpayment	660,000.00	With pending appeal.
014-005-751(13)/ April 25, 2014	PCIC officers and employees	Travel - overpayment	5,325.50	Various CSBs in 1990
014-004-751(13)/ April 25, 2014	PCIC officers and employees	Travel - overpayment	8,400.00	With pending appeal

ND No./ Date	Persons Liable	Nature/Reason(s) for Disallowance	Amount	Status
014-001-751(13)/ Feb. 4, 2014	PCIC officers and employees	Travel - overpayment	2,352.00	For issuance of NFD
CSB 00-002-002/ 2000	Retired PCIC employee	Miscellaneous - overpayment	652.90	Final and executory
CSB 01-014-003/2001	Retired PCIC employee	Miscellaneous – overpayment	9,952.00	Final and executory
CSB 01-015-003/ 2001	Retired PCIC employee	Miscellaneous - overpayment	3,409.00	Final and executory
CSB 01-017-003(01)/2001	Retired PCIC employee	Miscellaneous - overpayment	2,786.75	Final and executory
CSB 01-019-003(01)/2001	Retired PCIC employee	Miscellaneous - overpayment	4,534.00	Final and executory
CSB 00-020-003(01)/2001	Retired PCIC employee	Miscellaneous - overpayment	4,016.40	Final and executory
CSB 00-021-003(01)/2001	Retired PCIC employee	Miscellaneous - overpayment	1,645.00	Final and executory
CSB 00-022-003(01)/2001	Retired PCIC employee	Miscellaneous - overpayment	1,882.00	Final and executory
CSB 00-023-003(01)/2001	Retired PCIC employee	Miscellaneous - overpayment	6,000.25	Final and executory
CSB 00-016-003(01)/2001	Retired PCIC employee	Miscellaneous - overpayment	3,500.00	Final and executory
CSB 00-023-003(01)/2001	Retired PCIC employee	Miscellaneous - overpayment	1,500.00	Final and executory
CSB 08-002-101	Retired PCIC employee	Miscellaneous - overpayment	880.00	Final and executory
CSB 08-008-101	Retired PCIC employee	Miscellaneous - overpayment	254.22	Final and executory
CSB 08-010-101	Retired PCIC employee	Miscellaneous – overpayment	560.20	Final and executory
CSB 93-014-003/ July 3, 1989	Retired PCIC employees	Purchases	21,170.22	Final and executory
Various CSB/ 1989 - 1991	Retired PCIC employees	Purchases	829,200.98	Final and executory
CSB 92-002-003/ 1992	Retired PCIC employees	Retirement - overpayment	305,586.07	Final and executory

ND No./ Date	Persons Liable	Nature/Reason(s) for Disallowance	Amount	Status
Various NDs/ 1998	Retired PCIC officers	Nine percent interest on car plan	7,044,358.41	With SC Decision in G.R. No. 134740 dated October 23, 2001, affirming the COA Decision No. 98-072 dated February 3, 1998
Varous NDs/ 1998	Retired PCIC officers	Unpaid employee's share on insurance, registration/chattel mortgage – relative to car plan	610,248.67	Final and executory
Various NDs and CSBs/ 2003	Retired PCIC employees and officers	Fringe benefits allowances	796,649.94	Final and executory
Various CSBs/ 1989 - 1993	Retired PCIC employees	Repairs and maintenance	169,072.67	Final and executory
Various CSBs/ 1989 – 1993	Retired PCIC employees	Premium Payment	126,466.00	Final and executory
Various CSBs/ 1990	Retired PCIC employees	Travel - overpayment	84,691.80	Final and executory
Various CSBs/ 1992 to 1993	Retired PCIC officers	Gasoline and oil	76,626.98	Final and executory
Various CSBs in 1992 to 1993	Retired PCIC officers	Indemnity payment	67,293.00	Final and executory
Various CSBs in 1989 to 1991	Deceased PCIC officers	Property	60,265.50	Final and executory
Various CSBs/ 1989 to 1991	Deceased PCIC officers	Claims Fund	197,071.00	Final and executory
Various CSBs/ 1990 to 1991	Deceased PCIC officers	Communication expenses	53,093.65	Final and executory
Various CSBs/ 1990 to 1991	Deceased PCIC officers	Membership Dues	24,995.36	Final and executory
Various CSBs/ 1990 to 1991	Deceased PCIC officers	Representation Expenses – overpayment	3,951.17	Final and executory
Various CSBs/ 1990 to 1991	Deceased PCIC officers and employees	Others	55,885.52	Final and executory

ND No./ Date	Persons Liable	Nature/Reason(s) for Disallowance	Amount	Status
TOTAL			**P 18,133,188.94**	

