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

CORPORATE GOVERNMENT SECTOR
Cluster 5 – Agricultural and Natural Resources

July 31, 2015

PHILIPPINE CROP INSURANCE CORPORATION
RECEIVED
AUG 07 2015
Office of the President

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, 2014.

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

The Auditor expressed a qualified opinion on the fairness of presentation of the financial statements of PCIC as of December 31, 2014 in view of the following:

1. The difference between the Statement of Financial Position (SFP) and the General Ledger (GL) balances for the Subscription Receivable account and Accumulated Profits (Losses) totalling P1.223 billion brought about by the limitation of the accounting system in the recording of transactions, the incomplete data in the GL, and inappropriate preparation of trial balance (TB) rendered doubtful the accuracy of the said accounts and the Stockholder's Equity with a balance of P1.632 billion;

2. The trust liability pertaining to the funds received from the Department of Agriculture (DA) amounting to P150 million as Government Premium Subsidy (GPS) for the implementation of a project cannot be readily established due to incorrect entries in the recording of receipt and utilization of the funds and the absence of subsidiary ledgers for the Other Payables-Others account; and

3. The GPS in excess of the insurance coverage under the DA-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.

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

1. Require the Accounting Division to conduct an in-depth analysis of the accounts pertaining to prior years' transactions and effect the adjustments where appropriate, to prevent inaccurate and misleading information;

2. Observe due diligence in the proper keeping of the books of accounts considering that top management or other users of the financial statements greatly depend their decisions on the available financial information;

3. Require all the Accountants to immediately analyze the transactions pertaining to the P150 million DA-GPS and effect the necessary adjustments to the appropriate liability accounts, the reciprocal accounts and other affected accounts, to establish the correct balance of the liability to the DA;

4. Require the Regional Office Accountants to submit duly audited Report of Disbursements to support the Debit Memos for fund utilized under the programs;

5. Henceforth, remind all concerned to strictly comply with the provisions of COA Circular No. 94-013 in the recording of receipt and liquidation of funds received from the source agencies, and in the maintenance of subsidiary ledgers for proper accounting and monitoring of the funds;

6. Provide direction to the Head Office Accountant to prepare necessary adjusting entries to correct the Due from Other NGAs – DA and other related accounts;

7. Strictly monitor program implementation and fund utilization to prevent excess insurance coverage; and

8. Consider the applicability of the P32 million premium subsidy discount approved by the Board of Directors to the excess insurance coverage under the programs, and to determine the appropriate disposition of the remaining excess premium subsidy of P15.472 million.

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

The collectability of dormant receivable accounts totaling P101.946 million which were provided with 100 per cent allowance for doubtful accounts is uncertain due to absence of documents to enforce collection, while the validity of various dormant payable accounts in Regions I and III amounting to P1.864 million was doubtful due to misclassification of accounts and absence of subsidiary ledgers, among others.

9.1 We recommended and Management agreed to:

a. Establish sound management practices to ensure that all receivables are collected/realized to prevent loss and wastage of government resources;

b. Require the Accountants to exert all effort to locate/retrieve the supporting documents and ledgers of the dormant receivable and payable accounts and to conduct in-depth analysis of these accounts so that the necessary adjustments can be identified and recorded in the books;

c. Continue sending collection letters to lending institutions and make representations with the Philippine Deposit Insurance Corporation on the possible recovery of receivables from closed lending banks; and

d. Comply with the requirements in requesting for write off of the dormant receivables from the Commission on Audit, pursuant to COA Circular No. 97-001.

10. The existence, valuation and accuracy of Property, Plant and Equipment (PPE) account and its related accounts with a net book value (NBV) of P53.615 million could not be ascertained due to the unreconciled book balance and inventory report, absence of physical inventory in Region VI, absence or lack of updated ledger cards and property cards, erroneous computation of depreciation and lack of supporting documents.

10.1 We recommended and Management agreed to:

a. Require the Accounting Department and General Services Office to maintain the necessary PPE ledger cards and property cards and conduct periodic reconciliation of these records, and also reconcile the results of the physical count with these records;

b. Require the Accounting Department to adjust the erroneous computation of the beginning balance of the Leasehold Improvements, ensure that the Schedule of Monthly Depreciation contain all PPEs recorded in the books to make certain that depreciable assets are provided with depreciation, and exercise due diligence in the computation of depreciation of PPEs to ensure correctness of the affected accounts;

c. Require the concerned Regional Office to immediately create a team to conduct physical inventory of properties and prepare written procedures to facilitate the conduct of inventory; and

d. Require the Financial and Accounting Division of concerned Regional Offices to prepare necessary adjustments on the accumulated depreciation of the PPE account applying the revised estimated useful life provided in COA Circular No. 2003-007, and effect adjustment of the book value of unserviceable items in Regions I and XII.

11. 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.

11.1 We recommended and Management agreed to:

a. Request the Accountant to analyze the Subscription Receivable account to ensure accuracy of the amount due from PCSO so that appropriate actions can be undertaken for the collection of government subscription as provided in RA No. 8175; and

b. Henceforth, closely coordinate with PCSO for the timely remittance of subsequent share from the lotto earnings.

12. 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.

12.1 We recommended and Management agreed to 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;

b. Submit for audit purposes all lacking documents and correct all noted deficiencies in the attachments supporting the claims totalling P17.776 million and all unsubmitted disbursement vouchers, supporting documents and other mandatory reports for CY 2014; and

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.

13. The remittance of premiums collected by 15 underwriters of the PCIC – Region IV was not properly monitored, thus remittance of premiums collected totalling P1.286 million was delayed by 1 to 38 days, contrary to the provisions of Section 14 of the Rules and Regulations on Insurance of Rice and Corn Crops, thereby exposing the funds to possible loss and misuse.

13.1 We recommended and Management agreed to direct the Regional Manager to require the Head, Marketing and Sales Division to strictly enforce the provision on remittance of insurance premiums and remind underwriters of the sanctions for non-compliance thereto.

14. Only P39.372 million or 83.54 per cent out of P47.132 million Weather Adverse Rice Areas (WARA) fund transferred was utilized in Region III because its insurance production depend on the general master list of farmers provided by the Municipal and City Agriculturist Office; while only P2.026 million or 20.87 per cent was utilized out of the P9.711 million allocation in Region VIII due to poor coordination between PCIC Regional Office VIII, DA-Regional Field Unit (RFU) VIII or PCIC Head Office which resulted in lack of awareness of the Program; thus, the objective of providing insurance to more rice crop farmers was not satisfactorily attained.

14.1 We recommended and Management agreed to:

a. Require the Regional Manager of Region III to coordinate closely with the Municipal and City Agriculturist Office in the identification of all qualified farmer-beneficiaries under the subsidized insurance programs and request complete listing of the identified farmer-beneficiaries to maximize the utilization of fund subsidies; and

b. Always ensure that programs/projects are properly and timely disseminated to the Regional Offices for the efficient and effective implementation of these programs/projects.

15. There is no assurance that the farmer-beneficiaries insured under the WARA Insurance Program in two regions with insurance premium totalling 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.

15.1 We recommended and Management agreed to give instructions to the concerned regional Marketing and Services Division to:

a. 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, comply strictly with the provision set forth in the MOA; and

b. Obtain from DA-RFU VIII the list of identified farmer-beneficiaries who are eligible to the program, and henceforth, ensure that all insurance coverage be supported with this list.

16. 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.

16.1 We recommended and Management agreed to:

a. Prioritize the enhancement of the underwriting facility of the PABS to provide a system validation check to prevent double insurance coverage; and

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.

17. There are 26 irrigators'/farmers' associations granted with the DA-GPS of P1.085 million under NIA Early and Third Cropping Program for rice crop during the years 2012 to 2014 which were not in the list of farmer-beneficiaries, while 24 borrowing farmers under the DA-LBP Sikat Saka Program in 2014 with total GPS of P226,838 were likewise not identified in the list of farmer-beneficiaries, thereby creating doubt on the propriety of the total GPS granted amounting to P1.312 million in Region VIII.

17.1 We recommended and Management agreed to require the Regional Manager of Region VIII to:

a. Coordinate with NIA for the submission of the complete list of farmers'/irrigators' associations who participated in the NIA Third Cropping Program and with DA-RFU VIII to submit the list of borrowing farmer-beneficiaries under the DA-LBP Sikat Saka Program to ascertain that the farmer-beneficiaries granted with the government share of the insurance premiums are legitimate and qualified; and

b. Conduct periodic monitoring and evaluation of the GPS fund utilization to ensure that appropriate actions are timely instituted to any deficiencies noted in the implementation of the programs.

18. 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.

18.1 We recommended and Management agreed to require the Regional Managers to:

a. 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; and

b. Prepare necessary directives for any modifications in the existing guidelines on the computation of GPS and amount of cover and ensure that the same are properly communicated to concerned personnel or party.

19. Some guidelines under the project "Provision of Crop Insurance Coverage under the Agri-Pinoy Rice Program from March to December 2014 Planting Calendar" in Region VII were not strictly adhered to such as insuring farmers that planted non-hybrid rice, to the detriment of those who are qualified; insuring farmers without the Location Sketch of the Farm (LSF) and Group Farm Plan and Budget (GFPB) which cast doubt on the validity of the cover; non-preparation on a regular basis of the monitoring and evaluation reports thus, the inability to timely detect deficiencies; and non-liquidation of fund utilization.

19.1 We recommended and Management agreed to require the Regional Manager to ensure that the:

a. Marketing and Sales Division strictly follow the guidelines on the grant of GPS and to ensure that only those qualified rice farmers are provided with the premium subsidy, and to submit the required monthly reports to properly evaluate and monitor the implementation of the program and provide feedback for early detection and action on problems that may occur; and

b. Insurance Processor and underwriting agents compel rice farmers to attach LSF and GFPB in their crop insurance applications to assure that only eligible farmers are insured.

The other audit observations together with the recommended courses of action which were discussed by the Audit Team with concerned Management officials and staff during the exit conference conducted on June 19, 2015 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:

DELIA D. AGATEP
Cluster Director

Copy furnished:

The President of the Republic of the Philippines
The Vice President
The Speaker of the House of Representatives
The Chairperson – Senate Finance Committee
The Chairperson – Appropriations Committee
The Secretary of the Department of Budget and Management
The Governance Commission for Government-Owned or Controlled Corporations
The Presidential Management Staff, Office of the President
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CORPORATE GOVERNMENT SECTOR
Cluster 5 – Agricultural and Natural Resources

July 31, 2015

PHILIPPINE CROP INSURANCE CORPORATION
RECEIVED
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Office of the President

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

Gentlemen:

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The Auditor expressed a qualified opinion on the fairness of presentation of the financial statements of PCIC as of December 31, 2014 in view of the following:

1. The difference between the Statement of Financial Position (SFP) and the General Ledger (GL) balances for the Subscription Receivable account and Accumulated Profits (Losses) totalling P1.223 billion brought about by the limitation of the accounting system in the recording of transactions, the incomplete data in the GL, and inappropriate preparation of trial balance (TB) rendered doubtful the accuracy of the said accounts and the Stockholder's Equity with a balance of P1.632 billion;

2. The trust liability pertaining to the funds received from the Department of Agriculture (DA) amounting to P150 million as Government Premium Subsidy (GPS) for the implementation of a project cannot be readily established due to incorrect entries in the recording of receipt and utilization of the funds and the absence of subsidiary ledgers for the Other Payables-Others account; and

3. The GPS in excess of the insurance coverage under the DA-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.

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

1. Require the Accounting Division to conduct an in-depth analysis of the accounts pertaining to prior years' transactions and effect the adjustments where appropriate, to prevent inaccurate and misleading information;

2. Observe due diligence in the proper keeping of the books of accounts considering that top management or other users of the financial statements greatly depend their decisions on the available financial information;

3. Require all the Accountants to immediately analyze the transactions pertaining to the P150 million DA-GPS and effect the necessary adjustments to the appropriate liability accounts, the reciprocal accounts and other affected accounts, to establish the correct balance of the liability to the DA;

4. Require the Regional Office Accountants to submit duly audited Report of Disbursements to support the Debit Memos for fund utilized under the programs;

5. Henceforth, remind all concerned to strictly comply with the provisions of COA Circular No. 94-013 in the recording of receipt and liquidation of funds received from the source agencies, and in the maintenance of subsidiary ledgers for proper accounting and monitoring of the funds;

6. Provide direction to the Head Office Accountant to prepare necessary adjusting entries to correct the Due from Other NGAs – DA and other related accounts;

7. Strictly monitor program implementation and fund utilization to prevent excess insurance coverage; and

8. Consider the applicability of the P32 million premium subsidy discount approved by the Board of Directors to the excess insurance coverage under the programs, and to determine the appropriate disposition of the remaining excess premium subsidy of P15.472 million.

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

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9.1 We recommended and Management agreed to:

a. Establish sound management practices to ensure that all receivables are collected/realized to prevent loss and wastage of government resources;

b. Require the Accountants to exert all effort to locate/retrieve the supporting documents and ledgers of the dormant receivable and payable accounts and to conduct in-depth analysis of these accounts so that the necessary adjustments can be identified and recorded in the books;

c. Continue sending collection letters to lending institutions and make representations with the Philippine Deposit Insurance Corporation on the possible recovery of receivables from closed lending banks; and

d. Comply with the requirements in requesting for write off of the dormant receivables from the Commission on Audit, pursuant to COA Circular No. 97-001.

10. The existence, valuation and accuracy of Property, Plant and Equipment (PPE) account and its related accounts with a net book value (NBV) of P53.615 million could not be ascertained due to the unreconciled book balance and inventory report, absence of physical inventory in Region VI, absence or lack of updated ledger cards and property cards, erroneous computation of depreciation and lack of supporting documents.

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a. Require the Accounting Department and General Services Office to maintain the necessary PPE ledger cards and property cards and conduct periodic reconciliation of these records, and also reconcile the results of the physical count with these records;

b. Require the Accounting Department to adjust the erroneous computation of the beginning balance of the Leasehold Improvements, ensure that the Schedule of Monthly Depreciation contain all PPEs recorded in the books to make certain that depreciable assets are provided with depreciation, and exercise due diligence in the computation of depreciation of PPEs to ensure correctness of the affected accounts;

c. Require the concerned Regional Office to immediately create a team to conduct physical inventory of properties and prepare written procedures to facilitate the conduct of inventory; and

d. Require the Financial and Accounting Division of concerned Regional Offices to prepare necessary adjustments on the accumulated depreciation of the PPE account applying the revised estimated useful life provided in COA Circular No. 2003-007, and effect adjustment of the book value of unserviceable items in Regions I and XII.

11. 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.

11.1 We recommended and Management agreed to:

a. Request the Accountant to analyze the Subscription Receivable account to ensure accuracy of the amount due from PCSO so that appropriate actions can be undertaken for the collection of government subscription as provided in RA No. 8175; and

b. Henceforth, closely coordinate with PCSO for the timely remittance of subsequent share from the lotto earnings.

12. 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.

12.1 We recommended and Management agreed to 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;

b. Submit for audit purposes all lacking documents and correct all noted deficiencies in the attachments supporting the claims totalling P17.776 million and all unsubmitted disbursement vouchers, supporting documents and other mandatory reports for CY 2014; and

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.

13. The remittance of premiums collected by 15 underwriters of the PCIC – Region IV was not properly monitored, thus remittance of premiums collected totalling P1.286 million was delayed by 1 to 38 days, contrary to the provisions of Section 14 of the Rules and Regulations on Insurance of Rice and Corn Crops, thereby exposing the funds to possible loss and misuse.

13.1 We recommended and Management agreed to direct the Regional Manager to require the Head, Marketing and Sales Division to strictly enforce the provision on remittance of insurance premiums and remind underwriters of the sanctions for non-compliance thereto.

14. Only P39.372 million or 83.54 per cent out of P47.132 million Weather Adverse Rice Areas (WARA) fund transferred was utilized in Region III because its insurance production depend on the general master list of farmers provided by the Municipal and City Agriculturist Office; while only P2.026 million or 20.87 per cent was utilized out of the P9.711 million allocation in Region VIII due to poor coordination between PCIC Regional Office VIII, DA-Regional Field Unit (RFU) VIII or PCIC Head Office which resulted in lack of awareness of the Program; thus, the objective of providing insurance to more rice crop farmers was not satisfactorily attained.

14.1 We recommended and Management agreed to:

a. Require the Regional Manager of Region III to coordinate closely with the Municipal and City Agriculturist Office in the identification of all qualified farmer-beneficiaries under the subsidized insurance programs and request complete listing of the identified farmer-beneficiaries to maximize the utilization of fund subsidies; and

b. Always ensure that programs/projects are properly and timely disseminated to the Regional Offices for the efficient and effective implementation of these programs/projects.

15. There is no assurance that the farmer-beneficiaries insured under the WARA Insurance Program in two regions with insurance premium totalling 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.

15.1 We recommended and Management agreed to give instructions to the concerned regional Marketing and Services Division to:

a. 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, comply strictly with the provision set forth in the MOA; and

b. Obtain from DA-RFU VIII the list of identified farmer-beneficiaries who are eligible to the program, and henceforth, ensure that all insurance coverage be supported with this list.

16. 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.

16.1 We recommended and Management agreed to:

a. Prioritize the enhancement of the underwriting facility of the PABS to provide a system validation check to prevent double insurance coverage; and

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.

17. There are 26 irrigators'/farmers' associations granted with the DA-GPS of P1.085 million under NIA Early and Third Cropping Program for rice crop during the years 2012 to 2014 which were not in the list of farmer-beneficiaries, while 24 borrowing farmers under the DA-LBP Sikat Saka Program in 2014 with total GPS of P226,838 were likewise not identified in the list of farmer-beneficiaries, thereby creating doubt on the propriety of the total GPS granted amounting to P1.312 million in Region VIII.

17.1 We recommended and Management agreed to require the Regional Manager of Region VIII to:

a. Coordinate with NIA for the submission of the complete list of farmers'/irrigators' associations who participated in the NIA Third Cropping Program and with DA-RFU VIII to submit the list of borrowing farmer-beneficiaries under the DA-LBP Sikat Saka Program to ascertain that the farmer-beneficiaries granted with the government share of the insurance premiums are legitimate and qualified; and

b. Conduct periodic monitoring and evaluation of the GPS fund utilization to ensure that appropriate actions are timely instituted to any deficiencies noted in the implementation of the programs.

18. 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.

18.1 We recommended and Management agreed to require the Regional Managers to:

a. 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; and

b. Prepare necessary directives for any modifications in the existing guidelines on the computation of GPS and amount of cover and ensure that the same are properly communicated to concerned personnel or party.