II. Notices of Suspension (NSs)

NS No. /Date	Person(s) Responsible	Nature/Reason(s) for Suspension	Amount	Status
2014-001Claim Fund(13)	PCIC Region X	Claims Fund	P 1,122,154.48	For issuance of ND
2014-003 Claim Fund (13)	PCIC Region X	Claims Fund	198,682.15	For issuance of ND
2014-002 Claim Fund (14)	PCIC Region X	Claims Fund	57,247.42	For issuance of ND
2014-001 Claim Fund (14)	PCIC Region X	Claims Fund	2,835,639.31	For issuance of ND
2014-003 Claim Fund (13)	PCIC Region X	Claims Fund	989,945.00	For issuance of ND
2014-003 Claim Fund (13)	PCIC Region X	Claims Fund	1,466,567.03	For issuance of ND
**	PCIC Region VIII officers and employees		9,612.94	For issuance of ND
**	PCIC Region VIII officers and employees		6,903,845.44	For issuance of ND
2016-001(2012)	PCIC Region VII	Lack of supporting documents	1,668.25	The 90-day period to comply with the submission of the required documents has not yet lapsed as of December 31, 2016.
2016-002 (2013&2014)	PCIC Region VII	-do-	383,231.02	-do-
2016-001(2012)	PCIC Region VII	-do-	810,710.93	-do-
16-001(16)/ Oct. 27, 2016	PCIC Region XII	-do-	29,648.00	-do
16-002(16)/ Oct. 27, 2016	PCIC Region XII	Lack of supporting documents	16,000.00	The 90-day period to comply with the submission of the required documents has

NS No. /Date	Person(s) Responsible	Nature/Reason(s) for Suspension	Amount	Status
				not yet lapsed as of December 31, 2016.
2016-766-001/ Sept. 9, 2016	PCIC officers and employees	-do	268,750.00	-do-
TOTAL			**P 15,093,701.97**	

EXECUTIVE SUMMARY

INTRODUCTION

The Philippine Climate Change Adaptation Project (PhilCCAP) is a pilot project, the objective of which is to develop and demonstrate approaches that would enable targeted communities to adapt to the potential impact of climate variability and change in the Philippines. This would be achieved by strengthening existing institutional frameworks for climate change adaptation, and by demonstrations of cost-effective adaptation strategies in agriculture and natural resources management.

The PhilCCAP comprises of four components. The Department of Agriculture (DA) is in-charge of the implementation of Component 2 - Demonstrating CCA Strategies in Agriculture and Natural Resources Sectors. This component comprised of four sub-components such as: sub-component 2.1: Climate-proofing irrigation infrastructure; 2.2: Enhancing delivery and effectiveness of extension services for farm-level climate risk management; 2.3: Pilot-testing the feasibility of weather index-based crop insurance; and 2.4: Strengthening Climate Change Resilience through Improved Management of Protected Areas.

The Philippine Crop Insurance Corporation (PCIC) is in-charge of the implementation of Component 2.3 - Pilot testing the feasibility of weather index-based crop insurance as per Special Order No. 367, Series of 2012 issued by the DA.

A Memorandum of Agreement (MOA) was signed by the representatives of DA and PCIC. The MOA is effective upon its signing, for a period of one year and upon release of cash, and remains in force and effect unless terminated or extended.

To implement the project, the DA will transfer to PCIC the total amount of P10.045 million from PhilCCAP Fund for the operating requirement as indicated in the approved calendar years (CYs) 2011 and 2012 Work and Financial Plan. The DA has initially transferred to PCIC the amount of P4.191 million in June 2012.

Pending the release of additional Special Allotment Release Order (SARO) triggered by the approval of the increase of the Designated Account, the PCIC has provided a bridge financing, as authorized by its Board of Directors, under Board Resolution No. 2014-004 dated January 16, 2014, amounting to P3 million to partly finance the activities in CY 2014 and ensure the continuity of the project.

Another MOA was signed by the representatives of DA and PCIC on November 21, 2014 providing stipulations regarding the bridge financing provided by PCIC pending the release of additional SARO to the designated PhilCCAP account in the DA.

The DA agreed to transfer to PCIC the total amount of P12.604 million to finance the trainings, workshops and incremental operating cost requirements of Component 2.3 as per approved revised CY 2014 Work and Financial Plan inclusive of the P3 million bridge financed by PCIC to be reimbursed from the PhilCCAP fund. DA has transferred to PCIC P7 million on September 10, 2015 and P2.860 million on December 2, 2016.

FINANCIAL HIGHLIGHTS (In Million Pesos)

	2016	2015	Increase (Decrease)
Assets	1.718	5.845	(4.127)
Liabilities	0.121	0.655	(0.534)
Trust fund	1.597	5.190	(3.593)

SCOPE OF AUDIT

Our audit was conducted on a test basis covering the accounts and operations of the PCIC-PhilCCAP for CY 2016. The audit was made to assess the propriety of financial transactions and compliance with laws, rules and regulations.

INDEPENDENT AUDITOR'S REPORT

We rendered an unqualified opinion on the fairness of the presentation of the financial statements of PCIC-PhilCCAP for CY 2016.

STATUS OF IMPLEMENTATION OF PRIOR YEARS' AUDIT RECOMMENDATIONS

Out of the two recommendations contained in CY 2015 Annual Audit Report, both were fully implemented. Details are presented in Part II of this Report.

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

INDEPENDENT AUDITOR'S REPORT

THE BOARD OF DIRECTORS
Philippine Crop Insurance Corporation
7th Floor, NIA Building A, NIA Complex
EDSA, Quezon City

We have audited the accompanying financial statements of the **PCIC-Philippine Climate Change Adaptation Project (PhilCCAP)**, which comprise the balance sheet, statement of expenses and schedule of cash available as of December 31, 2016, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with generally accepted 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 whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit 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 audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the **PCIC-PhilCCAP** as at December 31, 2016 in accordance with generally accepted State accounting principles.

COMMISSION ON AUDIT

COMMISSION ON AUDIT

DIVINA M. TELAN
Officer-in-Charge – Supervising Auditor
Audit Group F – PCIC/QUEDANCOR
Cluster 5 – Agricultural and Natural Resources
Corporate Government Sector

June 2, 2017

June 2, 2017

Republic of the Philippines
Department of Agriculture
PHILIPPINE CROP INSURANCE CORPORATION

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of the **Philippine Climate Change Adaptation Project (PhilCCAP)** is responsible for all information and representations contained in the accompanying Balance Sheet as of December 31, 2016 and the related Statement of Expenses, Statement of Funds Available for the year then ended. The financial statements have been prepared in conformity with the generally accepted state accounting principles and reflect amounts that are based on the best estimates and informed judgment of the 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.

NOMER D. VIRAY
DM, Finance

NORMAN R. CAJUCOM
SVP-ORMG

Noted:

ATTY. JOVY C. BERNABE
President

7th Floor, Building A, NIA Complex, EDSA, Quezon City
Tel # (02) 441-1322, (02) 441-1326, Telefax # (02) 441-1325

PHILIPPINE CLIMATE CHANGE ADAPTATION PROJECT
PHILIPPINE CROP INSURANCE CORPORATION
BALANCE SHEET
AS OF DECEMBER 31, 2016
(In Philippine Peso)

	Note	2016	2015
ASSETS			
Cash in bank - local-currency account	3	1,000,578	5,220,166
Advances to officers and employees		30,000	-
Due from regional office/PhilRice	4	504,318	278,608
Other receivable-PCIC		225	-
Property, plant and equipment, net	5	182,880	346,174
TOTAL ASSETS		**1,718,001**	**5,844,948**
LIABILITIES AND FUND			
PCIC-PhilCCAP fund	6	1,596,638	5,189,731
Withholding tax payable		94,634	19,445
Other payables - PCIC	7	26,729	635,638
Accounts payable - others		-	134
TOTAL LIABILITIES AND FUND		**1,718,001**	**5,844,948**

The Notes on pages 104 to 107 form part of these financial statements.

PHILIPPINE CROP INSURANCE CORPORATION
PHILIPPINE CLIMATE CHANGE ADAPTATION PROJECT
NOTES TO FINANCIAL STATEMENTS
(All amounts in Philippine Peso unless otherwise stated)

1. GENERAL INFORMATION

The Philippine Climate Change Adaptation Project Phase 1 (PhilCCAP1) was created under the Memorandum of Agreement (MOA) dated January 17, 2011. On June 29, 2012, the Philippine Crop Insurance Corporation (PCIC) received funds amounting to Four Million One Hundred Ninety One Thousand Pesos (P4,191,000) to be used for the implementation of the PhilCCAP1, a pilot grant project funded by the World Bank which aims to develop and demonstrate approaches that would enable targeted communities to adapt to the potential impacts of climate variability and change in the Philippines.

PhilCCAP1 also aims to strengthen the capabilities of government agencies involved in climate change adaptation and the following are the implementing agencies:

- Department of Environment and Natural Resources (DENR);
- Department of Agriculture (DA); and
    - Philippine Atmospheric, Geophysical and Astronomical Services Administration - Department of Science and Technology (PAGASA-DOST).

The Project has four major components and sub-components as follows:

Component	1:	Strengthening the Enabling Environment for Climate Change Adaptation.
Component	2:	Demonstrating Climate Change Adaptation Strategies in the Agriculture and Natural Resources Sectors.
	2.1	Climate-proofing irrigation infrastructure and other agricultural infrastructure.
	2.2	Enhancing delivery and effectiveness of extension services for farm-level climate risk management.
	2.3	Pilot-test the feasibility of weather index-based crop insurance.
	2.4	Strengthening climate change resilience through improved management of protected areas.
Component	3:	Enhanced Provision of Scientific Information for Climate Risk Management.
	3.1	Enhanced Provision of Scientific information to guide the design of adaptation actions.
	3.2	Strengthen the institutional capacity for effective climate risk management.
Component	4:	Project Coordination.

2. ACCOUNTING POLICIES

The principal accounting policies adopted in preparing the financial statements of PCIC-PhilCCAP are as follows:

2.1 Basis of Preparation

The accompanying financial statements of PCIC-PhilCCAP for the year ended December 31, 2016 have been prepared by applying accounting policies in accordance with the Philippine Financial Reporting Standards (PFRS) and Philippine Accounting Standards (PAS) to achieve a fair presentation of the financial statements. The financial statements have been prepared on a historical cost basis and the presentation and classification of items were shifted from New Government Accounting System (NGAS) to PFRS.

Comparative information has been presented in respect of the previous period for all amounts reported in the financial statements.