19. Some guidelines under the project "Provision of Crop Insurance Coverage under the Agri-Pinoy Rice Program from March to December 2014 Planting Calendar" in Region VII were not strictly adhered to such as insuring farmers that planted non-hybrid rice, to the detriment of those who are qualified; insuring farmers without the Location Sketch of the Farm (LSF) and Group Farm Plan and Budget (GFPB) which cast doubt on the validity of the cover; non-preparation on a regular basis of the monitoring and evaluation reports thus, the inability to timely detect deficiencies; and non-liquidation of fund utilization.

19.1 We recommended and Management agreed to require the Regional Manager to ensure that the:

a. Marketing and Sales Division strictly follow the guidelines on the grant of GPS and to ensure that only those qualified rice farmers are provided with the premium subsidy, and to submit the required monthly reports to properly evaluate and monitor the implementation of the program and provide feedback for early detection and action on problems that may occur; and

b. Insurance Processor and underwriting agents compel rice farmers to attach LSF and GFPB in their crop insurance applications to assure that only eligible farmers are insured.

The other audit observations together with the recommended courses of action which were discussed by the Audit Team with concerned Management officials and staff during the exit conference conducted on June 19, 2015 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 hereof.

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

Very truly yours,

COMMISSION ON AUDIT

By:

DELIA D. AGATEP
Cluster Director

Copy furnished:

The President of the Republic of the Philippines
The Vice President
The Speaker of the House of Representatives
The Chairperson – Senate Finance Committee
The Chairperson – Appropriations Committee
The Secretary of the Department of Budget and Management
The Governance Commission for Government-Owned or Controlled Corporations
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The National Library

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, 2014

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 located nationwide and as at December 31, 2014 had a personnel complement of 191 regular, 316 under job order and 8 consultants.

FINANCIAL HIGHLIGHTS (In Million Pesos)

I. Comparative Financial Position

	2014	2013	Increase (Decrease)
Assets	3,189.179	2,271.506	917.673
Liabilities	1,556.808	848.558	708.250
Equity	1,632.371	1,422.948	209.423

II. Comparative Results of Operations

	2014	2013	Increase (Decrease)
Income (net of underwriting expenses)	581.666	758.145	(176.479)
Personal services	125.047	107.983	17.064
Maintenance and other operating and expenses	137.305	92.958	44.347
Financial expenses	5.988	1.477	4.511
Total expenses	268.340	202.418	65.922
Reserve for indemnity fluctuations	113.161	-	113.161
Net income	200.165	555.727	(355.562)

PCIC Corporate Operating Budget (COB) for Calendar Year (CY) 2014 amounted to P1,510.347 million approved by the Board on March 18, 2014 and by the Department of Budget and Management (DBM) on October 16, 2014.

III. Budget and Actual Expenditures

	COB Approved by DBM	Actual Expenses	Variance
Personal services	189.540	125.047	64.493
Maintenance and other operating expenses	151.542	131.507	20.035
Financial expenses	1.535	1.205	0.330
Capital outlay	176.527	32.464	144.063
Underwriting expenses	991.203	786.954	204.249
	1,510.347	1,077.177	433.170

SCOPE OF AUDIT

Our audit covering the accounts and operations of PCIC for CY 2014 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. The following audit observations were considered in rendering our opinion:

1. The difference between the Statement of Financial Position (SFP) and the General Ledger (GL) balances for the Subscription Receivable account and Accumulated Profits (Losses) totalling P1.223 billion brought about by the limitation of the accounting system in the recording of transactions, the incomplete data in the GL, and inappropriate preparation of trial balance (TB) rendered doubtful the accuracy of the said accounts and the Stockholder's Equity with a balance of P1.632 billion;

2. The trust liability pertaining to the funds received from the Department of Agriculture (DA) amounting to P150 million as Government Premium Subsidy (GPS) for the implementation of a project cannot be readily established due to incorrect entries in the recording of receipt and utilization of the funds and the absence of subsidiary ledgers for the Other Payables-Others account; and

3. The GPS in excess of the insurance coverage under the DA-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.

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. Require the Accounting Division to conduct an in-depth analysis of the accounts pertaining to prior years' transactions and effect the adjustments where appropriate, to prevent inaccurate and misleading information;

2. Observe due diligence in the proper keeping of the books of accounts considering that top management or other users of the financial statements greatly depend their decisions on the available financial information;

3. Require all the Accountants to immediately analyze the transactions pertaining to the P150 million DA-GPS and effect the necessary adjustments to the appropriate liability accounts, the reciprocal accounts and other affected accounts, to establish the correct balance of the liability to the DA;

4. Require the Regional Office Accountants to submit duly audited Report of Disbursements to support the Debit Memos for fund utilized under the programs;

5. Henceforth, remind all concerned to strictly comply with the provisions of COA Circular No. 94-013 in the recording of receipt and liquidation of funds received from the source agencies, and in the maintenance of subsidiary ledgers for proper accounting and monitoring of the funds;

6. Provide direction to the Head Office Accountant to prepare necessary adjusting entries to correct the Due from Other NGAs – DA and other related accounts;

7. Strictly monitor program implementation and fund utilization to prevent excess insurance coverage; and

8. Consider the applicability of the P32 million premium subsidy discount approved by the Board of Directors to the excess insurance coverage under the programs, and to determine the appropriate disposition of the remaining excess premium subsidy of P15.472 million.

The other significant audit observations and recommendations are as follows:

9. The collectability of dormant receivable accounts totaling P101.946 million which were provided with 100 per cent allowance for doubtful accounts is uncertain due to absence of documents to enforce collection, while the validity of various dormant payable accounts in Regions I and III amounting to P1.864 million was doubtful due to misclassification of accounts and absence of subsidiary ledgers, among others.

9.1 We recommended and Management agreed to:

a. Establish sound management practices to ensure that all receivables are collected/realized to prevent loss and wastage of government resources;

b. Require the Accountants to exert all effort to locate/retrieve the supporting documents and ledgers of the dormant receivable and payable accounts and to conduct in-depth analysis of these accounts so that the necessary adjustments can be identified and recorded in the books;

c. Continue sending collection letters to lending institutions and make representations with the Philippine Deposit Insurance Corporation on the possible recovery of receivables from closed lending banks; and

d. Comply with the requirements in requesting for write off of the dormant receivables from the Commission on Audit, pursuant to COA Circular No. 97-001.

10. The existence, valuation and accuracy of Property, Plant and Equipment (PPE) account and its related accounts with a net book value (NBV) of P53.615 million could not be ascertained due to the unreconciled book balance and inventory report, absence of physical inventory in Region VI, absence or lack of updated ledger cards and property cards, erroneous computation of depreciation and lack of supporting documents.

10.1 We recommended and Management agreed to:

a. Require the Accounting Department and General Services Office to maintain the necessary PPE ledger cards and property cards and conduct periodic reconciliation of these records, and also reconcile the results of the physical count with these records;

b. Require the Accounting Department to adjust the erroneous computation of the beginning balance of the Leasehold Improvements, ensure that the Schedule of Monthly Depreciation contain all PPEs recorded in the books to make certain that depreciable assets are provided with depreciation, and exercise due diligence in the computation of depreciation of PPEs to ensure correctness of the affected accounts;

c. Require the concerned Regional Office to immediately create a team to conduct physical inventory of properties and prepare written procedures to facilitate the conduct of inventory; and

d. Require the Financial and Accounting Division of concerned Regional Offices to prepare necessary adjustments on the accumulated depreciation of the PPE account applying the revised estimated useful life provided in COA Circular No. 2003-007, and effect adjustment of the book value of unserviceable items in Regions I and XII.

11. 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.

11.1 We recommended and Management agreed to:

a. Request the Accountant to analyze the Subscription Receivable account to ensure accuracy of the amount due from PCSO so that appropriate actions can be undertaken for the collection of government subscription as provided in RA No. 8175; and

b. Henceforth, closely coordinate with PCSO for the timely remittance of subsequent share from the lotto earnings.

12. 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.

12.1 We recommended and Management agreed to 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;

b. Submit for audit purposes all lacking documents and correct all noted deficiencies in the attachments supporting the claims totalling P17.776 million and all unsubmitted disbursement vouchers, supporting documents and other mandatory reports for CY 2014; and

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.

13. The remittance of premiums collected by 15 underwriters of the PCIC – Region IV was not properly monitored, thus remittance of premiums collected totalling P1.286 million was delayed by 1 to 38 days, contrary to the provisions of Section 14 of the Rules and Regulations on Insurance of Rice and Corn Crops, thereby exposing the funds to possible loss and misuse.

13.1 We recommended and Management agreed to direct the Regional Manager to require the Head, Marketing and Sales Division to strictly enforce the provision on remittance of insurance premiums and remind underwriters of the sanctions for non-compliance thereto.

14. Only P39.372 million or 83.54 per cent out of P47.132 million Weather Adverse Rice Areas (WARA) fund transferred was utilized in Region III because its insurance production depend on the general master list of farmers provided by the Municipal and City Agriculturist Office; while only P2.026 million or 20.87 per cent was utilized out of the P9.711 million allocation in Region VIII due to poor coordination between PCIC

Regional Office VIII, DA-Regional Field Unit (RFU) VIII or PCIC Head Office which resulted in lack of awareness of the Program; thus, the objective of providing insurance to more rice crop farmers was not satisfactorily attained.

14.1 We recommended and Management agreed to:

a. Require the Regional Manager of Region III to coordinate closely with the Municipal and City Agriculturist Office in the identification of all qualified farmer-beneficiaries under the subsidized insurance programs and request complete listing of the identified farmer-beneficiaries to maximize the utilization of fund subsidies; and

b. Always ensure that programs/projects are properly and timely disseminated to the Regional Offices for the efficient and effective implementation of these programs/projects.

15. There is no assurance that the farmer-beneficiaries insured under the WARA Insurance Program in two regions with insurance premium totalling 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.

15.1 We recommended and Management agreed to give instructions to the concerned regional Marketing and Services Division to:

a. 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, comply strictly with the provision set forth in the MOA; and

b. Obtain from DA-RFU VIII the list of identified farmer-beneficiaries who are eligible to the program, and henceforth, ensure that all insurance coverage be supported with this list.

16. 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.

16.1 We recommended and Management agreed to:

a. Prioritize the enhancement of the underwriting facility of the PABS to provide a system validation check to prevent double insurance coverage; and

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.

17. There are 26 irrigators'/farmers' associations granted with the DA-GPS of P1.085 million under NIA Early and Third Cropping Program for rice crop during the years 2012 to 2014 which were not in the list of farmer-beneficiaries, while 24 borrowing farmers under the DA-LBP Sikat Saka Program in 2014 with total GPS of P226,838 were likewise not identified in the list of farmer-beneficiaries, thereby creating doubt on the propriety of the total GPS granted amounting to P1.312 million in Region VIII.

17.1 We recommended and Management agreed to require the Regional Manager of Region VIII to:

a. Coordinate with NIA for the submission of the complete list of farmers'/irrigators' associations who participated in the NIA Third Cropping Program and with DA-RFU VIII to submit the list of borrowing farmer-beneficiaries under the DA-LBP Sikat Saka Program to ascertain that the farmer-beneficiaries granted with the government share of the insurance premiums are legitimate and qualified; and

b. Conduct periodic monitoring and evaluation of the GPS fund utilization to ensure that appropriate actions are timely instituted to any deficiencies noted in the implementation of the programs.

18. 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.

18.1 We recommended and Management agreed to require the Regional Managers to:

a. 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; and

b. Prepare necessary directives for any modifications in the existing guidelines on the computation of GPS and amount of cover and ensure that the same are properly communicated to concerned personnel or party.

19. Some guidelines under the project "Provision of Crop Insurance Coverage under the Agri-Pinoy Rice Program from March to December 2014 Planting Calendar" in Region VII were not strictly adhered to such as insuring farmers that planted non-hybrid rice, to the detriment of those who are qualified; insuring farmers without the Location Sketch of the Farm (LSF) and Group Farm Plan and Budget (GFPB) which cast doubt on the validity of the cover; non-preparation on a regular basis of the monitoring and evaluation reports thus, the inability to timely detect deficiencies; and non-liquidation of fund utilization.

19.1 We recommended and Management agreed to require the Regional Manager to ensure that the:

a. Marketing and Sales Division strictly follow the guidelines on the grant of GPS and to ensure that only those qualified rice farmers are provided with the premium subsidy, and to submit the required monthly reports to properly evaluate and monitor the implementation of the program and provide feedback for early detection and action on problems that may occur; and

b. Insurance Processor and underwriting agents compel rice farmers to attach LSF and GFPB in their crop insurance applications to assure that only eligible farmers are insured.

UNSETTLED AUDIT SUSPENSIONS, DISALLOWANCES AND CHARGES

As of December 31, 2014, the unsettled balances of Notices of Suspensions and Disallowances amounted to P15.297 million and P12.879 million, respectively. There was no unsettled Notice of Charge at year-end.

STATUS OF IMPLEMENTATION OF PRIOR YEARS' AUDIT RECOMMENDATIONS

Out of 46 recommendations contained in the prior years' Annual Audit Reports (AARs), 12 were fully implemented, 28 were partially implemented and 6 were not implemented. Details are presented in Part III of this Report.

TABLE OF CONTENTS

Page

C. PHILIPPINE CLIMATE CHANGE ADAPTATION PROJECT

PART I - AUDITED FINANCIAL STATEMENTS

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, 2014, and the statement of comprehensive income, statement of changes in 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 Philippine Financial Reporting Standards, 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

The following exceptions were considered in forming our opinion:

1. The difference between the Statement of Financial Position and the General Ledger balances for the Subscription Receivable account and Accumulated Profits (Losses) totalling P1.223 billion brought about by the limitation of the accounting system in the recording of transactions, the incomplete data in the General Ledger, and inappropriate preparation of trial balance rendered doubtful the accuracy of the said accounts and the Stockholder's Equity with a balance of P1.632 billion;

2. The trust liability pertaining to the funds received from the Department of Agriculture amounting to P150 million as Government Premium Subsidy for the implementation of a project cannot be readily established due to incorrect entries in the recording of receipt and utilization of the funds and the absence of subsidiary ledgers for the Other Payables-Others account; and

3. The Government Premium Subsidy in excess of the insurance coverage under the Department of Agriculture-Land Bank of the Philippines Sikat Saka and National Irrigation Administration Early and Third Cropping Rice Programs in the amount of P47.472 million was recognized as Due from Other National Government Agencies – Department of Agriculture in the absence of Memorandum of Agreement, thus overstating the receivable account and corresponding income by the same amount.

Qualified Opinion

In our opinion, except for the effects and possible effects of the matters discussed in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects, the financial position of **PCIC** as at December 31, 2014, and of its financial performance and its cash flows for the year then ended in accordance with Philippine Financial Reporting Standards.

COMMISSION ON AUDIT

ARSENIO S. RAYOS, JR.
Supervising Auditor
Audit Group F
Cluster 5 – Agricultural and Natural Resources
Corporate Government Sector

July 8, 2015

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, 2014 and the related Statement of Comprehensive Income, Cash Flow Statement and Statement of Changes in Equity 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	**ATTY. JOVY C. BERNABE**
OIC, Finance Department	President

PHILIPPINE CROP INSURANCE CORPORATION
CASH FLOW STATEMENT
For the Year Ended December 31, 2014
(In Philippine Peso)

	Note	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES			
Operating income		715,041,744	358,630,606
Government premium share		1,183,771,000	1,183,771,000
Commission and other income		1,790,366	4,046,870
Payment of claims for insurance benefit		(737,231,499)	(400,177,604)
Operating expenses		(413,561,356)	(212,707,622)
Payment of accrued expenses - business and non-business lines accounts		(3,820,737)	(10,265,677)
		745,989,518	923,297,573
CASH FLOWS FROM INVESTING ACTIVITIES			
Investment in securities		(928,038,085)	(439,822,068)
Interest and dividends		41,071,082	33,346,361
Proceeds from disposal of assets		2,124	77,713
Acquisition of assets		(32,191,238)	(10,169,395)
		(919,156,117)	(416,567,389)
Net increase (decrease) in cash and cash equivalents		(173,166,599)	506,730,184
Cash and cash equivalents at beginning of year		858,845,095	352,114,911
CASH AND CASH EQUIVALENTS AT END OF YEAR	3	**685,678,496**	**858,845,095**

The Notes on pages 9 to 28 form part of these financial statements.

PHILIPPINE CROP INSURANCE CORPORATION
STATEMENT OF CHANGES IN EQUITY
For the Year Ended December 31, 2014
(In Philippine Peso)

	Note	2014	2013
CAPITAL STOCK			
Balance at beginning of year	26	1,350,954,415	1,350,954,415
Additional subscribed and paid-up		-	-
		1,350,954,415	1,350,954,415
Additional paid-in-capital	27	159,451,431	159,451,431
DEFICIT			
Balance at beginning of year		(87,457,718)	(632,919,206)
Prior period adjustments	29	(3,820,737)	(10,265,676)
As restated		(91,278,455)	(643,184,882)
Dividends	35	(100,082,698)	-
Net income		200,165,396	555,727,164
Balance at end of the year	28	8,804,243	(87,457,718)
Reserve for indemnity fluctuations	34	113,161,000	-
EQUITY		**1,632,371,089**	**1,422,948,128**

The Notes on pages 9 to 28 form part of these financial statements.

PHILIPPINE CROP INSURANCE CORPORATION
STATEMENT OF COMPREHENSIVE INCOME
For the Year Ended December 31, 2014
(In Philippine Peso)

	Note	2014	2013
INSURANCE PREMIUMS			
National government share	17	2,519,876,340	1,230,335,743
Farmers and institutions-traditional lines		217,848,838	325,838,831
Farmers and LIs-term/life insurance		32,172,758	31,383,069
Farmers and LIs-non-crop insurance		6,756,522	6,162,195
Farmers and LIs-livestock insurance		13,377,583	11,572,625
Farmers and LIs-high value crops		21,862,660	1,426,886
Farmers and LIs-fisheries		1,374,617	1,217,033
		2,813,269,318	1,607,936,382
Add/(deduct): Premium reserve	16	(410,494,497)	(251,977,764)
Premium discount	20	(1,076,775,014)	(61,181,241)
Premium refund	18	(242,273)	(424,488)
NET PREMIUMS		1,325,757,534	1,294,352,889
UNDERWRITING EXPENSE			
Insurance benefits	19	737,231,499	538,157,990
Reinsurance premiums ceded treaty/facultative	21	804,833	11,016,238
Commission expense		46,769,772	23,048,264
Death benefits	22	1,684,534	1,190,000
Honoraria/incentive to claims adjuster		458,904	22,851
Honoraria/incentive to agricultural technician		4,812	243,655
		786,954,354	573,678,998
NET UNDERWRITING INCOME		538,803,180	720,673,891
Other income	25	42,863,572	37,470,943
GROSS OPERATING INCOME		581,666,752	758,144,834
OPERATING EXPENSES			
Personal services	23	125,046,978	107,982,435
Maintenance and other operating expenses	24	137,304,763	92,958,345
Financial expenses		5,988,615	1,476,890
		268,340,356	202,417,670
Net income before reserve for indemnity fluctuations		313,326,396	555,727,164
Less: Reserve for Indemnity Fluctuations	34	113,161,000	-
NET INCOME		**200,165,396**	**555,727,164**

The Notes on pages 9 to 28 form part of these financial statements.