2.2 Adoption of the PFRS / PAS

Under PAS 1, unless the financial statements comply with all the requirements of PFRS they are not described as complying with PFRS/PAS. The PCIC-PhilCCAP's financial statements have been prepared in compliance with some, but not all, PFRS and PAS as aligned with the provisions of the PFRS. References to the preparation of these statements in accordance with the PFRS/PAS should be viewed with this qualification and related disclosures. The PCIC-PhilCCAP has adopted the applicable PFRS/PAS and compliance thereto mentioned in the specific accounts where applicable.

In accordance with PAS 1 (Revised 2009), Presentation of Financial Statements (effective January 1, 2009), an entity is required to present all items of income and expense recognized in the period in a single statement of comprehensive income or in a two statements: a separate income statement and a statement of comprehensive income. The income statement shall disclose income and expense recognized in profit and loss in the same way as the current version of PAS 1. The statement of comprehensive income shall disclose profit and loss for the period, plus each component of income and expense recognized outside of profit and loss classified by nature (e.g. gains or losses on available-for-sale assets). Changes in equity arising from transactions with owners are excluded from the statement of comprehensive income (e.g. dividends and capital increase). An entity would also be required to include in its set of financial statements a statement showing its financial position (or balance sheet) at the beginning of the previous period when the entity retrospectively applies an accounting policy or makes a retrospective restatement.

PAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors, removes the concept of fundamental error and allowed alternative to retrospective statement to correct prior period errors. It defines material omissions or misstatements and describes how to apply the concept of materiality when applying accounting policies and correcting errors.

PAS 10 – Events after Balance Sheet date prescribes the accounting policies and disclosures related to adjusting and non-adjusting subsequent events. An entity shall adjust the amounts recognized in its financial statements to reflect adjusting events after the balance sheet date. Additional disclosures required by the standards were included in the financial statements, principally the date of authorization for release of financial statements.

Unless otherwise stated, the calendar year (CY) 2016 balances are prepared under the historical cost convention and/or applicable PFRS/PAS.

PAS 36 – Impairment of Assets which prescribes the procedures that an entity applies to ensure that its assets are carried at no more than its recoverable amount; requires recognition of impairment losses and reversal of this; and prescribes disclosures.

PAS 39 – Financial Instruments: Recognition and Measurements. Financial assets and financial liabilities are recognized on the Corporation's balance sheet when the Corporation becomes a party to the contractual provisions of the instrument.

3. CASH IN BANK-LOCAL CURRENCY ACCOUNT

This account represents the remaining available cash in bank for the implementation of the PhilCCAP1.

4. DUE FROM REGIONAL OFFICE/PHILRICE

This account consists of the following:

	2016	**2015**
Due from Regional Office No. 2	479,118	-
Due from Regional Office No. 6	25,200	278,608
	504,318	**278,608**

5. PROPERTY, PLANT AND EQUIPMENT

This account pertains to the equipment used in the implementation of the PhilCCAP1.

	2016	**2015**
Office equipment	627,707	627,707
Less: accumulated depreciation	527,274	414,286
	100,433	213,421
IT equipment	279,480	279,480
Less: accumulated depreciation	197,033	146,727
	82,447	132,753
	182,880	**346,174**

6. PCIC-PHILCCAP FUND

This account consists of the following:

	Amount
Fund received from DA on June 29, 2012	4,191,000
Total amount of property, plant and equipment	907,187

Fund received from DA on September 10, 2015	7,000,000
Fund received from DA on December 2, 2016	2,860,000
	14,958,187
Add: Interest income (cumulative)	15,850
	14,974,037
Less: Cumulative expenses	13,377,399
	1,596,638

7. OTHER PAYABLES - PCIC

This account represents the remaining payable of PCIC-PhilCCAP to PCIC under the latter's Bridge Financing for a maximum amount of P3,000,000 per PCIC Board Resolution No. 2014-004 dated January 16, 2014.

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

The two recommendations contained in the CY 2015 Annual Audit Report were fully implemented.

Observations and Recommendations	Actions Taken / Comments
1. The accuracy and reliability of the Property, Plant and Equipment (PPE) account with net book value totaling P346,174 could not be determined due to lack of subsidiary ledgers (SLs), PPE Ledger Cards and property cards (PCs) and absence of physical inventory. We recommended and Management agreed to:	
a. Require the Accounting Department and the General Services Office to maintain SLs, PPE Ledger Cards and PCs which shall be regularly reconciled with the respective General Ledger balances; and	Fully Implemented. The Accounting Department and the General Services Office have already maintained the SLs, PPE Ledger Cards and PCs.
b. Create an Inventory Committee to conduct physical count of PPE, prepare the RPCPPE and submit to the Auditor. Reconcile the results thereof with the SLs, PPE Ledger Cards and PCs.	Fully Implemented. An Inventory Committee was created and the physical count of PPE was conducted in CY 2016.

EXECUTIVE SUMMARY

INTRODUCTION

The Special Revolving Trust Fund (SRTF) was created under Letter of Instructions (LOI) No. 1242 dated May 21, 1982, a measure to facilitate Guarantee Payments under Masagana 99 Program. Under this program, lending institutions, particularly the Philippine National Bank (PNB) and rural banks, may avail of special guarantee payments of up to 85 per cent of the past due Masagana 99 loans, with the following conditions: a) have been in arrears for three years or more as of the date of effectivity of the LOI; and b) were not the subject of previous advances/payments from the Agricultural Guarantee Fund (AGF).

The Fund was set up for the purpose of restoring the good credit standing of these banks with the Bangko Sentral ng Pilipinas (BSP) and also to enable them to regain their capacity to render financial services to the rural communities by their continued participation in the supervised credit program.

The National Government appropriated P450 million for this purpose. The Philippine Crop Insurance Corporation (PCIC) received P75 million in calendar year (CY) 1982, P345.780 million during the last quarter of CY 1984 and P29.220 million in CY 1985.

Out of the total appropriations of P450 million, P304.765 million remained unutilized as of December 31, 2016, of which P304.625 million were invested in the Land Bank of the Philippines – High Yield Savings Account (LBP-HYSA).

FINANCIAL HIGHLIGHTS (In Million Pesos)

I. Comparative Financial Position

	2016	2015 As restated	Increase (Decrease)
Assets	305.216	302.168	3.048
Liabilities	188.969	186.773	2.196
Trust fund	116.247	115.395	0.852

II. Comparative Results of Operations

	2016	2015 As restated	Increase (Decrease)
Income	3.448	2.907	0.541
Personal services	2.353	0.830	1.523
Maintenance and other operating expenses	0.244	0.131	0.113
Total expenses	2.597	0.961	1.636
Net income	0.851	1.946	(1.095)

SCOPE OF AUDIT

Our audit was conducted on a test basis covering the accounts and operations of the PCIC-SRTF (LOI 1242) for CY 2016. The audit was made to assess the propriety of financial transactions and compliance with laws, rules and regulations.

INDEPENDENT AUDITOR'S REPORT

We rendered an unqualified opinion on the fairness of the presentation of the financial statements of PCIC-SRTF for CY 2016.

SUMMARY OF AUDIT OBSERVATION AND RECOMMENDATION

1. The Journal Entry Vouchers (JEVs) drawn by the PCIC-Head Office (HO) to record expenses of P0.721 million incurred by the Regional Offices (ROs) which were charged from the Special Revolving Trust Fund (SRTF) were not supported with any document, thus casting doubt on the validity of the expenses and contrary to Section 4(6) of Presidential Decree (PD) No. 1445.

   1.1 We recommended and Management agreed to require the Finance Manager to ensure completeness of supporting documents prior to signing the JEVs and recording the transactions in the books of accounts.

STATUS OF IMPLEMENTATION OF PRIOR YEARS' AUDIT RECOMMENDATIONS

Out of five recommendations contained in CY 2015 Annual Audit Report, two were fully implemented and three were not implemented. Details are presented in Part III of this Report.

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

INDEPENDENT AUDITOR'S REPORT

THE BOARD OF DIRECTORS
Philippine Crop Insurance Corporation
7th Floor, NIA Building A, NIA Complex
EDSA, Quezon City

We have audited the accompanying financial statements of the **PCIC-Special Revolving Trust Fund (SRTF) (LOI 1242)**, which comprise the Statement of Financial Position as at December 31, 2016, and the Statement of Comprehensive Income, Statement of Changes in Trust Fund and Cash Flow Statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with generally accepted 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 whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit 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 audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the **PCIC-SRTF (LOI 1242)** as at December 31, 2016, and its financial performance and its cash flows for the year then ended in accordance with generally accepted State accounting principles.

COMMISSION ON AUDIT

DIVINA M. TELAN
Officer-in-Charge – Supervising Auditor
Audit Group F – PCIC/QUEDANCOR
Cluster 5 – Agricultural and Natural Resources
Corporate Government Sector

June 2, 2017

Republic of the Philippines
Department of Agriculture
PHILIPPINE CROP INSURANCE CORPORATION

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of the **PCIC-Special Revolving Trust Fund (SRTF)** is responsible for all information and representations contained in the accompanying Statement of Financial Position as of December 31, 2016 and the related Statement of Comprehensive Income, Cash Flow Statement and Statement of Changes in Trust Fund for the year ended. The financial statement have been in conformity with the generally accepted state accounting principles and reflect amounts that are based on the best estimates and informed judgment of the 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.

NOMER D. VIRAY
Manager, Finance Department

ATTY. JOVY C. BERNABE
President

SPECIAL REVOLVING TRUST FUND (LOI 1242)
PHILIPPINE CROP INSURANCE CORPORATION
STATEMENT OF FINANCIAL POSITION
December 31, 2016

(In Philippine Peso)

	Note	2016	2015 As restated
ASSETS			
Current assets			
Cash and cash equivalent	4	304,765,190	301,716,794
		304,765,190	301,716,794
Non-current asset			
Accounts receivable-non-current - net	5	252,093	252,093
Other assets	6	198,625	198,625
		450,718	450,718
TOTAL ASSETS		**305,215,908**	**302,167,512**
LIABILITIES AND TRUST FUND			
Current liability			
Due to other funds - PCIC	7	1,363,297	(833,446)
		1,363,297	(833,446)
Non-current liabilities			
Accounts payable		69,348	69,348
Claims payable	8	187,536,617	187,536,617
		187,605,965	187,605,965
		188,969,262	186,772,519
Special revolving trust fund	12	116,246,646	115,394,993
TOTAL LIABILITIES AND TRUST FUND		**305,215,908**	**302,167,512**

The Notes on pages 89 to 94 form part of these financial statements.