PHILIPPINE CROP INSURANCE CORPORATION
STATEMENT OF FINANCIAL POSITION
December 31, 2014
(In Philippine Peso)

	Note	2014	2013
ASSETS			
Current assets			
Cash and cash equivalents	3	685,678,496	858,845,095
Receivables - current	4	353,311,333	212,100,030
Other current assets	5	4,037,173	4,041,865
		1,043,027,002	1,074,986,990
Non-current assets			
Receivables - non-current, net	6	327,991,417	332,737,541
Financial investments held-to-maturity	7	1,764,529,053	836,490,968
Property and equipment, net	8	53,614,960	27,280,517
Other assets		16,280	9,974
		2,146,151,710	1,196,519,000
TOTAL ASSETS		**3,189,178,712**	**2,271,505,990**
LIABILITIES			
Current liabilities			
Accounts payable	9	357,132,688	241,911,798
Inter-agency payable	10	4,907,035	2,803,287
Other current liabilities	11	807,917	959,253
		362,847,640	245,674,338
Non-current liabilities			
Due to other national government agencies	12	68,061,488	185,829,293
Due to other funds	13	865,323	1,541,448
Deferred credits	14	354,899,108	77,775,769
Reserve for unearned premiums	15	770,134,064	337,737,014
		1,193,959,983	602,883,524
		1,556,807,623	848,557,862
EQUITY		1,632,371,089	1,422,948,128
TOTAL LIABILITIES AND EQUITY		**3,189,178,712**	**2,271,505,990**

The Notes on pages 9 to 28 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 dated 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 the Corporation's registered office is 7th Floor, Building A, NIA 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 pest 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 equipments, transport facilities and related infrastructure arising from natural calamities, pest 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 located nationwide and as at December 31, 2014, it had a personnel complement of 191 regular, 316 under job order and 8 consultants, details are as follows:

Office/Region	Regular	Job Order/ Consultant	Total
Head Office	45	18*	63
Region I	10	23	33
Region II	11	25	36
Region III	9	22	31
Region III-A	12	35	47
Region IV	9	28	37
Region V	11	19	30
Region VI	13	25	38
Region VII	9	24	33
Region VIII	11	34	45
Region IX	13	22	35
Region X	13	21	34
Region XI	12	14	26
Region XII	13	14	27
	191	**324**	**515**

*10 Job Orders, 8 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 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, 2014 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 equipments, 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 10 per cent of cost over its estimated useful life as prescribed by 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 & fixtures	5-10 years
Transportation equipment	7-10 years
Other property, plant & 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 statement of financial position 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'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 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 1998 Salary Schedule.

e. 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 Corporation'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

Incomes from short-term and long-term investments are 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:

	2014	2013
Cash on hand	1,745,916	4,129,174
Cash in bank-local currency		
Mother account	34,443,990	19,209,382
General and administrative fund	97,928,929	19,854,042
Claims fund	59,825,639	47,439,243
Investment fund	41,586,436	449,283,530
Marketable securities	450,147,586	318,929,724
	685,678,496	**858,845,095**

4. RECEIVABLES – CURRENT

This account consists of the following:

	2014	2013
Premium receivable	342,502,850	203,502,907
Interest receivable-bonds	6,551,008	5,213,636
Due from other funds – Special Revolving Trust Fund (SRTF)	4,257,475	3,383,487
	353,311,333	**212,100,030**

Premium receivable from:

	2014	2013
National government (NG)	233,446,927	200,848,204
Other lines	106,777,366	289,388
Lending institutions	2,259,201	2,117,723
Farmers	19,356	247,592
	342,502,850	**203,502,907**

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 2014.

5. OTHER CURRENT ASSETS

This account includes the following:

	2014	2013
Inventories	1,658,424	738,252
Guarantee deposits	998,108	884,780
Premium-bonds	624,793	1,695,869
Other deposits	289,976	262,676
Prepaid rent	242,301	213,590
Prepaid insurance	194,069	185,067
Other prepaid expenses	29,502	61,631
	4,037,173	**4,041,865**

Premium-Bonds represents total premium of P5,355,374 on acquired bonds on August 19, 2010 with face value of P94,625,000 at a rate 5.605 per cent for 4.5 years with Land Bank of the Philippines (LBP).

6. RECEIVABLES – NON – CURRENT, NET

This account consists of the following:

	2014	2013
Premium receivable-arrearages NG	315,664,677	315,664,677
Guarantee receivable	51,980,843	60,106,897
Less: Allowance for doubtful accounts	51,980,843	60,106,897
	-	-
Special time deposit (STD) claims paid	43,582,755	44,565,719
Less: Allowance for doubtful accounts	43,582,755	44,565,719
	-	-
Claims paid, 3rd International Bank for Rural Development Project	85,511	85,511
Less: Allowance for doubtful accounts	85,511	85,511
	-	-

	2014	2013
Adjudicated claims	3,724,229	3,724,229
Less: Allowance for doubtful accounts	3,724,229	3,724,229
	-	-
Other receivables	19,071,672	19,025,373
Less: Allowance for doubtful accounts	6,744,932	1,952,509
	12,326,740	17,072,864
	327,991,417	**332,737,541**

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

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

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

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

	2014	2013
Receivables/disallowances/charges	11,691,819	11,605,227
Pool of livestock insurers	367,620	367,620
Due from officers and employees	151,230	151,802
Advances to officers and employees	75,168	41,130
Others	6,785,835	6,859,594
	19,071,672	**19,025,373**

Receivables/disallowances/charges include amount due from public/private individuals/entities for audit disallowances which have become final and executory.

The account Other Receivables – Others consists of the following:

	2014	2013
Other – miscellaneous	4,212,817	4,127,804
Claims on bank – unremitted recoveries	1,853,751	2,287,273
Due from Banks	540,739	265,989
STD advances on claims	178,528	178,528
	6,785,835	**6,859,594**

One of the PCIC's business lines is Agricultural Guarantee. Under this program, the agricultural loans of farmers from the rural banks or lending institutions 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 lending institutions.

Due from Bank represents excess payments made by PCIC to lending institutions under the guarantee program.

Other Receivable Miscellaneous consists of the following:

	2014	2013
Philippine Climate Change Adaptation Project (PhilCCAP)	2,050,163	926,154
Receivable lending institutions- fire insurance	318,544	-
Premiums receivable – Department of Agriculture	318,003	1,499,123
Receivable on loan & educational support program of PCIC employees	193,650	193,650
Medical premium receivable	47,070	47,070
Receivable from UNDP	28,750	-
Receivable from SRTF	-	237,068
Others	1,256,637	1,224,739
	4,212,817	**4,127,804**

Bulk of the Other Receivable-Others account is the long outstanding premium receivables from farmers and Lending Institutions.

7. FINANCIAL INVESTMENTS HELD-TO-MATURITY - NON-CURRENT

This account represents investments in the following:

	2014	2013
Investment in bonds - LBP	1,512,519,401	484,375,268
Investment in bonds – Bureau of the Treasury (BTr)	249,893,952	150,000,000
Asia Pacific Rural and Agricultural Credit Association (APRACA)	1,500,000	1,500,000
Cooperative Insurance System of the Philippines (3,000 shares @ P100)	300,000	300,000
Philippine Long Distance Telephone Company 10,140 shares @ P10 per share	173,200	173,200
Club Filipino	100,000	100,000
Pool of livestock insurers	40,000	40,000
Eastern Visayas Telephone Company, Inc. 50 shares @ P50 per share	2,500	2,500
Investment in lower tier 2 subordinated notes from LBP	-	200,000,000
	1,764,529,053	**836,490,968**

P94,625,000- Investment in LBP Bonds with term of 5.45 years at 7.0 per cent interest rate will mature on January 27, 2016.

P389,750,268- Investment in LBP Bonds with term of 4.54 years at 2.125 per cent interest rate will mature on May 23, 2018.

P1,028,144,133- Various Investment in LBP Fixed Treasury Notes.

P50,000,000- Investment in BTr Bonds with term of 5.5 years at 3.125 per cent interest rate will mature on May 5, 2019.

P100,000,000- Investment in BTr Bonds with term of 10 years at 7.375 per cent interest rate will mature on March 3, 2021.

P99,893,952- Investment in BTr Bonds with term of 9.16 years at 3.250 per cent interest rate will mature on August 15, 2023.

The fair values of investments to APRACA Trust Development Fund, Cooperative Insurance System of the Philippines, Pool of Livestock Insurers, and Eastern Visayas Telephone Company, Inc. are not available because these are not publicly-listed companies.

8. PROPERTY AND EQUIPMENT

This account consists of the following:

	Information technology equipment & software	Land transport-ation	Furniture & fixtures, office equipment & other PE	Leasehold and leasehold improvement	Total
Cost					
January 1, 2014	18,496,956	22,878,585	12,533,171	7,964,054	61,872,766
Additions	5,423,678	21,683,596	3,775,169	1,581,247	32,463,690
Disposal/transfer/adjustments	(130,703)	(551,596)	(703,990)	-	(1,386,289)
December 31, 2014	23,789,931	44,010,585	15,604,350	9,545,301	92,950,167
Accumulated depreciation					
January 1, 2014	7,467,256	15,248,923	8,327,413	3,548,657	34,592,249
Amortization/depreciation	1,602,474	2,507,800	1,188,823	498,804	5,797,901
Disposal/transfer/adjustments	(214,764)	(690,294)	(149,591)	(294)	(1,054,943)
December 31, 2014	8,854,966	17,066,429	9,366,645	4,047,167	39,335,207
Net book value, December 31, 2014	**14,934,965**	**26,944,156**	**6,237,705**	**5,498,134**	**53,614,960**
Net book value, December 31, 2013	**11,029,700**	**7,629,662**	**4,205,758**	**4,415,397**	**27,280,517**

9. ACCOUNTS PAYABLE

This account consists of the following:

	2014	2013
Business lines	195,313,656	132,994,495
Non-business lines	161,819,032	108,917,303
	357,132,688	**241,911,798**

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

	2014	2013
Crops	157,306,168	71,497,897
High value commercial crop (HVCC)	32,912,687	14,992,659
Livestock	2,400,830	2,555,960
Non-crop	2,100,155	42,976,979
Term insurance	272,826	911,000
Fisheries	270,990	-
Death benefit	50,000	60,000
	195,313,656	**132,994,495**

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

	2014	2013
Dividends payable	100,082,698	-
Others	24,423,910	79,573,350
Accrued expenses	21,034,524	10,128,208
Creditors	11,970,995	1,343,332
Return premium payable	3,748,273	3,091,233
Provident fund	558,632	202,786
Penalties payable	-	14,578,394
	161,819,032	**108,917,303**

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

	2014	2013
Others	11,778,875	75,969,761
Service fee payable	7,483,832	2,921,638
Premium over-remittance	2,173,219	-
Due to solicitors/creditors	1,649,553	-
Bidder's bond payable	836,638	171,229
Trust liabilities ACPC	478,792	478,792
Employee association	19,319	28,164
National Home Mortgage Finance Corporation (NHMFC)	3,682	3,766
	24,423,910	**79,573,350**

10. INTER-AGENCY PAYABLE

This account consists of the following:

	2014	2013
Due to Bureau of Internal Revenue (BIR)	3,276,212	1,584,018
Due to Government Service Insurance System (GSIS)	1,386,709	1,023,821
Due to Home Development Mutual Fund (HDMF)	138,746	116,201
Due to Philippine Health Insurance Corporation (PHIC)	105,368	79,247
	4,907,035	**2,803,287**

11. OTHER CURRENT LIABILITIES

This account consists of the following:

	2014	2013
Guarantee deposits payable	365,851	559,387
Due to officers and employees	242,243	230,491
Due to other local government units (LGUs)	199,823	169,375
	807,917	**959,253**

12. DUE TO OTHER NATIONAL GOVERNMENT AGENCIES (NGAs)

This account consists of the following:

	2014	2013
Commission on Audit (COA)	59,844,012	89,089,682
Agricultural Credit Policy Council – Gintong Ani Program (ACPC-GAP)	-	76,077,816
Others	8,217,476	20,661,795
	68,061,488	**185,829,293**

The Due to other NGAs – COA represents professional fees for auditing services rendered by COA personnel assigned at PCIC. On June 10, 2014, PCIC remitted to COA the amount of P41,288,287 covered by check number 365817.

The Due to other NGAs – Others account represents advance premium payments of various municipalities.

13. DUE TO OTHER FUNDS

This consists of the following:

	2014	2013
Trust liabilities – Comprehensive Agricultural Loan Facility (CALF)	461,205	546,553
Other liabilities – AGF	317,018	317,018
SRTF	87,100	677,877
	865,323	**1,541,448**

Trust liabilities – CALF account is a temporary account lodged at the Regional Offices, debited for cash receipts initially identifiable as for the CALF program, but the proper account to credit cannot yet be identified until supporting papers accompanying the remittance have been processed, after which entries against this account are reversed (credited).

Other liabilities–AGF account is credited for the amount of disallowed guarantee applications and debited for payment of guarantee fees.

14. DEFERRED CREDITS

This represents fees received from lending institutions and farmers whose application for insurance coverage are in process, held in abeyance as well as deficiencies in guarantee fee remittances. This account was also credited for the booked disallowance on the nine per cent interest on car plan.

This includes the following:

	2014	2013
Deferred premium income	304,148,599	1,729,558
Deferred premium payable	42,821,965	68,107,066
Deferred credits – nine per cent interest on car plan	7,098,169	7,098,169
Others	682,575	693,176
Deferred credits – gain on valuation of securities	147,800	147,800
	354,899,108	**77,775,769**

15. RESERVE FOR UNEARNED PREMIUMS

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

	2014	2013
Crop	562,354,927	247,156,421
HVCC	121,834,227	55,655,957
Livestock	52,705,721	11,476,362
Term insurance	26,775,358	19,467,404
Non - crop	5,546,822	3,731,042
Fisheries	917,009	249,828
	770,134,064	**337,737,014**

16. PREMIUM RESERVE

This account is a contra account of the Insurance Premiums and it is 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 as provided in the operations manual.

17. GOVERNMENT PREMIUM SHARE (GPS)

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

For the year 2014, the approved GPS amounted to P1,183.771 million representing 100 per cent cost of insurance premium of farmers listed under the Registry System for Basic Sectors in Agriculture (RSBSA)

18. PREMIUM REFUND

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

19. INSURANCE BENEFITS

This represents losses/claims paid for the period amounting to P737.231 million as follows:

Insurance Lines	Regular	High Value	Livestock	Term	Non-Crop	Fisheries
Amount (PM)	648.656	60.217	9.584	6.244	11.808	0.722

20. PREMIUM DISCOUNT

This represents amount of premium discounts granted to assured farmers/lending institutions/Government in accordance with PCIC policy.

	2014	2013
National government	1,061,535,711	46,564,744
Farmers	14,492,206	14,138,671
Lending institutions	747,097	477,826
	1,076,775,014	**61,181,241**

21. REINSURANCE PREMIUMS CEDED TREATY/FACULTATIVE

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

22. 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.

23. PERSONAL SERVICES

This account consists of the following:

	2014	2013
Salaries and wages	75,687,598	67,530,411
Other compensation	22,350,728	21,835,005
Other personnel benefits	17,575,616	9,677,049
Personnel benefits contribution	9,433,036	8,939,970
	125,046,978	**107,982,435**

24. MAINTENANCE AND OTHER OPERATING EXPENSES (MOOE)

This account consists of the following:

	2014	2013
Professional expenses	52,495,390	36,785,324
Advertising and promotional expenses	17,576,028	8,882,123
Traveling expenses	15,997,321	8,833,681
Rent expenses	7,553,984	6,290,360
Depreciation expenses	5,797,901	5,275,836
Supplies and material expenses	5,242,295	3,091,485
Utility expenses	4,963,619	3,786,685
Communication expenses	3,401,641	2,682,317
Training and scholarship expenses	3,394,317	3,064,484
Gender and development	2,915,556	76,935
Cultural and athletic expenses	255,415	96,521
Other MOOE	17,711,296	14,092,594
	137,304,763	**92,958,345**

The Other MOOE account is broken down as follows.

	2014	2013
Representation expenses	3,642,291	2,789,897
Fuel, oil, lubricant, expenses	3,612,958	3,129,289
Repairs and maintenance	3,138,552	2,220,130
Extraordinary and miscellaneous expenses	2,292,414	2,305,000
Others	1,837,000	1,574,194
Council/board members/directors allowance	1,526,000	660,000
Insurance expenses	436,577	404,202
Taxes and duties	294,187	185,338
Fidelity bond premiums	265,228	226,857
Honoraria	237,000	229,000
Delivery expenses	189,091	119,661
Subscription expenses	130,323	123,637
Licenses	74,975	86,294
Membership dues and contribution to organization	21,000	26,400
Donations	13,700	12,695
	17,711,296	**14,092,594**

25. OTHER INCOME

This account consists of the following:

	2014	2013
Interest income -		
Bonds	38,557,666	28,861,223
Deposit with local banks	2,513,416	4,485,138
Gain on sale of assets	2,123	77,713
Dividend income	-	-
Miscellaneous	1,790,367	4,046,869
	42,863,572	**37,470,943**

26. 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 5 million preferred shares also with a par value of P100 per share.

As of December 31, 2014, 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 National Government and 1 million shares of preferred stock with a par value of P100 per share subscribed by the Land Bank of the Philippines.

27. ADDITIONAL PAID-IN CAPITAL

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

28. RETAINED EARNINGS UNAPPROPRIATED

	2014	2013
Balance at beginning of year	(87,457,718)	(632,919,205)
Prior years' adjustments	(3,820,737)	(10,265,677)
As restated	(91,278,455)	(643,184,882)
Dividends	(100,082,698)	-
Net income	200,165,396	555,727,164
	8,804,243	**(87,457,718)**

29. PRIOR PERIOD ADJUSTMENTS

This account consists of the following:

	Amount
Premium reserve	26,660,512
Commission expense	591,146
Other professional services	282,289
Others	(2,249)
Accrued expenses	(122,379)
Receivable disallowance/charges	(140,000)
Return premium payable	(220,483)
Premium receivable	(471,048)
Insurance premium	(1,299,284)
Insurance claims payable	(21,457,767)
	3,820,737

30. 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 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.