PHILIPPINE CROP INSURANCE CORPORATION
SPECIAL REVOLVING TRUST FUND (LOI 1242)
NOTES TO FINANCIAL STATEMENTS
(All amounts in Philippine Peso unless otherwise stated)

1. GENERAL INFORMATION

The Philippine Crop Insurance Corporation - Special Revolving Trust Fund (PCIC-SRTF) was created under the Letter of Instructions (LOI) No. 1242 dated May 21, 1982, "Providing a Measure to Facilitate Guarantee Payments Under the Masagana 99 Program." Under this program, lending institutions, particularly the Philippine National Bank (PNB) and rural banks, may avail of special guarantee payments of up to 85 per cent of the past due Masagana 99 loans, with the following conditions: (a) have been in arrears for three years or more as of the date of effectivity of the LOI, and (b) were not the subject of previous advances/payments from the Agricultural Guarantee Fund (AGF).

The Fund was set up for the purpose of restoring the good credit standing of these banks with then Central Bank of the Philippines, now Bangko Sentral ng Pilipinas (BSP), and also to enable them to regain their capability to render financial services to the rural communities by their continued participation in the supervised credit program.

A special guarantee payment (SGP) scheme was evolved wherein the PCIC, as administrator of the fund, would pay up to 85 per cent of the principal portion of these arrearages in three installments: (a) 25 per cent of the eligible loan arrearages on the first year; (b) 30 per cent on the second year; and (c) 30 per cent on the third year.

The beneficiary lending institutions are required to restructure these past due loans and to remit back to PCIC 85 per cent of the principal portion of all collection on these accounts.

The National Government appropriated P450 million for this purpose. The Corporation received P75 million in calendar year (CY) 1982, P345.780 million during the last quarter of CY 1984, and P29.220 million in CY 1985.

Out of the total appropriations of P450 million, P304.765 million remained unutilized as of December 31, 2016, of which P304.625 million were all invested in LBP-High Yield Savings Account (HYSA).

2. ACCOUNTING POLICIES

The principal accounting policies adopted in preparing the financial statements of the Corporation are as follows:

2.1 Basis of Preparation

The accompanying financial statements of PCIC-SRTF for the period ended December 31, 2016 have been prepared by applying accounting policies in accordance with the Philippine Financial Reporting Standards (PFRS) and Philippine Accounting Standards (PAS) to achieve a fair presentation of the financial statements.

PCIC is a going concern entity which financial statements have been prepared on accrual basis, except when stated otherwise, and in accordance with the historical cost convention. The presentation and classification of item in the financial statements shifted from New Government Accounting System (NGAS) to PFRS.

Comparative information has been presented in respect of the previous period for all amounts reported in the financial statements.

2.2 Adoption of the PFRS / PAS

Under the PAS 1, unless the financial statements comply with all the requirements of PFRS, they are not described as complying with PFRS/PAS. The PCIC-SRTF's financial statements have been prepared in compliance with some, but not all, PFRS and PAS as aligned with the provisions of the PFRS. References to the preparation of these statements in accordance with the PFRS/PAS should be viewed with this qualification and related disclosures. The PCIC-SRTF has adopted the applicable PFRS/PAS and compliance thereto mentioned in the specific accounts where applicable.

In accordance with PAS 1 (Revised 2009), Presentation of Financial Statements (effective January 1, 2009), an entity is required to present all items of income and expense recognized in the period in a single statement of comprehensive income or in a two statements: a separate income statement and a statement of comprehensive income. The income statement shall disclose income and expense recognized in profit and loss in the same way as the current version of PAS 1. The statement of comprehensive income shall disclose profit and loss for the period, plus each component of income and expense recognized outside of profit and loss classified by nature (e.g. gains or losses on available-for-sale assets). Changes in equity arising from transactions with owners are excluded from the statement of comprehensive income (e.g. dividends and capital increase). An entity would also be required to include in its set of financial statements a statement showing its financial position (or balance sheet) at the beginning of the previous period when the entity retrospectively applies an accounting policy or makes a retrospective restatement.

PAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors, removes the concept of fundamental error and allowed alternative to retrospective statement to correct prior period errors. It defines material omissions or misstatements and describes how to apply the concept of materiality when applying accounting policies and correcting errors.

PAS 10 – Events after Balance Sheet date prescribes the accounting policies and disclosures related to adjusting and non-adjusting subsequent events. An entity shall adjust the amounts recognized in its financial statements to reflect adjusting events after the balance sheet date. Additional disclosures required by the standards were included in the financial statements, principally the date of authorization for release of financial statements.

Unless otherwise stated, the CY 2016 balances are prepared under the historical cost convention and/or applicable PFRS/PAS.

PAS 36 – Impairment of Assets which prescribes the procedures that an entity applies to ensure that its assets are carried at no more than its recoverable amount; requires recognition of impairment losses and reversal of this; and prescribes disclosures.