31. PHILIPPINE CLIMATE CHANGE ADAPTATION PROJECT (PHILCCAP)

On June 29, 2012, PCIC received funds amounting to P4,191,000 to be used for the implementation of the Philippine Climate Change Adaptation Project (PhilCCAP), a pilot grant project funded by the World Bank which aims to develop and demonstrate approaches that will enable targeted communities to adapt to the potential impacts of climate variability and change in the Philippines.

The PCIC will provide and maintain accounting and financial records for PhilCCAP funds transferred, separate from its regular books of accounts, which shall be made available for inspection by the DA officials, its COA Auditor and authorized representatives of World Bank.

The PCIC will be in-charge in pilot testing the feasibility study of weather index-based crop insurance. As of December 31, 2014, the total expenses incurred in the implementation of the program is P5,711,895, broken down as follows:

	Amount
Agricultural expenses	2,530,990
Representation	693,006
Professional and technical expenses	666,730
Other MOOE	491,974
Traveling expenses	455,410
Depreciation expense	397,830
Materials and office supplies	344,238
Other agricultural supplies	48,000
Communication and postage	41,439
Fuel and lubricants	31,085
Internet expenses	7,613
Repairs and maintenance	2,039
Delivery expense	990
Bank charges	550
	5,711,894

32. COA SUSPENSIONS AND DISALLOWANCES

As of December 31, 2014, the balance of audit suspensions is P15,297,479, while the audit disallowances is P11,691,819. Bulk of the disallowances is the nine per cent interest charged to the Car Plan Loan.

33. 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:

	Amount
a. Local	
Mayor's permit	13,512
Community tax	2,000
Motor vehicle registration	77,809
b. National	
Taxes on interest income	27,914
Documentary stamp and premium tax	247,427
BIR annual registration	500
	369,162

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

	Amount
Tax on compensation and benefits	10,481,668
Creditable withholding taxes	6,745,902
Final withholding taxes	4,611,152
	21,838,722

34. RESERVE FOR INDEMNITY FLUCTUATIONS

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

Beginning balance:	-
Add: Provision for the year	113,161,000
Less: Application for the year	-
Ending Balance	**113,161,000**

35. DIVIDENDS TO THE NATIONAL GOVERNMENT

For the year 2014, PCIC declared dividend to the National Government in the amount of P100,082,698. The dividend was remitted to the Bureau of the Treasury (BTr) on March 30, 2015, which was acknowledged under BTr Official Receipt No. 8202188.

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 exception from the Department of Finance (DOF) from declaring dividends in 2012 and 2013 citing Section 5(f) of the Implementing Rules and Regulations (IRR) 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 date, PCIC is still waiting for the response of DOF to its request.

PART II – OBSERVATIONS AND RECOMMENDATIONS

FINANCIAL OPERATIONS

1. The difference between the Statement of Financial Position (SFP) and the General Ledger (GL) balances for the Subscription Receivable account and Accumulated Profits (Losses) totalling P1.223 billion brought about by the limitation of the accounting system in the recording of transactions, the incomplete data in the GL, and inappropriate preparation of trial balance (TB) rendered doubtful the accuracy of the said accounts and the Stockholder's Equity with a balance of P1.632 billion.

1.1. In the preparation of financial statements, Section 121(2) of Presidential Decree (PD) No. 1445 states that:

> *The financial statements shall be based on official accounting records kept in accordance with law and the generally accepted accounting principles and standards.*

1.2. In Section 11 of the Manual on the New Government Accounting System (MNGAS), Volume II, it provides:

> *General Ledger (GL). The General Ledger xxx is a book of final entry xxx. Totals of columns in the special journal and the entries in the GJ are directly posted in this book. At the end of each month, the accounts are footed and at the end of each year, these are totalled, ruled and closed and the balance extracted to serve as the opening balance of the new fiscal year. Likewise, the account with balances shall appear in the trial balance.*

1.3. The purposes of the TB as stated in Section 58 of the MNGAS, Volume I, are to: prove the mathematical equality of the debits and credits after posting; uncover errors in journalizing and posting; and serve as basis for the preparation of the financial statements. Section 75 thereof states that the SFP shall be prepared from information taken directly from the year-end Post-Closing TB.

1.4. To summarize the foregoing, these provide that the account totals in the special journals and the entries in the general journal (books of original entry) are directly posted in the GL (book of final entry); the accounts with balances in the GL shall appear in the TB; and the Post-Closing TB is the basis for the preparation of the SFP.

1.5. The accounting system at the Head Office (HO) was acquired as an off-the-shelf software. The functionality of this, however, is limited only in the recording of transactions such as receipts, disbursements, adjustments and closing entries, as well as generation of GL and TB. Once the Journal Entry Voucher (JEV) is manually approved, the entries are encoded in the computerized system and the data are automatically posted in the GL, and the balances are reflected in the TB. The Consolidated TB and financial statements are prepared using the MS Excel format.

1.6. The comparison between the SFP and GL balances as of December 31, 2014 disclosed a difference of P1.223 billion, as shown in Table 1.

Table 1 - Comparison between the SFP and GL Balances

Equity Account	SFP	GL (per system)	Difference
Subscriptions Receivable	P 249,045,585	P (557,452,014)	P (806,497,599)
Accumulated Profits (Losses)	8,804,243	(407,567,199)	(416,371,442)
	P 257,849,828	**P (965,019,213)**	**P (1,222,869,041)**

1.7. Another limitation of the system is it can only accommodate amounts up to P999,999,999.99. Once there is data overflow, meaning the amount of a transaction or the balance of an account exceeds the parameter, the figures are truncated by the accounting system. In this case, the Accounting Department directly posts the transaction amount to the TB using MS Excel.

1.8. Due to the limitation of the system and the practice of posting transactions, there is no updated GL record which would show the correct balances of the two accounts, as well as the nature of transactions affecting the said accounts. This resulted in the inaccurate and misleading information thus casting doubt on the validity and accuracy of the balances of Subscriptions Receivable and Accumulated Profits (Losses) accounts and ultimately affected the Stockholder's Equity of P1.632 billion.

1.9. It was also noted that there was a difference of P100.083 million as of December 31, 2014 between the amounts reflected in the Post-Closing TB and the SFP on the Accumulated Profits (Losses) account. The Post-Closing TB showed a balance of P108.887 million, while the SFP indicated a balance of P8.804 million. This was due to non-posting of the closing entry for the 2014 dividend expense of P100.083 million in the Post-Closing TB for the Accumulated Profits (Losses) account but directly to the SFP. Thus, further affecting the accuracy of the said account.

1.10. As an alternative solution starting in January 2014, the Accounting Department prepares a sub-account to accommodate data overflow, a sample of which is the Bonds account, as presented in Table 2.

Table 2 – Balance of Bonds as of December 31, 2014

Account Code	Account Title	Balance
163	Bonds	P 883,092,313
163a	Bonds - Overflow of 163	879,321,040
		P 1,762,413,353

1.11. **We recommended and Management agreed to:**

a. Require the Accounting Division to conduct an in-depth analysis of the accounts pertaining to prior years' transactions and effect the adjustments where appropriate, to prevent inaccurate and misleading information; and

b. Observe due diligence in the proper keeping of the books of accounts considering that top management or other users of the financial statements greatly depend their decisions on the available financial information.

1.12. The Accounting Division informed that the development of a new accounting system which is a component of the PCIC Automated Business System (PABS) is already underway which is expected to resolve the limitation of the current system.

2. The trust liability pertaining to the funds received from the Department of Agriculture (DA) amounting to P150 million as Government Premium Subsidy (GPS) for the implementation of a project cannot be readily established due to incorrect entries in the recording of receipt and utilization of the funds and the absence of subsidiary ledgers for the Other Payables-Others account.

2.1. Based on the Memorandum of Agreement (MOA) entered into with the DA for the implementation of the DA-Land Bank of the Philippines (LBP) Sikat Saka Program and the National Irrigation Administration (NIA) Early and Third Cropping Rice Program, the DA released P150 million on November 15, 2012 as DA-GPS for crop insurance coverage of marginalized subsistence farmers. Under the MOA, the PCIC is to utilize the fund as the government's and/or farmer's share in the premium cost of insurance coverage of marginalized subsistence rice farmers participating in the programs, and to submit report of disbursements, verified and found correct by the resident auditor and subsequently submit the same as liquidation of the funds received from DA.

2.2. Also under COA Circular No. 94-013 dated December 13, 1994, entitled *Rules and Regulations in the Grant, Utilization and Liquidation of Funds Transferred to Implementing Agencies*, it provides, among others, the following:

> Section 4.2. *The cash/money transferred shall be taken up as Cash, Inter-agency Transferred Funds by the source agency (SA) and as a **trust liability by the implementing agency*** [IA]*.*
>
> Section 6.3. [The IA shall] ***keep separate subsidiary records** for the trust liability whether or not a separate bank account is maintained*.
>
> Section 6.5. [The IA shall] *within ten (10) days after receipt from the AO, the Accountant shall verify the Reports, provide accounting entries, record and submit the duplicate copies of the Reports with all the originals of vouchers/payrolls and all supporting documents to the IA Auditor. The Accountant shall ensure that only expenses for the project are included in the Reports. **He shall submit the original copy of the Reports to the SA** (Attention: The SA Accountant).* (All emphasis supplied)

2.3. Verification of the recording of the transactions affecting the receipt and utilization of the P150 million DA-GPS revealed that the journal entries, shown in Table 3, were made.

Table 3 – Recording of the Receipt and Utilization of DA-GPS

Accounting Entry	Entry Made Debit	Entry Made Credit	Remarks
1. Premium Rec. - NG-DA Palay Project Due to Regional Office (RO) To record partial fund utilization by RO of DA-GPS for LBP Sikat Saka and NIA Third Cropping Program	xx	xx	This entry is prepared in the HO to set up receivable from DA based on the Debit Memo submitted by the RO.
2. Cash with Collecting Officer Premium Rec. - NG-DA Palay Project To record the receipt of P150 million DA-GPS on November 15, 2012	xx	xx	This resulted in a credit balance for the account Premium Receivable - NG-DA Palay Project. Besides, it should have been credited to Trust Liability account in the amount of P150 million and not only the unutilized balance of the fund.
3. Premium Rec. - NG-DA Palay Project Other Payable - Others To set up liability account for the unutilized balance of DA-GPS as of December 31, 2012.	xx	xx	The remaining balance of the fund was P56.920 million; thus overstating the Other Payable – Others account by the same amount. On the other hand, this entry corrected the negative balance of the Premium Receivable-NG-DA Palay Project resulting from the entries in nos. 1 and 2. At this point, this receivable account has a zero balance.
4. Other Payable – Others Due to RO To record succeeding fund utilization by the RO	xx	xx	The liability is debited whenever a Debit Memo is submitted by the RO to the HO for the amount of fund utilized. This understated the Other Payable – Others account.

NG - National Government; Rec. - Receivable

2.4. In view of the accounting entries made in Table 3, the Other Payables – Others account was overstated by undetermined amount, while the Trust Liability account was understated by P150 million. The debit to Trust Liability account should only be made during liquidation of the fund utilized which is supported with a duly audited Report of Disbursement, as required in Item B.4 of the MOA.

2.5. It was also noted that Debit Memos submitted monthly by the ROs to HO were not supported with Report of Disbursements covering the amount utilized. Management informed that as of December 31, 2014, the full amount of P150 million has already been utilized by the ROs but still without the corresponding liquidation reports. Per confirmation from the DA-COA Auditor, the total amount of P150 million is outstanding in the books of DA as of December 31, 2014 as Due from Other NGAs, but have no corresponding Trust Liability account in the books of PCIC.

2.6. Verification of records also revealed that the Other Payables – Others account has no subsidiary ledgers. As of December 31, 2014, this account has a balance of P9.288 million; but in the absence of subsidiary ledgers, the balance pertaining to the DA-GPS funds cannot be readily established.

2.7. **We recommended and Management agreed to:**

a. Require all the Accountants to immediately analyze the transactions pertaining to the P150 million DA-GPS and effect the necessary adjustments to the appropriate liability accounts, the reciprocal accounts and other affected accounts, to establish the correct balance of the liability to the DA;

b. Require the Regional Office Accountants to submit duly audited Report of Disbursements to support the Debit Memos for fund utilized under the programs; and

c. Henceforth, remind all concerned to strictly comply with the provisions of COA Circular No. 94-013 in the recording of receipt and liquidation of funds received from the source agencies, and in the maintenance of subsidiary ledgers for proper accounting and monitoring of the funds.

3. 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.

3.1. The grant of DA-GPS for the insurance coverage to the qualified farmer-beneficiaries participating under the DA-LBP Sikat Saka and NIA Early and Third Cropping Rice Programs was recorded in the PCIC Regional Offices (ROs) as Gross Premium (Income) upon underwriting of crop insurance. The ROs submits monthly Debit Memos to the Head Office for the amount of DA-GPS utilized during the month.

3.2. As of year-end, the GPS granted to farmers participating under the programs amounted to P197.472 million, while the amount of DA-GPS was only P150 million or an excess GPS of P47.472 million. On December 31, 2014, a receivable from DA under the account Due from Other NGAs - DA in the amount of P47.472 million was recognized (debited) in the books representing the GPS in excess of the P150 million DA-GPS and credited the Other Payables - Others account.

3.3. The recognition of the receivable has no basis as it was not supported with MOA between PCIC and DA to ensure that the amount of insurance premium in excess of the P150 million would be acknowledged by the latter. Without the MOA, PCIC could not enforce collection of the recorded receivable. Likewise, the receivable was not communicated to DA; hence, the latter is not aware of any obligation to PCIC. Therefore, the account Due from Other NGAs - DA is overstated in the amount of P47.472 million, which also overstated the income account.

3.4. Verification also revealed that the Board of Directors approved on September 25, 2014 the provision of 100 per cent premium subsidy (discount) amounting to P32 million for the insurance coverage of marginalized subsistence farmers participating in the DA-

LBP Sikat Saka Program, to augment the Premium Subsidy Fund provided by DA and to enable the continuation of the Program up to December 31, 2014. However, this amount was not applied to the excess GPS of P47.472 million. Had the amount been applied as discount, the Income from Operations would have been reduced by P32 million as of year-end.

3.5. **We recommended and Management agreed to:**

a. Provide direction to the Head Office Accountant to prepare necessary adjusting entries to correct the Due from Other NGAs – DA and other related accounts;

b. Strictly monitor program implementation and fund utilization to prevent excess insurance coverage; and

c. Consider the applicability of the P32 million premium subsidy discount approved by the Board of Directors to the excess insurance coverage under the programs, and to determine the appropriate disposition of the remaining excess premium subsidy of P15.472 million.

4. The collectability of dormant receivable accounts totaling P101.946 million which were provided with 100 per cent allowance for doubtful accounts is uncertain due to absence of documents to enforce collection, while the validity of various dormant payable accounts in Regions I and III amounting to P1.864 million was doubtful due to misclassification of accounts and absence of subsidiary ledgers, among others.

4.1. COA Circular No. 97-001 dated February 5, 1997 defines dormant accounts as individual or group of accounts which balances remained non-moving for more than five years. It also states that dormant accounts in an active fund shall be reviewed, analyzed and reconciled together with other related accounts in the trial balance. Some of the procedures that shall be followed include the enforcement of collection of receivables and settlement of liabilities. If the analysis/review of the accounts/funds is not possible due to absence of records and documents, the agency head concerned should request for write-off and/or adjustment of account balances from the COA, supported by list of available records and extent of validation made on the accounts and Certification and reasons why the books of accounts/records, financial statements/schedules and supporting vouchers/documents cannot be located.

4.2. Review of the non-current receivables totaling P101.946 million as of December 31, 2014, revealed that these receivables have already been dormant from 16 to 39 years, as presented in Table 4, for which a 100 per cent allowance for doubtful accounts was provided, in compliance with the audit recommendations in previous years. These accounts used to be under the Agricultural Guarantee Fund (AGF) Program and managed by the Land Bank of the Philippines (LBP). These accounts were turned over by the LBP as its contribution to the PCIC's capitalization.

Table 4 - Dormant Receivables

Account Title	Amount	Age
CALF Guarantee Receivable	P 51,980,843	16-25
Special Time Deposit (STD) Claims Paid	43,582,755	32-39
Adjudicated Claims	3,724,229	31
Claims on Bank–Unremitted Recoveries	1,853,751	32
Due from Banks	540,739	32
STD Advances on Claims	178,528	32-34
Claims Paid -3rd International Bank for Rural Dev't. Project	85,511	31
	P 101,946,356	

4.3. It is worth mentioning that there were recoveries from Philippine Deposit Insurance Corporation (PDIC) during 2014 amounting to P433,522 in Region III-A for the Claims on Bank-Unremitted Recoveries account.

4.4. The Comprehensive Agricultural Loan Fund (CALF) Guarantee Program happened way back in the 1980's and 1990's. Under the tripartite scheme of the Program involving a guarantor, lender and borrower, the PCIC administered and guaranteed 85 per cent of the loan of the defaulting borrower, while the lending institution (LI) is tasked to exert effort to collect from the covered defaulting borrower. As mentioned in the 2013 Management Letter (ML) on the audit of PCIC Region X, no receivable recoveries were recognized after 2001 despite the efforts made by the PCIC and LIs to collect. Furthermore, most of the LIs have been disbanded, or inactive or no longer operating.

4.5. The STD Claims Paid was governed by PCIC Circular Letter No. 004 dated May 27, 1981. Similar to CALF Guarantee Receivable, the PCIC pays 85 per cent of the outstanding loan balances of farmers, while the LBP undertakes the collection to be remitted to the RO within 30 days from receipt. These covered beneficiary loans paid by LBP and transferred to the RO as receivables. As disclosed in the 2013 ML on Region X, there were no replies on the follow-up collection letters sent to concerned LIs.

4.6. Adjudicated Claims account stemmed from the paid STD claims, where LIs after five years of collecting loans from farmer-borrowers applied for adjudication thus resulted in the transfer of the collection function to the RO. This receivable represents claim from Rural Bank of Nasipit in the year 1983. As stated in the 2013 ML on Region X, documents pertaining thereto could no longer be located and this claims account was written off in the books of the concerned LIs, as in the case of Philippine National Bank (PNB) branches.

4.7. Claims on Banks–Unremitted Recoveries represent actual recoveries under the guarantee program which were not remitted to PCIC and details of which could not be established/verified from the concerned banks as these were written off from their books.

4.8. Inquiry from the concerned personnel in the RO on the status of these dormant accounts disclosed that they have already sent follow-up collection letters to concerned LIs, but there were no replies. It was also gathered that the Regional Accountants experienced difficulty in analyzing the accounts because several supporting documents could no longer be located. Notwithstanding this claim of Management, there has been no request for write-off.

4.9. On the review of payable accounts of Regions I and III as of year-end, it was noted that the balances of the accounts in Table 5 remained dormant for more than five years, but no adjustments have been made to correct or close the balances.

Table 5 – Dormant Liabilities

Account Name	**Balance**
Other Payables	P 529,487
Due to Other NGAs - Agricultural Credit Policy Council-CALF	478,791
Other Liabilities - Agricultural Guarantee Fund	301,826
Other Payables - Provident Fund	173,588
Deferred Premium Income	80,850
Due to Other Funds - Special Revolving Trust Fund	69,892
Return Premiums Payable (Partial)	49,588
Due to Bureau of Internal Revenue (BIR)	
Withholding Tax	102,541
Fire Insurance	20,340
Property Floater	15,538
Property Floater	15,044
Livestock	3,518
Commercial Car Insurance	3,023
High Value Commercial Crops	2,450
Due to PhilHealth	10,855
Due to Government Service Insurance System (GSIS)	
Optional Insurance	3,929
Loans	2,945
	P 1,864,205

4.10. Inquiry revealed that said accounts pertain to some accounting procedural defects in prior years such as accounts misclassification and others where proper disposition during those times were not immediately attended to. Further inquiry revealed that subsidiary ledgers were not maintained for these payables in prior years, thus the creditors could no longer be identified/traced.

4.11. **We recommended and Management agreed to:**

a. Establish sound management practices to ensure that all receivables are collected/realized to prevent loss and wastage of government resources;

b. Require the Accountants to exert all effort to locate/retrieve the supporting documents and ledgers of the dormant receivable and payable accounts and to conduct in-depth analysis of these accounts so that the necessary adjustments can be identified and recorded in the books;

c. Continue sending collection letters to lending institutions and make representations with the PDIC on the possible recovery of receivables from closed lending banks; and

d. Comply with the requirements in requesting for write off of the dormant receivables from the Commission on Audit, pursuant to COA Circular No. 97-001.

4.12. Management commented that they will exert the necessary effort to gather documentation required by the Commission on Audit for the write off of accounts and for the adjustment of dormant liabilities. Likewise, according to the Regional Management, they will continue sending communications to the lending institutions involved and make follow up as necessary.

5. The existence, valuation and accuracy of Property, Plant and Equipment (PPE) account and its related accounts with a net book value (NBV) of P53.615 million could not be ascertained due to the unreconciled book balance and inventory report, absence of physical inventory in Region VI, absence or lack of updated ledger cards and property cards, erroneous computation of depreciation and lack of supporting documents.

5.1. In Item V.4 of COA Circular No. 80-124 dated February 18, 1980, it states that Inventory Reports shall be properly reconciled with accounting and property records.

5.2. Also, Section 43 of the Manual on the New Government Accounting System (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, xxx. The balance in quantity per PC xxx should always reconcile with the ledger cards of the Accounting Unit.*

5.3. The PPE account has NBV amounting to P53.615 million as of December 31, 2014. However, the existence, accuracy and reliability of the value of the PPE cannot be ascertained in view of the deficiencies noted.

5.4. In the Head Office (HO), the book balance of the PPE account of P26.152 million is greater by P11.248 million than the Physical Inventory Report of P14.904 million, breakdown per sub-account is in Table 6.

Table 6 - PPE Book Balance versus Inventory Report

Account Title	Per Books	Per Inventory	Difference
Leasehold Improvement	P 3,226,506	P -	P 3,226,506
Office Equipment	2,184,750	1,978,791	205,959
IT Equipment	4,670,778	3,133,134	1,537,644
IT Software	6,129,260	-	6,129,260
Furniture and Fixtures (F&F)	1,206,018	2,328,733	(1,122,715)
Land Transportation	8,006,111	7,299,123	706,988
Other PPE	728,286	164,084	564,202
	P 26,151,709	**P 14,903,865**	**P 11,247,844**

5.5. Verification revealed that the discrepancy of P11.248 million was due to non-maintenance of Subsidiary Ledgers (SL) by the Accounting Division and Property Cards (PC) by the General Services Office. Due to the absence of SL and PC, periodic reconciliation of the records could not be undertaken; thus, discrepancy could not be corrected.

5.6. Also, the following deficiencies made the conduct of inventory taking difficult:

a. Several PPE items have no tag/sticker containing their property number, specifically the purchases made in CY 2014, hence cannot be readily traced from the inventory report. The property tags/stickers were only attached during the inventory taking;

b. There were also F&F, Office and IT equipment which the property numbers did not tally with the inventory list, thus rendered the reconciliation between records difficult; and

c. There were no written procedures to facilitate the conduct of inventory taking.

5.7. In Region VI, physical inventory of the PPE in the amount of P2.420 million was not conducted, while in Region XII, PPE account with NBV of P3.288 million have no updated ledger cards and corresponding PCs.

5.8. The Accumulated Depreciation and the related Depreciation Expense accounts were inaccurate, incomplete and doubtful due to erroneous number of months and number of useful life used in the computation of depreciation, and deficient Schedule of Monthly Depreciation resulting in the understatement of these accounts.

5.9. Verification of the HO Schedule of Monthly Depreciation for the year 2014 disclosed a discrepancy of P365,702 from the audited amount of depreciation expense. The discrepancy was attributed to the error in the number of months taken up for depreciation expense and the useful life of PPE. An example is the Leasehold Improvement, the blinds for instance, where the useful life used in the computation of depreciation was five years. However, pursuant to COA Circular No. 2003-007 dated December 11, 2003, the useful life for blinds should be 10 years.

5.10. The Accumulated Depreciation – Leasehold Improvement was also understated by P128,278. This was due to the recording of the adjustments that was erroneously computed for the year 2013 hence affecting the beginning figure in 2014.

5.11. Further, the balances of PPEs listed in the said Schedule were lesser than the balances per books. The total balance of PPE per books amounted to P20.023 million, while only PPEs of P14.194 million were computed with depreciation or a difference of P5.829 million without depreciation. The difference was due to incomplete list of items subject to depreciation and the absence of ledger cards. Hence, some PPEs have not been depreciated rendering the balance of the Accumulated Depreciation and Depreciation Expense accounts inaccurate, thus affecting reliability of the NBV of the PPE account at year-end.

5.12. In Region I, the depreciation of Ford Truck acquired in 2014 was erroneously computed at P164,698 instead of P72,212, thereby overstating both the depreciation expense and accumulated depreciation account by P92,486. Likewise, the accumulated depreciation and depreciation expense accounts in the total amount of P2.700 million and P278,627, respectively, of PPE account in Region XII were understated by P204,198 and P40,725 during the year. Also, the PPE account in Region I and Region XII contained unserviceable items worth P0.114 million and P0.677 million, respectively.

5.13. **We recommended and Management agreed to:**

a. Require the Accounting Department and General Services Office to maintain the necessary PPE ledger cards and property cards and conduct periodic reconciliation of these records, and also reconcile the results of the physical count with these records;

b. Require the Accounting Department to adjust the erroneous computation of the beginning balance of the Leasehold Improvements, ensure that the Schedule of Monthly Depreciation contain all PPEs recorded in the books to make certain that depreciable assets are provided with depreciation, and exercise due diligence in the computation of depreciation of PPEs to ensure correctness of the affected accounts;

c. Require the concerned Regional Office to immediately create a team to conduct physical inventory of properties and prepare written procedures to facilitate the conduct of inventory; and

d. Require the Financial and Accounting Division of concerned Regional Offices to prepare necessary adjustments on the accumulated depreciation of the PPE account applying the revised estimated useful life provided in COA Circular No. 2003-007, and effect adjustment of the book value of unserviceable items in Regions I and XII.

5.14. Management commented that the Accounting Division will maintain ledger cards for all PPEs. The reconciliation of the Inventory Report with the books is on-going and the reconciliation report will be submitted as soon as possible. Likewise, the necessary adjustments will be made in the books as soon as the reconciliation and analysis of the accounts are done.

6. 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.

6.1. Under Section 8.1 of RA No. 8175 dated December 29, 1995, the authorized capital stock of the Agency is P2 billion of which the P1.500 billion common shares with par value of P100 each shall be fully subscribed by the Government. As shown in the Statement of Financial Position (SFP) as of December 31, 2014, the balance of the Subscription Receivable account was P249.046 million, the same balance since

November 2012. The account refers to the amount due from the National Government for the subscribed capital stock of the Agency.

6.2. As can be gleaned from RA No. 8175, an Act further amending the charter of PCIC, Section 6.5 thereof provides that:

> *Ten percent (10%) of the net earnings of the Philippine Charity Sweepstakes Office (PCSO) from its lotto operations shall be earmarked for the Crop Insurance Program and said amount shall be directly remitted by the PCSO to the Corporation every six (6) months until the amount of government subscription is fully paid.*

6.3. Verification revealed that the last remittances from PCSO were received on September 11, 2012 and October 5, 2012 in the total amount of P10 million. The PCSO made 13 remittances since CY 1997 with total amount of P55.554 million. It showed that since the effectivity of RA No. 8175 on February 1, 1996, PCSO failed to remit 24 remittances out of the required 37 remittances or an estimated amount of P120 million based on the P5 million per remittance in CY 2012. The balance of Subscription Receivable would have been reduced by 48.18 per cent from its balance of P249.046 million as of December 31, 2014.

6.4. Notwithstanding that the PCSO has not been regularly fulfilling its obligation; PCIC had not made the necessary effort to collect the amount due them. This could later affect the financial viability of the Agency. The latest communication sent to PCSO was on August 14, 2012, requesting for the replacement of a P5 million stale check as payment of government subscription.

6.5. **We recommended and Management agreed to:**

> **a. Request the Accountant to analyze the Subscription Receivable account to ensure accuracy of the amount due from PCSO so that appropriate actions can be undertaken for the collection of government subscription as provided in RA No. 8175; and**
>
> **b. Henceforth, closely coordinate with PCSO for the timely remittance of subsequent share from the lotto earnings.**

7. 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.

7.1. Section 10.4 - Part 2 of the Rice and Corn Crop Insurance Operations Manual states that:

> *A team of Adjusters composed of two (2) members, one from the PCIC and another from either Department of Agriculture (DA)/Department of*

Interior and Local Government (DILG) Municipal Agriculturist or Agricultural Production Technician, the Department of Agrarian Reform (DAR) or National Irrigation Administration (NIA) or a concerned Lending Institution's Production Technician or a duly accredited farmers organization, shall verify the claim and submit its finding thereon xxx.

7.2. Whenever the representative from the DA/DILG or the DAR or NIA or the concerned Lending Institution (production technician) or the duly accredited farmer's organization is not immediately available for adjustment work, a team of two (2) PCIC employees shall suffice.

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

7.4. In Region IV, post audit of 332 Disbursement Vouchers (DVs) or 79.88 per cent of the submitted vouchers for Claims totalling of P17.776 million composed of 1,203 checks disclosed the following deficiencies:

a. There were DVs for which two or more checks were issued to different farmers;

b. Claims Adjustment and Verification Reports (CAVRs) attached to 211 DVs showed that adjustment works were done by only one Adjuster from PCIC Region IV. There was no Adjuster from the DA/DAR/DILG/NIA and concerned lending institutions and from accredited farmer's organization and/or another Adjuster from PCIC to complete the team of two Adjusters;

c. In 221 DVs, some Adjusters from the PCIC and from other government agencies did not state their printed names under their signatures for proper identification as well as the Agency they represent;

d. Claims Processing Slips were not attached to 256 claims to support the computation of the amount of indemnity granted to farmers, and 5 DVs were not supported with Notice of Loss;

e. The dates when farmers and witnesses signed the Claims for Indemnity, substantiating 175 DVs, were not indicated;

f. Box – C (Cash Availability) 3 DVs have no approval/signature of the OIC, Administrative and Finance Division; and

g. Box – F (Received Payment) 176 DVs have no signatures of the payees, date when payment was received and/or acknowledgement receipt of payment.

7.5. The absence of one Adjuster from the specified government agencies, accredited farm organizations and from the lending institutions in the team of adjusters, for an independent opinion to complete the team, may cast doubt on the fairness of the assessment of loss undertaken. The aforementioned documentary deficiencies also rendered it difficult to establish the validity and propriety of the disbursements totalling P17.776 million.

7.6. Further, as of January 31, 2015, the latest DVs for Claims on file for audit was for the month of September 2014, submitted by Management on January 29, 2015 or 75 working days after month end, contrary to the provisions of Section 100 of PD No. 1445, which states that:

> *Disbursing officers in any government agency shall render monthly reports of their transactions pursuant to regulations of the Commission to be submitted not later than the* ***fifth day of the ensuing month*** *to the auditor concerned who shall conduct the necessary examination and audit within thirty days from receipt thereof.* (Emphasis supplied)

7.7. **We recommended and Management agreed to 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;

b. Submit for audit purposes all lacking documents and correct all noted deficiencies in the attachments supporting the claims totalling P17.776 million and all unsubmitted disbursement vouchers, supporting documents and other mandatory reports for CY 2014; and

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.

7.8. Management informed and explained during the exit conference that:

a. Other members of the Team of Adjusters from other government agencies like the DA, DAR, NIA, the lending institutions and the farmers organization representatives were not always available, hence, two PCIC adjusters were often resorted to;

b. The absence of dates when farmers and the witnesses signed the document is now being checked diligently when processing claim, so with the printing of names of adjusters in the CAVRs below their signatures;

c. On the signatures of payees and dates when payments were received by claimants, some acknowledgement receipts were traced in the Check Transmittal File and the others in the Check Register Books; and

d. A task force was already created to cope with the timely submission of DVs for post-audit.

8. The remittance of premiums collected by 15 underwriters of the PCIC – Region IV was not properly monitored, thus remittance of premiums collected totalling P1.286 million was delayed by 1 to 38 days, contrary to the provisions of Section 14 of the Rules and Regulations on Insurance of Rice and Corn Crops, thereby exposing the funds to possible loss and misuse.

8.1. Under Section 14 of the Rules and Regulations on Insurance of Rice and Corn Crops, underwriting agents shall remit the premium to the nearest PCIC RO within fifteen (15) days from approval of application for insurance or issuance of Certificate of Insurance Cover (CIC). It also provides that non-compliance with the remittance period by the concerned underwriting agents shall render them liable for any loss occurring during the period of delay, without prejudice to the imposition of other sanctions provided for under existing laws.

8.2. Review and verification of the Premiums Register for the year disclosed that collections totalling P1.286 million were remitted by the 15 authorized underwriters of the PCIC- Region IV, from 1 to 38 days after issuance of the CIC.

8.3. The Marketing and Sales Division, which has control over the approved insurance application or issuance of the CIC and the premiums that the Insurance Processor must collect on a certain date, should have reminded the processors to remit collected premiums on time and monitored the remittances made.

8.4. The late remittance of premiums exposed funds to possible misuse or loss.

8.5. **We recommended and Management agreed to direct the Regional Manager to require the Head, Marketing and Sales Division to strictly enforce the provision on remittance of insurance premiums and remind underwriters of the sanctions for non-compliance thereto.**

8.6. The OIC, Marketing and Sales Division agreed with the audit observation, but commented that his division has no direct control to prevent the repetition of the deficiency. Nevertheless they have instituted measures to minimize its occurrence within the bounds of their mandated authority, to wit:

a. Upon receipt of documents with delayed remittance, they send a notice of deficiency with an accompanying letter reiterating strict adherence to Section 14 of the Rules and Regulations on the Insurance of Rice and Corn.

b. Insurance underwriters are advised to include in their itineraries of travel, the discussion of the deficiencies and its consequences with the concerned underwriting agent's/lending institution's head and account officers.

CROP INSURANCE PROGRAMS

Background of the different crop insurance programs

- **Weather Adverse Rice Areas (WARA) Insurance Program**

The program aimed to provide crop insurance subsidy to rice farmers in climate change affected areas and areas with adverse agro-climatic conditions as a proactive measure to help them in case of weather disturbances and changes in agro-climatic conditions resulting in crop damage. The program covered the wet cropping season 2013 (March 16-September 15, 2013), but the Department of Agriculture (DA) approved the extension of the program until December 31, 2014. A Memorandum of Agreement (MOA) per Region was entered into by and between the DA Regional Field Units/Regional Field Offices (DA-RFUs/RFOs) and PCIC Regional Offices (PCIC ROs) to effect its full implementation. The DA allocated a total of P167.235 million for the 16 DA-RFUs/RFOs to be downloaded to the PCIC ROs and the latter to submit liquidation reports within a month after the end of the Wet Season 2013 or at the end of the program.

- **Department of Agriculture-Land Bank of the Philippines (DA-LBP) Sikat Saka Program and National Irrigation Administration (NIA) Early Cropping and Third Cropping Program**

A MOA was entered into by the DA and PCIC on June 28, 2012 for the implementation of the said programs. The MOA remained valid and binding within one year upon release on November 15, 2012 of the P150 million DA Government Premium Subsidy (DA-GPS). The effectivity of the program was later extended up to December 31, 2014 per approved letter request for extension to DA dated November 6, 2013.

The MOA required utilization of the DA-GPS fund as the government's and/or farmer's share in the premium cost of insurance coverage of marginalized subsistence rice farmers participating in the said programs particularly borrowing farmers or members of the Irrigators' Associations (IAs), Farmers' Associations (FAs), Small Water Impounding Irrigators Associations (SWIAs), and other farmer associations/groups, and the like.

- **Government Premium Subsidy (GPS) under Registry System for Basic Sectors in Agriculture (RSBSA)**

Under the General Appropriations Act (GAA), Fiscal Year (FY) 2014, the amount of P1.184 billion was appropriated as subsidy exclusively for the full cost of insurance premiums for any of the following types of insurance: crop, livestock, fisheries, and non-crop agricultural asset. The beneficiaries are the subsistence farmers and fisherfolks registered under the RSBSA who are not receiving any other subsidy for these types of insurance from the local government and are located in the 20 priority provinces, identified by the Department of Budget and Management (DBM) per NBM No. 118 dated April 25, 2013. Other subsistence farmers and fisherfolks located in the 20 priority provinces not listed in the RSBSA but duly certified by the Office of Municipal/City Agriculturist of Local Government Unit (LGU) as such can also be considered beneficiaries subject to some limitations on their insurance coverage.

The release of the fund was subject to the submission of the list of subsistence farmers and fisherfolks duly endorsed by the Secretary of Agriculture, and such other reports and financial statements that may be required by the DBM.