PAS 39 – Financial Instruments: Recognition and Measurements. Financial assets and financial liabilities are recognized on the Corporation's balance sheet when the Corporation becomes a party to the contractual provisions of the instrument.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 Financial Investments

Financial assets and financial liabilities are recognized on the PCIC-SRTF's statement of financial position when it becomes a party to the contractual provisions of the instrument. The classification of financial instruments at initial recognition depends on the purpose for which the financial instruments were acquired and their characteristics.

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and have fixed maturities that the PCIC-SRTF's management has the intention and ability to hold on to maturity. After initial measurement, held-to-maturity financial investments are subsequently measured at amortized cost using the effective interest rate method, less allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are integral part of the effective interest rate. The amortization is included in interest and similar income in the statement of comprehensive income.

An impairment loss is recognized in profit and loss when there is objective evidence that the asset is impaired. Those held-to-maturity financial investments with maturities in less than one (1) year are included in the current assets, and those with maturities greater than twelve (12) months after the statement of financial position date are classified as non-current assets.

3.2 Allowance for Doubtful Accounts

Allowance for doubtful accounts is provided at an amount determined after an evaluation of the estimated collectability of receivable balances considering, among others, the age of accounts. The PCIC's current practice is to provide an allowance of 10 per cent after two years when the account becomes past due, except for the guaranteed receivables.

An allowance for doubtful accounts on SGP is provided equivalent to 50 per cent of the outstanding receivables as of end of 1998 spread over a five-year period. As of December 31, 2016, the SGP has been provided with 100 per cent allowance.

3.3 Recognition of Income

Revenue is recognized when it is probable that the economic benefits will flow to the Corporation and the revenue can be reliably measured.

4. CASH AND CASH EQUIVALENT

This account consists of collections, recoveries from PCIC and lending banks and income from investments, and investment with a term of 91 days and below.

	2016	2015
Cash in bank	140,543	-
LBP-HYSA	304,624,647	301,716,794
	304,765,190	**301,716,794**

The details of the LBP-HYSA as at December 31, 2016 are as follows:

	Account Number	Maturity Date	Amount
31 days at 1.400%	(0551-0552-80)	01/09/2017	275,592,099
32 days at 1.400%	(0551-0562-87)	01/02/2017	29,032,548
			304,624,647

5. ACCOUNTS RECEIVABLE - NON-CURRENT

This account consists of the amount to be collected by PCIC-Regional Offices (ROs) from various farmer-borrowers/banks.

	2016	2015
Accounts receivable-SGP	369,274,257	369,274,257
Accounts receivable-banks	486,279	486,279
Accounts receivable-PCIC	252,093	252,093
	370,012,629	370,012,629
Less: Allowance for doubtful accounts	369,760,536	369,760,536
	252,093	**252,093**

Accounts receivable-SGP account represents the 85 per cent of the total amount recoverable by the Trust Fund when claimant banks are eventually able to collect from farmer-borrowers. This account was provided with 100 per cent allowance in CY 2007 after the collection was determined to be doubtful.

Accounts receivables-banks account represents recoveries and income from fines and penalties not remitted by the participating rural banks to the SRTF account, which are to be deducted from future SRTF claim payments to those banks.

6. OTHER ASSETS

This account represents prepaid taxes on investments. The expired portion of prepaid taxes is being directly credited to this account instead of being charged to taxes and licenses account.

7. DUE TO OTHER FUNDS - PCIC

This represents accounts payable to PCIC for expenses incurred in connection with the management of the fund:

	2016	2015 As restated

Due to other funds - PCIC	1,363,297	(833,446)

In accordance with PAS 8, Accounting Policies, Changes in Accounting Estimates and Errors, the Due to Other Funds-PCIC account for CY 2015 is restated as follows:

Particulars	**Amount**
Due to other funds - PCIC, December 31, 2015	549,606
Less: Overstatement of manpower expense for CYs 2010-2013	(1,383,052)
Due to other funds-PCIC, December 31, 2015, As restated	**(833,446)**

8. CLAIMS PAYABLE

This represents the remaining unpaid portion of claims for SGP (2nd and 3rd installments) of the banks.

9. INTEREST INCOME ON INVESTMENT

This account represents interest on investment in LBP-HYSA which is recognized based on the accrual method of accounting, net of the 20 per cent tax.

10. INTEREST INCOME ON SAVINGS/TIME DEPOSIT

This account represents interest earned on deposits with local banks which is recognized using accrual method of accounting, net of 20 per cent tax.

11. EXPENSES

This account consists of the following:

	2016	**2015 (As restated)**
Salaries and wages	2,352,824	830,649
Travelling expense – local	108,524	11,691
Supplies and material expense	104,234	60,306
Communication and postage	31,161	59,079
	2,596,743	**961,725**

In accordance with PAS 8, Accounting Policies, Changes in Accounting Estimates and Errors, the Salaries and wages account for CY 2015 is restated as follows:

Particulars	**Amount**
Salaries and wages, December 31, 2015	2,213,701
Less: Overstatement of manpower expense for CYs 2010-2013	1,383,052
Salaries and wages, December 31, 2015, as restated	**830,649**

12. SPECIAL REVOLVING TRUST FUND

This account consists of the following:

	Amount
Trust Fund, December 31, 2015	114,011,941
Add: Adjustments made on the overstatement of manpower expense	1,383,052
Net income for the period	851,653
Trust Fund, December 31, 2016	**116,246,646**

13. PENDING CASE

There is an ongoing case with RB Gimba that may result to SRTF paying an estimated amount of P6,000,000 to P10,000,000.