- **Agrarian Reform Beneficiaries-Agricultural Insurance Program (ARB-AIP)**

The ARB-AIP is a joint program of the DAR and DA-PCIC. The DAR proposed a budget subsidy of P1.0 billion in the 2013 GAA under the budget of DA-PCIC, which shall be exclusively used for premium subsidy for agricultural insurance to be endorsed by DAR. The program shall be implemented for a period of one year, unless additional funding for succeeding years is provided. The premium subsidy will effectively lessen the cost of borrowing of ARBs, by shifting the cost of crop insurance from the borrower to the government. It will likewise lessen the credit constraints of ARBs as the insurance coverage can act as a guarantee or collateral to their production loans. The program will further address the vulnerability of ARBs from extreme weather events brought about by climate change and will also protect them against losses due to pest and disease infestations and natural calamities. The DAR shall identify the ARBs to be provided with the premium subsidy.

Audit of insurance cover under these different programs disclosed some deficiencies which are discussed in the succeeding paragraphs.

9. Only P39.372 million or 83.54 per cent out of P47.132 million WARA fund transferred was utilized in Region III because its insurance production depend on the general master list of farmers provided by the Municipal and City Agriculturist Office; while only P2.026 million or 20.87 per cent was utilized out of the P9.711 million allocation in Region VIII due to poor coordination between PCIC RO VIII, DA-RFU VIII or PCIC Head Office which resulted in lack of awareness of the Program; thus, the objective of providing insurance to more rice crop farmers was not satisfactorily attained.

9.1. The objective of WARA program, as contained in DA Memorandum Order No. 13, Series of 2013, was to provide crop insurance subsidy to rice farmers in climate change affected areas and areas with adverse agro-climatic conditions as a proactive measure to help them, in case of weather disturbances and changes in agro-climatic conditions resulting in crop damage in support to the DA Rice Crop Insurance Support Program. The utilization of the WARA fund for Regions III and VIII as of December 31, 2014 is shown in Table 7.

Table 7 – Utilization of WARA Fund

RO	Allocation 2013	Allocation 2014	Total	Utilized	% of Utilized	Unutilized	% of Unutilized
III	P 23,934,000	P 23,197,611	P 47,131,611	P 39,372,256	83.54	P 7,759,355	16.46
VIII	9,711,000	-	9,711,000	2,026,426	20.87	7,684,574	79.13
	P 33,645,000	**P 23,197,611**	**P 56,842,611**	**P 41,398,682**	**72.83**	**P 15,443,929**	**27.17**

9.2. The allocation of P47.132 million to PCIC RO III was for a total production target covering 69,874.50 hectares. As of December 31, 2014, records showed that, out of the P47.132 million transferred to Region III, only P39.372 million was utilized or 83.54 per cent. The unutilized amount was due to additional amount granted in 2014 of P23.198 million despite the unused balance of P13.359 million as of December 31, 2013. Also, for their production, Region III depends on the Municipal and City Agriculturist Office which provides them with the general master list of farmers who will plant rice during the wet cropping season; thus, the use of WARA fund was not fully maximized.

9.3. In Region VIII, of the fund allocated amounting to P9.711 million, only 20.87 per cent or P2.026 million was utilized. Further verification revealed that PCIC RO VIII and DA-RFU VIII entered into an undated MOA for a project entitled "DA-RFU VIII AND PCIC PALAY INSURANCE PREMIUM SUBSIDY (PIPS) PROGRAM – JANUARY 01, 2013 TO DECEMBER 31, 2013." The PIPS was originally launched in 2009 without premium subsidy from the DA.

9.4. The objective of the PIPS is to insure more rice crops region wide in support to Eastern Visayas Rice Sufficiency Program. It aims to mitigate losses of rice farmers due to pest and disease infestations and impact of climate change. Under the MOA, DA-RFU VIII shall allocate P9.711 million for premium subsidy of farmer beneficiaries in 2013. The PCIC RO VIII for its part shall submit regular billing statement (fund utilization) with supporting documents to DA-RFU VIII.

9.5. The allocated amount for PIPS is the same as that allocated for the WARA program of P9.711 million. Although the two programs/projects have different targets, which were 8,983 hectares involving 5,989 farmers for WARA program and 19,422 hectares involving 17,037 farmers for PIPS, they have a shared objective of insuring crops in order to mitigate losses due to impact of climate change.

9.6. In 2013 and 2014, the DA-RFU VIII reimbursed PCIC RO VIII a total of P2.026 million for premium subsidy to insured farmer-beneficiaries under the PIPS. The amount of P0.713 million covered premium subsidy for the months of August 2013 and September 2013, with bill dated October 3, 2013 and P1.313 million covered the months of October 2013 to December 2013, with bill dated January 13, 2014. According to Management, in January 2014 per instruction of DA, PCIC RO VIII considered all production under the PIPS as WARA production effective August 2013. The transfer of all PIPS production to WARA production was, however, not supported with written authority from DA.

9.7. Management stated that there was no MOA executed between PCIC RO VIII and DA-RFU VIII for the WARA program, hence the RO was not aware of its responsibilities under the said program. Likewise, PCIC RO VIII was not aware of DA's approval on the extension of the WARA implementation until December 31, 2014; thus, the production was only for CY 2013 as contained in the billings for reimbursement amounting to P2.026 million. This resulted in the non-attainment of the WARA program's objective of providing insurance to more rice crop farmers and helping them mitigate losses due to the impact of climate change.

9.8. **We recommended and Management agreed to:**

a. Require the Regional Manager of Region III to coordinate closely with the Municipal and City Agriculturist Office in the identification of all qualified farmer-beneficiaries under the subsidized insurance programs

and request complete listing of the identified farmer-beneficiaries to maximize the utilization of fund subsidies; and

b. Always ensure that programs/projects are properly and timely disseminated to the Regional Offices for the efficient and effective implementation of these programs/projects.

9.9. During the exit conference, the Chief, Marketing and Services Division of PCIC RO VIII stated that it was only in CY 2013 that the WARA program was implemented. They were not aware of the existence of the program until the PCIC Head Office made follow-ups on the status of the program implementation. Management further stated that no MOA was executed between PCIC RO VIII and DA-RFU VIII for the WARA program.

9.10. Management also commented that the DA Memorandum Order No. 13 for the implementation of WARA program was received by PCIC RO VIII after the signing of the MOA for PIPS. Considering the similarities of WARA and PIPS in terms of budget amount of P9.711 million, PCIC RO VIII and DA-RFU VIII implemented the program based on the MOA and implementing guidelines of PIPS.

10. There is no assurance that the farmer-beneficiaries insured under the WARA Insurance Program in two regions with insurance premium totalling 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.

10.1. Under the DA Memorandum Order No. 13, the DA-RFU is responsible for the identification of the beneficiaries under the WARA Insurance Program and may also be done in coordination with the local government.

10.2. In Region IV, a total of 312 CICs with premiums totalling P3.749 million were processed and approved in 2014. In the review and verification of the said CICs, it was observed that out of the 312 CICs, 119 or 38.14 per cent were supported with documents that were not fully accomplished, as discussed in Table 8 (next page), while 229 CICs or 73.40 per cent of the 312 CICs were not supported with the required documents, as presented in Table 9 (next page).

10.3. The absence of documentary requirements and deficiencies in the submitted supporting documents denote laxity on the part of the Agency in the selection of qualified farmers, resulting in the possibility that some of the beneficiaries/participants granted with premium subsidy under the WARA program were not eligible, thus defeating the intention of the program.

10.4. In Region VIII, the amount of P2.026 million was reimbursed by DA-RFU VIII representing premium subsidy to farmer-beneficiaries under WARA Insurance Program. The amount of P0.713 million premium subsidy reimbursement pertained to 758.96 hectares of farm lots and 466 farmer-beneficiaries. However, the number of farmer-beneficiaries served who were covered by the P1.313 million premium subsidy cannot be determined due to the absence of List of Beneficiaries from DA-RFU VIII.

Table 8 - Supporting Documents not Duly Accomplished

Particular Documents	Audit Observations
Application for Crop Insurance	• No signature by the applicant
List of Beneficiaries (LOB)/ Participants	• Was attached to the CICs in lieu of pre-master list • Calendar date of sowing, harvesting and seed variety and individual premiums of farmers were not indicated • Area listed on the LOB does not tally with the FDS • No signature by the authorized FO/FA/Cluster Officers
Farmer's Data Sheet	• No signature by the farmer • Area of the farm land to be insured was not indicated • No Location and Sketch Plan
Location Sketch Plan	• Boundaries were not fully indicated • Boundaries do not reconcile with the data on the Consolidated Farm Information
Standard Farm Plan and Budget	• Not Certified by Provincial/Municipal Agriculturist
Consolidated Farm Information	• Area listed on the CFI do not tally with the FDS • Boundaries do not reconcile with the Location Sketch Plan

Table 9 - Lacking Supporting Documents

Documents	No. of CICs affected
List of Borrowers and Consolidated Farm Information	1
Location Sketch Plan and Farm Plan and Budget	2
List of Borrowers, Consolidated Farm Information and Farm Plan and Budget	2
Consolidated Farm Information and Farmer's Date Sheets	2
Location Sketch Plan not indicated on the Farmer's Data Sheet	6
Farmer's Data Sheet	4
Farmer's Data Sheet and Farm Plan and Budget	15
Consolidated Farm Information	13
Farm Plan and Budget	82
Consolidated Farm Information and Farm Plan and Budget	102
	229

10.5. Contrary to the requirements prescribed in the Implementing Guidelines of WARA under DA Memorandum Order No. 13, there was no list of identified farmers submitted. The list is supposed to be the basis of PCIC in issuing insurance application and CIC. In the absence of the list, there is no assurance that the farmers included in the Summary Report for Insurance Cover prepared by PCIC are eligible under the program.

10.6. **We recommended and Management agreed to give instructions to the concerned regional Marketing and Services Division to:**

> **a. 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, comply strictly with the provision set forth in the MOA; and**
>
> **b. Obtain from DA-RFU VIII the list of identified farmer-beneficiaries who are eligible to the program, and henceforth, ensure that all insurance coverage be supported with this list.**

10.7. In Region IV, Management was amenable to the noted observations, and explained that they tried their best to give insurance protection to as many farmers under the WARA program. They also gave assurance that all the beneficiaries were eligible for insurance coverage and they will be more careful and observant in processing insurance applications.

10.8. In Region VIII, Management commented that there is no DA-RFU VIII list of identified farmer-beneficiaries as this activity was passed to DA-LGUs as provided for in the Implementing Rules and Regulations (IRR) of the MOA. The list of farmer-beneficiaries can be obtained thru the Marketing and Services Division's file as Summary Reports of insured farmers as identified by DA-LGUs.

10.9. As a rejoinder, the list of farmer-beneficiaries covered by the insurance premium subsidy should be attached to the billing statement submitted to DA-RFU as basis of reimbursement to PCIC. The said list is necessary in the determination and validation of beneficiaries illegible to the program and for proper determination of claim in case of crop damage. The DA-LGUs, as underwriting agents, could only assist the farmer-beneficiaries in accomplishing either the individual Application for Crop Insurance or Group Application, collect the farmer's premium share and issue the corresponding CIC, prepare the Summary Report and List of Assured Farmers, and remit farmer's premium share together with the pertinent underwriting documents to PCIC RO within 15 days from the date of earliest CIC issuance. All documents should be in the custody of PCIC RO and are to be submitted to the COA Auditor.

11. 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.

11.1. As earlier mentioned, the insurance programs implemented in 2013 and 2014 are summarized in Table 10.

Table 10 - Insurance Programs

Year	Project/Purpose	Fund Source / Amount	Beneficiaries
2013 to 2014	WARA Insurance Program	Department of Agriculture (DA) P167.235 million	The beneficiaries are identified by the DA-RFU
2013	Department of Agrarian Reform (DAR) Beneficiaries Agricultural Insurance Program (ARB-AIP)	DAR P1.0 billion	Agrarian reform beneficiaries and agrarian reform beneficiary-household members identified by DAR
2013 to 2014	DA-LBP Sikat Saka Program and National Irrigation Administration (NIA) Early and Third Cropping Program	DA P150 million	Marginalized subsistence rice farmers who have availed of production loan from the LBP or members of irrigators association, farmers association, small water impounding irrigators association, other farmer associations groups/and the like
2014	For the full cost of insurance premiums of subsistence farmers and fisherfolks	Subsidy from the National Government P1.184 billion	Subsistence farmers and fisherfolks registered under the Registry System for Basic Sectors in Agriculture (RSBSA)

11.2. Verification showed that there were double insurance in Regions II and III, as presented in Table 11.

Table 11 - Summary of Double Insurance

	WARA with ARB-AIP	WARA with DA-LBP Sikat Saka		WARA with RSBSA	
Particulars	2013	2013	2014	2014	**Total**
Region II					
Apayao	31	-	-	-	31
Cagayan	498	7	4	-	509
Isabela	309	94	77	-	480
Kalinga	23	-	-	-	23
Nueva Vizcaya	222	-	-	-	222
	1,083	101	81	-	1,265
Region III	-	-	-	573	573
	1,083	**101**	**81**	**573**	**1,838**

11.3. Records showed that Region II was given P25 million for WARA premium subsidy. A total of 15,418 farmers were target beneficiaries. However, 1,265 farmers or 8.20 per cent were also found as insured beneficiaries under the ARB-AIP or DA-LBP Sikat Saka Program.

11.4. Farmer's Ledgers are maintained for the account of every farmer for each type of insurance program/package. In the process of underwriting, the Farmer's Ledgers for each type of insurance program are displayed from the Underwriting System, a component of the PABS. Because the Farmer's Ledgers for each type of insurance program are not linked to each other, there is high probability that there would be double insurance because the Insurance Processor, in the process of underwriting, opens and reviews manually the needed ledger. The System is not capable of detecting and preventing duplication of insurance cover or multiple benefit provision to a particular farmer. As a result, some farmer-beneficiaries who received coverage with the higher insurance cap under the DAR-AIP at a maximum of P25,000 were also insured under WARA program at a maximum coverage of P10,000 per hectare, hence some amount of the fund was not properly utilized.

11.5. The above data do not include seemingly double insurance that have minor difference on the information regarding the assured farmer, particularly in the name, e.g., one person have middle initial and the same name have none in another insurance cover or with the same name but slightly reduced planted area in the same location.

11.6. In Region III, the total funds transferred by DA-RFO III for WARA program amounted to P23.934 million as of December 31, 2013 and an additional P23.198 million for CY 2014, or for total of P47.132 million.

11.7. In CY 2013, the amount of insurance premium subsidy was fixed at P500 per hectare, while in CY 2014, it was P750 per hectare for vulnerable and P1,250 per hectare for areas identified as most vulnerable. On the other hand, the amounts of cover were P7,557.43 per hectare and P4,534.46 per hectare, respectively. The farmer must be included in the general masterlist of farmers submitted by municipalities to DA-RFO III/PCIC Region III to be eligible as beneficiary of the program.

11.8. For farmers under the RSBSA, the subsidy shall be used exclusively for the full cost of insurance premiums of subsistence farmers and fisherfolks for any of the following types of insurance: crop, livestock, fisheries, and non-crop agricultural asset. The PCIC shall ensure that the beneficiaries are registered under the RSBSA, and are not receiving any other subsidy for the foregoing types of insurance from the local government. In no case shall said amount be used for any other purpose.

11.9. As of December 31, 2014, there were 16,411 farmers insured under RSBSA with total GPS utilized of P109.985 million in Region III. Since the implementation of WARA program and RSBSA both covered CY 2014, simultaneous verification of both funds was done to determine possible overlapping of the programs that may result in double insurance or granting of both insurance subsidy to same beneficiaries. Verification on a test basis of fund utilization using the PABS revealed that out of the 16,411 farmers insured under RSBSA, 573 farmers or 3.49 per cent were beneficiaries of both WARA and RSBSA. Further review revealed that out of the 573 farmers, a total of 209 farmers or 36.47 per cent availed of both programs on the same cropping season on the same farm lots. The amount of insurance premium subsidy provided for the 209 farmers were P0.294 million and P1.324 million on WARA and RSBSA, respectively.

11.10. Considering that double insurance is due to the deficiency in the PABS, the case of double insurance in other Regional Offices is also possible. Applying the computed 3.49 per cent of double insurance cases under the RSBSA and WARA programs in Region III to the nationwide total target farmer/fisherfolks of 452,167, there is probability that double insurance nationwide would be more than 15,000 beneficiaries, as shown in Table 12 below.

Table 12 - Computation of Estimated Double Insurance

	Program	Total Beneficiaries	Double Insurance	Per cent
Region III	RSBSA	Actual 16,411	Actual 573	3.49
Nationwide	RSBSA	Target 452,167	Probability 15,781	3.49

11.11. Further, verification on test basis also revealed that 21 farmers in Region III were paid indemnity claims from September to December 31, 2014, both for WARA and RSBSA, for losses incurred in the same cropping season resulting in the overpayment of indemnity claims. The claims totaled P41,932 for WARA and P51,932 for RSBSA.

11.12. Aside from the deficiency of the PABS, the double insurance in Region III occurred because of seemingly lax manner of processing the insurance application to be able to meet the targeted number of farmers for each program, within a particular period, thus resulting in the overlapping of benefits extended to beneficiaries and wastage of government funds.

11.13. **We recommended and Management agreed to:**

a. Prioritize the enhancement of the underwriting facility of the PABS to provide a system validation check to prevent double insurance coverage; and

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.

12. There are 26 irrigators'/farmers' associations granted with the DA-GPS of P1.085 million under NIA Early and Third Cropping Program for rice crop during the years 2012 to 2014 which were not in the list of farmer-beneficiaries, while 24 borrowing farmers under the DA-LBP Sikat Saka Program in 2014 with total GPS of P226,838 were likewise not identified in the list of farmer-beneficiaries, thereby creating doubt on the propriety of the total GPS granted amounting to P1.312 million in Region VIII.

12.1. The MOA entered into between the DA and PCIC for the implementation of DA-LBP Sikat Saka Program and NIA Early and Third Cropping Program took effect upon signing of the MOA on June 28, 2012 and remained binding within one year upon release of the P150 million DA-GPS on November 15, 2012. The effectivity of the program was later extended from November 15, 2013 to December 31, 2014.