PART II – OBSERVATION AND RECOMMENDATION

1. **The Journal Entry Vouchers (JEVs) drawn by the PCIC-Head Office (HO) to record expenses of P0.721 million incurred by the Regional Offices (ROs) which were charged from the Special Revolving Trust Fund (SRTF) were not supported with any document, thus casting doubt on the validity of the expenses and contrary to Section 4(6) of Presidential Decree (PD) No. 1445.**

1.1 Section 4(6) of PD No. 1445 states that, "*Claims against government funds shall be supported with complete documentation.*"

1.2 The procedure on the utilization of SRTF is provided under PCIC Memorandum Circular No. 2010-004 dated December 14, 2010. Debit Memos/Credit Memos (DMs/CMs) are issued by the HO to support transactions under the Home Office and Branch Accounting. A CM is prepared when the HO releases the Trust Fund to the ROs upon the latter's request for funding of their intended expenditures for the year. The ROs charged from the SRTF expenses, such as manpower, office supplies, communication and postage. The expenses incurred by the ROs charged against the Trust Fund are recorded by the HO in the SRTF books of accounts upon submission by the former of Statement of Expenses. A DM signed by the Division Chief of Administrative and Finance Division and Vice-President, Special Support Services is prepared to support the Journal Entry Voucher (JEV) drawn by the HO to record the expenses incurred by the ROs charged from SRTF. As a matter of practice at the HO, the expenses are recorded at the end of the year.

1.3 Verification revealed that the Manager of Finance Department and the OIC of Accounting Division signed the JEVs drawn to record the expenses incurred by the ROs in the amount of P0.721 million, itemized in Table 1, that were charged against the SRTF, although these were not supported with DMs, contrary to Section 4(6) of PD No. 1445. In the absence of the DMs to support the JEVs drawn, the validity of the expenses charged from the SRTF is doubtful.

Table 1 – Summary of Expenses Incurred by the ROs Charged from the SRTF in CY 2016

	RO No./Amount					Total
Expenses	**V**	**VI**	**IX**	**X**	**XI**	
Manpower services	P 34,366	P 152,787	P 172,277	P 141,811	P 169,697	P 670,938
Office supplies	-	35,397	1,200	-	-	36,597
Communication and postage	-	10,907	1,440	-	894	13,241
	P 34,366	**P 199,091**	**P 174,917**	**P 141,811**	**P 170,591**	**P 720,776**

1.4 **We recommended and Management agreed to require the Finance Manager to ensure completeness of supporting documents prior to signing the JEVs and recording the transactions in the books of accounts.**

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

Out of five recommendations contained in Calendar Year 2015 Annual Audit Report, two were fully implemented and three were not implemented.

Observations and Recommendations	Actions Taken / Comments
1. There was an overcharging of P1.383 million in the manpower expenses due to the gross salaries of two personnel from calendar years (CYs) 2010 to 2013 totaling P1.537 million were 100 per cent charged to Special Revolving Trust Fund (SRTF) instead of 10 per cent only as provided under Philippine Crop Insurance Corporation (PCIC) Memorandum Circular No. 2010-004, thus, resulted in the understatement of retained earnings of SRTF in the amount of P1.383 million and overstatement of the retained earnings of PCIC-Proper by the same amount as at December 31, 2015. We recommended that Management:	
a. Ensure that the amount of manpower services charged to SRTF is in accordance with PCIC Memorandum No. 2010-004 taking into consideration the activities required by the SRTF; and	Fully Implemented.
b. Replenish the amount overcharged against SRTF with PCIC-Proper funds.	Fully Implemented. Necessary adjustments were made for the overcharging, both in PCIC Proper and PCIC-SRTF books of accounts.
2. There are no more claimants as well as developments related to the primary purpose for which the SRTF was created; thus, its existence is not any longer essential and the remaining cash of P301.717 million as at December 31, 2015 could already be considered unnecessary special and trust fund as defined under Section 3.4 of the Department of Finance (DOF),	

Observations and Recommendations	Actions Taken / Comments
Department of Budget and Management (DBM) and Commission on Audit (COA) Permanent Committee Joint Circular No. 4-2012 dated September 11, 2012.	
We recommended that Management:	
a. Review and evaluate whether the purpose for which the SRTF has been established is already accomplished and if the Fund is no longer needed, return the remaining cash to the National Government pursuant to EO No. 431;	Not Implemented.
b. Require the Finance Department to make the necessary reconciliation, consolidation, adjustment, and closing of the books of accounts of SRTF when the same is no longer needed; and	Not Implemented.
c. Coordinate with the BTr on the requirements and procedures of returning the Fund to the National Government.	Not Implemented.