12.2. Based on the Implementing Guidelines, the programs have the following objectives:

> *1) providing crop insurance protection based on the computed government premium subsidy to marginalized subsistence rice farmers who are members of the Irrigators' Association (IAs), Farmers' Association (FAs), Small Water Impounding Irrigators Association (SWIAs), and other farmer associations/groups, and the like; and*
>
> *2) prioritizing the grant of rice crops insurance to rice farmers who will plant during third Cropping and Sikat Saka beneficiaries.*

12.3. Item III.5 of the Implementing Guidelines, which provides for the submission of underwriting documents, states:

> *The NIA Project Management Office and/or NIA Provincial/Regional Irrigation Manager Office in coordination with the PCIC Regional Offices shall facilitate the preparation and submission of underwriting documents, including the listings of farmer beneficiaries and participants under the DA special project of third cropping program. On the other hand, for Sikat Saka Program, the underwriting documents and farmers listing shall be submitted by DA-RFUs to PCIC in coordination with Landbank and farmers/beneficiaries.*

12.4. In Region VIII, the total DA-GPS for 1,071 farmer-beneficiaries of the 31 IAs participating in the NIA Third Rice Cropping Program for CYs 2012 to 2014 amounted to P1.753 million. Review and verification of the report on the utilization of the DA-GPS showed that only five IAs that were given GPS of P0.668 million appeared in the list of farmer-beneficiaries submitted to PCIC by NIA. The absence of the 26 farmers'/irrigators' associations in the list submitted to PCIC by NIA creates doubt on the propriety of the utilization of insurance premium subsidy of P1.085 million.

12.5. For the DA-LBP Sikat Saka Program which was implemented only in 2014, the 24 farmer-beneficiaries who were classified as borrowing farmers with total insurance premium of P226,838 were likewise not identified in the list of farmer-beneficiaries. Only the name of underwriting agent was the information provided to PCIC by the DA-RFU.

12.6. Due to failure to identify the recipient farmers'/irrigators' associations of the P1.085 million under the NIA Third Rice Cropping Program and borrowing farmer-beneficiaries of P226,838 under the DA-LBP Sikat Saka Program, there is a probability that the P1.312 million total insurance premium subsidy was granted to unqualified beneficiaries and non-existent organizations.

12.7. **We recommended and Management agreed to require the Regional Manager of Region VIII to:**

> **a. Coordinate with NIA for the submission of the complete list of farmers'/irrigators' associations who participated in the NIA Third Cropping Program and with DA-RFU VIII to submit the list of borrowing farmer-beneficiaries under the DA-LBP Sikat Saka Program to ascertain that the**

farmer-beneficiaries granted with the government share of the insurance premiums are legitimate and qualified; and

b. Conduct periodic monitoring and evaluation of the GPS fund utilization to ensure that appropriate actions are timely instituted to any deficiencies noted in the implementation of the programs.

12.8. Management of Region VIII committed to coordinate with the DA and LBP in the monitoring and evaluation of the project implementation, and to submit the complete list of farmers'/irrigators' associations or documents such as the Attendance Sheet during orientation seminar of farmer-beneficiaries participating in the said programs in lieu of the list of identified farmer-beneficiaries prepared by the DA. Management, likewise, explained that they have no control in the identification of beneficiaries since it was the NIA and LBP which identified the participating farmers. For the NIA Early and Third Cropping Program, it was the NIA which identified the farmers from the list of members of the irrigators' association; and for Sikat Saka, it was the LBP Credit Division which approved the loans and identified the farmer-beneficiaries before the insurance policies were issued for the insurance coverage.

12.9. As a rejoinder, it is the responsibility of PCIC to secure the list of identified farmers participating in the programs. The list is still necessary since it is the basis for determining whether the participating farmer is qualified to the grant of the insurance premium.

13. 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.

13.1. Item III.3 of the Implementing Guidelines provides for the computation of the payment of DA-GPS, as follows:

a. For the special project with NIA, each farmer-beneficiary per hectare will be paid an average of P1,081 covering one cropping season of rice crop, wherein the amount of insurance coverage per hectare is P10,000; and

b. For Sikat Saka Program, the DA payment of average GPS per farmer-beneficiary per hectare is also P1,081 covering one cropping season of rice crop, for a P10,000 amount of cover, however, the maximum amount of cover shall not exceed P50,000 and the maximum GPS shall not exceed P5,405.

13.2. Item IV of the same guidelines provides that the DA Agri Pinoy Rice Program in coordination with DA-RFUs, NIA, LBP and PCIC shall conduct periodic monitoring and evaluation to ascertain, among others, the fund utilization.

13.3. In Region VIII, review and analysis of the insurance premium subsidy disclosed that the rates used in the computation of DA-GPS were not in accordance with the rates provided in the Implementing Guidelines, thereby the DA-GPS provided to farmer-beneficiaries exceeded by P0.960 million with corresponding excess in the amount of insurance coverage by P1.618 million. The over grant of insurance was attributed to lack of periodic monitoring and evaluation of the fund utilization. The breakdown of the over grant of insurance premiums as well as the excess in the insurance coverage is shown in Table 13.

Table 13 – Over grant of Insurance Premiums and Excess Insurance Coverage

Year Covered	Insurance Premium: Per Report	Insurance Premium: Per Audit	Insurance Premium: Excess Premium	Insurance Cover: Per Report	Insurance Cover: Per Audit	Insurance Cover: Excess Amount of Cover
1. Early Cropping*						
2012	P 578,192	P 331,845	P 246,347	P 3,298,300	P 3,069,800	P 228,500
2013	704,183	391,365	312,818	3,948,660	3,569,960	378,700
2014	470,665	260,370	210,295	2,411,196	2,381,196	30,000
	1,753,040	983,580	769,460	9,658,156	9,020,956	637,200
2. Sikat Saka						
2014	226,838	36,608	190,230	1,294,000	312,951	981,049
	P 1,979,878	**P 1,020,188**	**P 959,690**	**P 10,952,156**	**P 9,333,907**	**P 1,618,249**

***** Early Cropping refers to the **NIA Early and Third Cropping Program**

13.4. Likewise, in Region VII, verification of the Certificates of Insurance Cover (CICs) for the crop insurances of the farmer-beneficiaries under the DA-LBP Sikat Saka Program showed that rice crop insurance subsidy was served to 162 farmers from May to September 1, 2014 whose total amount of insurance coverage was P17.307 million of which the DA-GPS granted was P2.146 million computed on the basis of 12.38 per cent Regular Low Premium Rate for dry season. The basis used in the computation of DA-GPS was not in conformity with the approved GPS rate under Item III.3 of the Implementing Guidelines, thus, incurring a total over grant of P274,819.

13.5. Also under the DA-LBP Sikat Saka Program, crop insurance protection was served in December 2013 to 87 farmers in the total insurance coverage amount of P7.853 million. The corresponding DA-GPS grant of P0.960 million was computed on the basis of the 12.23 per cent Regular Low Premium Rate for wet season instead of the stipulated rate under the Implementing Guidelines of average GPS per hectare of P1,081 for a P10,000 amount of cover but not to exceed the P5,405 maximum GPS, resulting in the over grant in the amount of P111,511.

13.6. Furthermore, under NIA Third Cropping Season CY 2012, it showed that rice crop insurance assistance was served to 23 farmers for 10.626 hectares with the total amount of cover of P106,258. The computation of the DA-GPS showed that the Regular Low Premium Rate for wet season of 12.38 per cent of the Amount of Insurance Cover was used instead of the stipulated rate under the guidelines of an average of P1,081 per hectare for insurance coverage of P10,000 per hectare, thereby incurring an over grant of DA-GPS in the total amount of P1,668.

13.7. This practice of granting the DA-GPS that was not in conformity with the stipulated rate resulted in the total over grant of P387,998 in Region VII.

13.8. Moreover in Region V, verification of the CICs issued under the DA-LBP Sikat Saka Program showed that the PCIC included in the computation of GPS the bank's share of P24,868 in insurance premiums for the insurance certificates issued in 2013 and 2014 contrary to Item B.3 of the MOA between the DA and the PCIC which states that PCIC shall:

> *Utilize the Government Premium Subsidy Fund for the Government's and/or farmers' share in the premium cost of insurance coverage of marginalized subsistence rice farmers participating in the DA-Land Bank's Sikat Saka Program and NIA's Early Cropping Program.*

13.9. Upon inquiry, the Chief of the Marketing Division informed the Audit Team that they included in the insurance coverage, the bank's share in the insurance premium subsidy because the PCIC Head Office instructed them that the PCIC shall assume 100 per cent of the insurance premiums. It is, however, provided in the MOA that only the farmers' and government's share shall be assumed by PCIC in utilizing the GPS Fund.

13.10. The summary of the foregoing over grant of insurance premium is presented in Table 14. This over grant could have been used to cover other eligible farmers.

Table 14 - Summary of the Over Grant of Premium

Program	**Excess Premium**	**Causes**
Region VIII		
Early cropping in 2012 to 2014	P 769,460	Lack of periodic monitoring and evaluation of the fund utilization which resulted in the excess coverage totaling P1.618 million
Sikat Saka in 2014	190,230	
	959,690	
Region VII		
Sikat Saka in 2014	274,819	Subsidy was computed based on 12.38 per cent Regular Low Premium Rate for dry season, instead of the GPS rate per hectare of P1,081
	111,511	Subsidy was computed based on 12.23 per cent Regular Low Premium Rate for wet season instead of the GPS rate per hectare of P1,081
NIA Third Cropping Season	1,668	Regular Low Premium Rate for wet season of 12.38 per cent of the Amount of Insurance Cover was used instead of the GPS rate of P1,081 per hectare
	387,998	
Region V		
Sikat Saka 2013 and 2014	24,868	Included in the computation the bank's share of insurance premiums for the insurance certificates
	P 1,372,556	

13.11. **We recommended and Management agreed to require the Regional Managers to:**

a. 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; and

b. Prepare necessary directives for any modifications in the existing guidelines on the computation of GPS and amount of cover and ensure that the same are properly communicated to concerned personnel or party.

13.12. Management did not agree to the computation of premiums per audit. They explained that the entitlement of the farmers to the subsidy of P1,081 as stated in the guidelines is only the average. Management, likewise, stated that each Regional Office has its own premium rate which was variable per location, season and risk classification. However, it would conduct further verification in the computation of the insurance premiums.

13.13. As a rejoinder, the justification for the computation of the government premium subsidy for crop insurance under the Sikat Saka and NIA Early and Third Cropping Programs has no basis. The rates used were the premium rates for multi-risk cover for crop insurance under the regular crop insurance program of the DA, which were composite of the farmer's and government's share. The guidelines did not mention the use of composite rate; rather it provided an average rate. The composite rate is applicable if the farmer-beneficiaries pay the insurance premium in excess of the government subsidy.

14. Some guidelines under the project "Provision of Crop Insurance Coverage under the Agri-Pinoy Rice Program from March to December 2014 Planting Calendar" in Region VII were not strictly adhered to such as insuring farmers that planted non-hybrid rice, to the detriment of those who are qualified; insuring farmers without the Location Sketch of the Farm (LSF) and Group Farm Plan and Budget (GFPB) which cast doubt on the validity of the cover; non-preparation on a regular basis of the monitoring and evaluation reports thus, the inability to timely detect deficiencies; and non-liquidation of fund utilization.

14.1. PCIC was created to provide crop insurance program to cover palay, other crops, livestock, non-crop agricultural assets and the life and the limbs of the farmers and other agricultural stakeholders.

14.2. In support to the Food Staples Sufficiency Program (FSSP) and Agri-Pinoy Rice Program and other food security initiatives, PCIC designed a special program on productivity enhancement or restoration of farm capital in the event of production losses due to natural calamities, pests and diseases and other productivity constraints.

14.3. A MOA was entered into between the DA-RFO VII and the PCIC RO VII that involved a fund transfer from the DA-RFO VII for the implementation of the project entitled "Provision of Crop Insurance Coverage under the Agri-Pinoy Rice Program from March to December 2014 Planting Calendar." The transferred amount was P3.053 million GPS for the 1,500 hybrid rice farmer-beneficiaries. The Implementing Guidelines for the provision of crop insurance coverage states that rice farmers who are planting quality and high yielding public hybrid rice are eligible for the premium subsidy.

14.4. Verification of the underwriting documents revealed that from June to July 2014, PCIC RO VII had insured eight rice farmers who planted non-hybrid rice with a total GPS utilization of P26,046. The amount could have been granted to other high yielding-hybrid rice farmer-beneficiaries qualified to avail of the crop insurance protection assistance.

14.5. It was also noted that from June to September of 2014, the Applications for crop insurance of 629 individuals from 75 group rice farmers with an Amount of Insurance Cover (AIC) of P11.046 million and the utilization of GPS amounting to P1.356 million lacked the documents such as LSF and the GFPB required under Item III.B.1.2 of the same Guidelines. It required that the Supervising Agricultural Technicians (SATs) prepare a GFPB together with the LSF. Without these documents, claims for damaged crops could not be exactly determined and also casted doubt on the validity of the crop insurance applied, ultimately resulting in possible wastage of government funds.

14.6. Moreover, Item D.1 on Monitoring and Evaluation of the Implementing Guidelines provides that PCIC shall oversee the implementation of the DA Premium Fund. As a continuing monitoring and evaluation of program implementation down to the beneficiary level, PCIC shall submit monthly status reports of production and claims to the DA-RFO VII. Item D.2 of the same guidelines provides that PCIC shall liquidate the utilization of the fund by submitting a Monthly Audited Financial Report of Disbursement accompanied with certified photocopies of CICs insurance policies.

14.7. However, the monthly Status of Production and Claims necessary for monitoring and evaluating the program implementation and the Audited Financial Report of Disbursement required monthly for the liquidation of funds were not completely submitted to the DA-RFO VII.

14.8. According to the Management, the various Reports required from them were only prepared upon request. As such, only the Monthly Reports of Production for the period July 2014 to November 2014 were submitted covering 1,167 rice crops insured with GPS of P2.300 million and AIC of P18.627 million. The report on claims paid and Audited Report of Disbursement were not submitted.

14.9. Due to lack of monitoring and evaluation reports, it may result in late detection of any deficiency that might have occurred in the implementation of the program. Also the amount provided by DA remained unliquidated due to incomplete report on its utilization.

14.10. **We recommended and Management agreed to require the Regional Manager to ensure that the:**

> **a. Marketing and Sales Division strictly follow the guidelines on the grant of GPS and to ensure that only those qualified rice farmers are provided with the premium subsidy, and to submit the required monthly reports to properly evaluate and monitor the implementation of the program and provide feedback for early detection and action on problems that may occur; and**
>
> **b. Insurance Processor and underwriting agents compel rice farmers to attach LSF and GFPB in their crop insurance applications to assure that only eligible farmers are insured.**

14.11. Management gave the following comments:

> a. The field personnel gave information that hybrid rice seeds were not available in Negros Oriental and some farmers did not plant hybrid variety due to its poor percentage of germination;

b. The non-submission of LSF and GFPB shall be brought to the attention of program counterparts: the DA-LGU, NIA and Irrigators' Associations concerned for planting the non-hybid rice seeds, and to submit proper and complete underwriting documents in accordance with the MOA; and

c. Submission of the necessary reports to DA-RFO VII will be done with best efforts because the RO is experiencing voluminous transactions due to productivity enhancing interventions (DAR-Agricultural Insurance Program, Registry System for Basic Sectors in Agriculture, Weather Adverse Rice Areas, etc.) of the DA, DAR and other agencies. Implementation of these different programs eventually have increased the number of insured-clients which was aggravated by the coming of numerous notices of loss for indemnity claim caused by series of natural calamities like typhoons, droughts, pests and diseases on crops and limited manpower.

GENDER AND DEVELOPMENT (GAD)

15. There was no assurance that the GAD activities undertaken during the year were for the purpose of addressing gender issues since the Annual GAD Plan and Budget (GPB) was not approved by the DA and indorsed by the Philippine Commission on Women (PCW) to the DBM. Further, some regions did not have GPB while some have no Accomplishment Report (ARs), contrary to Joint Circular No. 2012-01 of the PCW, National Economic and Development Authority (NEDA) and DBM.

15.1. Section 33 of the GAA of 2014 mandates all agencies of the government to formulate a GAD Plan designed to address gender issues within their concerned sectors or mandate.

15.2. Joint Circular No. 2012-01 of the PCW, NEDA and DBM provides guidelines and procedures for the formulation and submission of agency Annual GPBs and ARs. It also provides the mechanics for the development of programs, activities and projects that promote gender-responsive governance, protect and fulfill women's human rights, and promote women's economic empowerment. Pertinent provisions of the Joint Circular on the submission, review and endorsement of agency GPBs state that:

> *8.1.1 GOCCs attached to line departments shall prepare their GPBs xxx and shall submit the same to their central office for review.*
>
> *8.2 The GFPS of the agency shall review all submitted GPBs and as needed, provide comments or recommendations for revision. xxx. The GFPS shall then submit the final GPBs and the corresponding GAD ARs to PCW for review and endorsement to DBM.*

15.3. Verification made on the Annual GPB revealed that it was not approved by the DA nor had the endorsement of the PCW to DBM. The budget allocated was P1.950 million. The following were also noted:

a. Regions I, IV, V and XII have no GPBs for CY 2014, contrary to Section 2.3 of the PCW, NEDA and DBM Joint Circular No. 2012-01 which states that:

> *xxx shall formulate their annual GPBs within the context of their mandates to mainstream gender perspectives in their policies, programs and projects. GAD Planning shall be integrated in the regular activities of the agencies, xxx at least five percent (5%) of their total budgets. xxx.*

b. Some GAD Plans were not implemented in Regions III and III-A; and some GAD budget were not utilized in Region IX.

c. Regions III, IV and VII did not submit their ARs. Section 10.1 of PCW, NEDA and DBM Joint Circular No. 2012-001 provides that:

> *Attached agencies, bureaus, regional offices, xxx shall submit their GAD ARs to their central offices. The agency GFPS shall prepare the annual GAD AR based on the PCW-endorsed GPB or the GPB adjusted to the approved GAA following the form prescribed in Annex B. Activities completed until the end of year may be included in the final GAD AR of agency submitted to PCW in January.*

d. There was no Focal Person assigned in Region III-A.

15.4. In the utilization of GAD Budget, the total expenses amounted to P2.914 million. The accomplishments were focused in conducting trainings/seminars on the awareness on GAD Responsive Sensitivity, and attending trainings and seminars conducted by DA. These GAD activities were in conformity with the activities indicated in the annual GPB.

15.5. The GAD Sensitivity training was conducted on December 11, 2014 at Tanza, Cavite. Verification of the expenses in the amount of P1.314 million revealed that the Program of Activities covered the period December 10 to 12, 2014 and included activities which were not GAD related such as the conduct of Orientation and Re-Orientation Seminar. However, the GAD Sensitivity Seminar was conducted for one day only on December 11, 2014, thus, the GAD expenses were overstated.

15.6. **We recommended and Management agreed to:**

a. Formulate GAD Plan and ensure that this is approved by DA/PCW/DBM before its implementation;

b. Require the concerned Accountant to be more cautious in the recording of GAD related expenses in order to ensure that appropriate amount is charged to GAD account; and

c. Require the Regional Offices to have their respective GAD Focal Person, to implement their GAD Plans, and to submit the ARs to the Head Office.

COMPLIANCE WITH TAX LAWS

16. 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 2014, while the income tax withheld for the month of December 2014, percentage tax and documentary stamp taxes were remitted in January 2015. However, other taxes due to local government at the ROs for fire and property floater in the amount of P54,304 and P5,901, respectively, remained not remitted. Verification of records revealed that the amount started accumulating in 2011 and no reductions were made to the account since then. Inquiry from Management revealed that the amount was due to local government but payment of which was not accepted by the same.

COMPLIANCE WITH REMITTANCES OF GSIS CONTRIBUTIONS

17. For CY 2014, the personal and government shares were computed properly and accurately based on employees' salary. For the month of December 2014, the total amount of employees' share deducted from the payroll for HO was P102,197 and the corresponding employers' share was P136,263. These were remitted on time to GSIS on January 9, 2015 under Official Receipt No. 850026914.

UNSETTLED AUDIT SUSPENSIONS, DISALLOWANCES AND CHARGES

18. As of December 31, 2014, the unsettled balances of Notices of Suspensions and Disallowances amounted to P15.297 million and P12.879 million, respectively, as shown in Table 15. There was no unsettled Notice of Charge at year-end.

Table 15 - Notices of Suspensions and Disallowances

Nature	Amount	Status
Suspensions:		
Various disbursements	**P 15,297,479**	
Disallowances:		
Nine per cent Interest on Car Plan	7,044,358	Has pending appeal in the amount of P373,353
Anniversary Bonus	1,268,678	Has pending appeal in the amount of P584,400
Fringe Benefits Allowances	904,460	Final and executory
Purchases	850,371	Final and executory
Insurance/Registration/Chattel Mortgage	610,249	Final and executory
Retirement	305,586	Final and executory
Repairs and Maintenance	169,073	Final and executory
Premium Payment	126,466	Final and executory
Travel Expenses	87,221	Final and executory
Gasoline and Oil	76,627	Final and executory
Indemnity payment	67,293	Final and executory
Property	60,266	Final and executory
Claims Fund	57,111	Final and executory
Communication	53,094	Final and executory
Miscellaneous/Extraordinary Expense	41,573	Final and executory
Membership Dues	24,995	Final and executory
Representation Expense	3,956	Final and executory
Others	1,128,058	Final and executory
	P 12,879,435	

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

Out of 46 recommendations contained in the prior years' Annual Audit Reports (AAR), 12 were fully implemented, 28 were partially implemented and 6 were not implemented.

Observations and Recommendations	Actions Taken / Comments
2013 AAR	
1. Non-Current Receivables accounts of P443.172 million (gross) cannot be relied upon considering that 25.6 per cent or P113.450 million have been dormant from 5 to 33 years, without supporting documents, and which were not adequately provided with allowance for doubtful accounts.	
We recommended that Management require the Regional Accountants to:	
a. Give priority in analyzing the receivable accounts and reconcile their records with the Head Office Accountant so that the necessary adjustments can be effected; and based on the corrected records, prepare the required documentation to support the request for write-off, in accordance with Section 4, Rule VIII of the 2009 Revised Rules of Procedure of the Commission on Audit; and	Partially implemented. The required documentation for request for write-off has not been submitted yet by Management.
b. Provide an allowance for doubtful accounts for the P5.507 million.	Fully implemented.
2. Processing, approving and recording of fund transfers to the Regional Offices (ROs) totaling P12.735 million for General Administrative Fund (GAF) and P15.816 million for Claims Fund (CF), including debit memos amounting to P198.953 million as Premiums Receivable, although supported with documents but with incomplete signatures of authorized regional officials cast doubt on the validity of the fund transfers and accuracy of the receivable account.	

Observations and Recommendations	Actions Taken / Comments
We recommended that Management:	
a. Require the ROs to submit to COA copies of the originally signed GAF Requirement Reports/Requests for Fund Transfer and Debit Memos for all affected transactions in 2013; and	Fully implemented.
b. Remind the Finance Department to only process requests for fund transfers and record debit memos that are supported with the required documents duly signed by the ROs authorized signatories. Or, if the intention is to facilitate processing of transactions, set deadline within which the ROs shall submit the duly signed documents.	Fully implemented.
3. 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;	Partially 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; and	Partially implemented.

Observations and Recommendations	Actions Taken / Comments
c. Require the processors to always review the claims processed under the PABS until this is enhanced, to ensure accuracy of the computation of the insurance benefits.	Not implemented.
4. The accuracy of the Office Supplies Inventory account amounting to P0.738 million cannot be established due to recording of purchases including undelivered supplies as outright expense, the absence of stock ledger cards and stock cards, and non-conduct of physical inventory.	
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;	Not implemented. Stock ledger cards and stock cards were not maintained in 2014.
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. The Supplies on hand were recorded as inventories; however, some purchases were still recorded as outright expense.
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;	Not implemented. There were still undelivered items from PS from the current purchases.
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; and	Not implemented. There were expired printer inks upon inventory.

Observations and Recommendations	Actions Taken / Comments
c.3 Initiate the creation of an inventory team to conduct physical count of all supplies on a semi-annual basis, and provide the auditor with Report on the Physical Count of Inventory (RPCI) not later than January 31 of each year.	Fully implemented. An inventory team was created and physical count of all supplies was conducted.
5. Rates used in the payment of benefits and allowances of officers and employees exceeded the rates approved by the Department of Budget and Management (DBM) and the Office of the President in 1998, resulting in a total overpayment of P1.487 million.	
We recommended that Management request authority/approval of the increase in rates of the benefits and allowances from the Office of the President (OP) and Department of Budget and Management (DBM), but meanwhile, follow the rates approved in 1998.	Not implemented.
6. Job Order (JO) contract workers in Region VIII were allowed to travel and claim regular per diems that amounted to P335,165 in 2013 and performed other activities like collection of insurance premiums, claims adjustments and follow up of insurance programs, contrary to existing Civil Service Commission regulation.	
We recommended that Management:	
a. Strictly adhere to the provisions of Section 1, Rule XI of CSC MC No. 15, series of 1999, and stop the practice of allowing JO contract workers to claim regular travel allowance; and	Fully implemented.
b. Stop the practice of allowing JOs to perform the functions of regular insurance underwriters and adjusters to protect the interest of the PCIC.	Fully implemented.

Observations and Recommendations	Actions Taken / Comments
7. Some expenses incurred out of the Petty Cash Fund in the Head Office were either not supported or lacked the appropriate documentations defined in PCIC Memorandum Circular No. 10-002 dated May 12, 2010 on PCIC Petty Cash Fund (PCF) Policies and Guidelines.	
We recommended that Management:	
a. Give instructions to the Cashier who acts as Petty Cash Custodian to-	
a.1 Grant cash advances only upon presentation of properly approved petty cash voucher and completely supported with the required documentation; and immediately demand for the proper liquidation, including refund of unspent amount, as soon as the purpose for which the cash advance was granted has been completed;	Fully implemented.
a.2 Advise the payroll section for the deduction from the salary of the person who availed of the cash advance if it remained not liquidated as of the payday following the date it was taken;	Fully implemented.
a.3 Stop payment of electronic load of cell phones, as it is a regular monthly benefit, and besides, it is not among the allowable expenses that can be charged against the fund, per PCF guidelines; and	Fully implemented.
b. Disseminate the PCF guidelines to all concerned for information and compliance.	Fully implemented.

Observations and Recommendations	Actions Taken / Comments
8. 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:	
a. Make representation with the Civil Service Commission on the designation as Officer-In-Charge of the concerned five personnel for the period following the lapse of the original Special Orders up to CY 2013 to justify the payment of allowances; and	Fully implemented.
b. Strictly comply with the CSC guidelines on designations of Officer-In-Charge.	Partially implemented. There is still reassignment of personnel under SO No. 2015-003.
9. There was no assurance that only eligible beneficiaries were allowed to avail of the P1.0 billion premium subsidy fund for agricultural insurance under the Agrarian Reform Beneficiary - Agricultural Insurance Program (ARB-AIP) due to the non-compliance with the eligibility and documentary requirements in qualifying and proper identification of intended beneficiaries.	
We recommended that Management:	
a. Make strong representation with DARPO, DARRO and MARO for the submission of the required validation and identification of ARBs and issuance of the required certification to confirm that the farmers who were granted premium subsidy were qualified; and	Partially implemented.

Observations and Recommendations	Actions Taken / Comments
b. Provide clarification on the issuance of insurance coverage to a cooperative that did not meet the eligibility requirements based on the documents submitted; otherwise, immediately cancel or declare void the insurance coverage in accordance with Section 21.02.1, Part 3 of the Rice and Corn Crop Insurance Operations Manual.	Partially implemented.
10. 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. Make representation with DA-RFU and Local Government Unit to submit the required pre-masterlist with certification on the identification of farmer-beneficiaries and endorsement to ensure that only qualified farmers were granted premium subsidy. In the absence of these documents, require the Regional Offices to conduct validation as to eligibility of the farmers; and thereafter, cancel the CICs of those who will be found not qualified under the program;	Partially implemented.
b. 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;	Partially implemented.

Observations and Recommendations	Actions Taken / Comments
c. Require the Marketing and Sales Division to follow-up the reply of DA-RFUs on the deficiency letters of PCIC Region X;	Partially implemented
d. 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	Partially implemented.
e. 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.	Partially implemented.
11. 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.	
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.	Partially implemented.
12. The agency has no annual Gender and Development (GAD) Plan for CY 2013, contrary to Section 28 of General Appropriations Act of 2013.	This was reiterated and updated in Part II, Observation and Recommendation No. 15.

Observations and Recommendations	Actions Taken / Comments
We recommended that Management give priority attention towards the formulation of a concrete annual GAD plan and implementation of its programs, project and activities for the promotion of the welfare of women, gender equality, gender responsive governance and other gender issues.	Partially implemented. The prepared GAD Plan was not, however, approved by DA.
<u>AAR 2012</u>	
13. The existence, valuation and accuracy of the balance of the Property, Plant and Equipment (PPE) in the Head Office and Region Nos. I, III, VII and IX amounting to P23.598 million could not be established due to non-compliance with Sections 43 and 67 of New Government Accounting System (NGAS) Manual and Section 79 of Presidential Decree (PD) No. 1445.	This was reiterated and updated in Part II, Observation and Recommendation No. 5.
a. Maintain Equipment Ledger Cards which shall be regularly reconciled with the control/general ledger accounts and physical inventory;	Partially implemented. The concerned personnel of Accounting Division and the Property Custodian started recording individually the PPE items in the Ledger Cards.
b. Ensure that the label/sticker attached to the PPE is complete, clear, readable and tally with the inventory list to facilitate inventory taking;	Partially implemented. During the physical count, the labels/stickers attached to the items were validated and those labels no longer readable were changed based on the Property No. shown in the Inventory list.
c. Prepare written policies/procedures for property management to guide the concerned personnel in the discharge of their duties and responsibilities;	Partially implemented.
d. Exhaust effort to reconcile the discrepancy between property and accounting records;	Partially implemented. The reconciliation is on-going.

Observations and Recommendations	Actions Taken / Comments
e. Expedite the disposal of unserviceable properties.	Partially implemented. The bidding for disposal of unserviceable properties failed three times.
14. The collection of insurance premiums for Group Crop Insurance Coverage for rice and corn in Region I and Region X amounting to P6.972 million and P1.380 million, respectively, could not be recorded as income due to the non-submission by lending institutions (LIs) of complete documentation within the prescribed period thus, rendering the balance of the income and liability accounts unreliable. We recommended that Management:	
a. Coordinate with the LIs/Land Bank of the Philippines (LBP) on submission of complete documentation within the prescribed period, to avoid the lodging of premiums to Trust Liability account and to present the accurate amount of Gross Premiums and Reserve for Unearned Premiums in the Financial Statements; and	Partially implemented. RO I and RO X underwriting agents follow up from the LIs the submission of supporting documents to comply within the 15-calendar day deadline.
b. Investigate the cause/s of delay in the submission of complete underwriting documents by the lending institutions and enforce legal action/sanction, if warranted in consonance with Section 14 of the IRR of RA No. 8175.	Partially implemented.
15. The Payables/Trust Liability account in the HO and Region I totaling P1.447 million remained unclaimed and dormant in the books for over ten years raising doubt on the validity and existence of the obligations.	This was reiterated and updated in Part II, Observation and Recommendation No. 4.

Observations and Recommendations	Actions Taken / Comments
We recommended that Management revert to Retained Earnings the outstanding balances of Other – Liabilities Banks (AGF), Trust Liability – CALF and Trust Liability – Others in conformity with Section 98 of PD No. 1445; provided, however, that all means to reach claimants were exhausted and provided further that the purpose of the fund had already been accomplished.	Partially implemented. While the sub-accounts are being analyzed, it was discovered that there was a misclassification of entries that resulted in the reversal of Head Office accounts.
16. The Accounts Receivable - Disallowances/Charges account amounting to P10.180 million was not settled in violation of COA's rules and regulations on settlement of accounts. We recommended that Management:	
a. Comply strictly with the provisions of COA Circular No. 2009-006 dated September 15, 2009;	Partially implemented. The Finance Department had been sending collection letters to the retired employees with COA disallowances particularly the Car Plan. Efforts are being made to collect the said disallowances.
b. Implement vigorous collection strategies to enforce collection of long outstanding receivables;	Partially implemented.
c. Prioritize the re-construction of subsidiary ledgers of employees with disallowances to facilitate monitoring and collection of account balance; and	Partially implemented. Management started the reconstruction of subsidiary ledger of employees with disallowance.
d. Deduct the disallowance from the salary of active employees found liable.	Partially implemented. Some of the disallowances are already settled by the concerned employees thru salary deduction.

Observations and Recommendations	Actions Taken / Comments
17. 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.	Not implemented. In accordance with 7.1.2 of Budget Circular No. 2012-1, the uniform/clothing allowance may be granted in the form of textile materials and cash to cover sewing, tailoring costs, as has been adopted by very large departments. Management justified that the 2012 uniform allowance was coursed through the PCIC - Employees Association (EA) to ensure that textile materials to be used are of the same quality and color for all rank and file employees. The reason for the transfer of fund to PCIC-EA is to make funds readily available whenever the uniform committee requested for payment to the sewers/suppliers. The uniform allowance is a regular benefit of all the officers and employees yearly and is appropriated as an expense. It should not, however, be a cause of deprivation of income because the entitlement of the aforementioned benefit should be accorded to the employees on a yearly basis.
18. 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.	

Observations and Recommendations	Actions Taken / Comments
We recommended that Management:	
a. Require the Accounting Section to maintain subsidiary ledger for every Accountable Officer to facilitate the determination of the individual accountability of the CO/DCO; and	Partially implemented. The concerned Accounting Section personnel in ROs VI and VIII started the preparation/recording in the SLs.
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.	Partially implemented.
19. The Accountable Officers (AOs) did not prepare Monthly Report of Accountability for Accountable Forms in violation of Section 98, Government Accounting and Auditing Manual (GAAM) Vol. I; hence, the accountability for accountable forms could not be immediately ascertained.	
We recommended that Management strictly require the preparation and submission to COA of the Monthly Report of Accountability for Accountable Forms every end of month	Fully implemented.
20. 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.	Partially implemented. Management sent collection letters to those concerned employees with unsettled audit disallowance and filed request for the writing-off of disallowances of those deceased employees in the RO.

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 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 Central Bank of the Philippines (now Bangko Sentral ng Pilipinas) 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 Corporation received P75 million in 1982, P345.78 million during the last quarter of 1984, and P29.22 million in 1985.

Out of the total appropriations of P450 million, P304.109 million remained unutilized as of December 31, 2014, of which P304.031 million were all invested in the Land Bank of the Philippines – High Yield Savings Account (LBP-HYSA).

FINANCIAL HIGHLIGHTS (In Million Pesos)

I. Comparative Financial Position

	2014	2013	Increase (Decrease)
Assets	304.778	302.647	2.131
Liabilities	191.393	190.043	1.350
Trust Fund	113.385	112.604	0.781

II. Comparative Results of Operations

	2014	2013	Increase (Decrease)
Income	2.770	4.152	(1.382)
Personal services	2.512	2.505	0.007
Maintenance and other operating expenses	0.116	0.084	0.032
Total expenses	2.628	2.589	0.039
Net income	0.142	1.563	(1.421)

SCOPE OF AUDIT

Our audit was conducted on a test basis covering the accounts and operations of the PCIC-SRTF (LOI 1242) for the calendar year (CY) 2014. Our audit was also 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 2014.

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 **Special Revolving Trust Fund (SRTF) (LOI 1242)**, which comprise the statement of financial position as at December 31, 2014, 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 Philippine Financial Reporting Standards, 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 **Special Revolving Trust Fund (LOI 1242)** as at December 31, 2014, and of its financial performance and its cash flows for the year then ended in accordance with Philippine Financial Reporting Standards.

COMMISSION ON AUDIT

ARSENIO S. RAYOS, JR.
Supervising Auditor
Audit Group F
Cluster 5 – Agricultural and Natural Resources
Corporate Government Sector

July 8, 2015

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, 2014 and the related Statement of Comprehensive Income, Cash Flow Statement and Statement of Changes in Fund 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	**ATTY. JOVY C. BERNABE**
OIC, Finance Department	President

7th Floor, Building A, NIA Complex, EDSA, Quezon City
Tel # (02) 441-1323 to 24 Telefax # (02) 441-1325

SPECIAL REVOLVING TRUST FUND (LOI 1242)
PHILIPPINE CROP INSURANCE CORPORATION
CASH FLOW STATEMENT
For the Year Ended December 31, 2014
(In Philippine Peso)

	Note	2014	2013
CASH FLOW FROM OPERATING ACTIVITIES			
Recoveries		639,068	-
Increase in payables		1,349,526	(1,396,647)
Operating income		141,993	1,562,862
		2,130,587	166,215
CASH FLOW FROM INVESTING ACTIVITIES		-	-
Net cash provided by investing activities		2,130,587	166,215
CASH AND CASH EQUIVALENT AT BEGINNING OF YEAR		301,978,740	301,812,525
CASH AND CASH EQUIVALENT AT END OF YEAR	4	**304,109,327**	**301,978,740**

The Notes on pages 82 to 86 form part of these financial statements.

SPECIAL REVOLVING TRUST FUND (LOI 1242)
PHILIPPINE CROP INSURANCE CORPORATION
STATEMENT OF COMPREHENSIVE INCOME
For the Year Ended December 31, 2014
(In Philippine Peso)

	Note	2014	2013
INCOME			
Interest income on investment	9	2,770,051	4,152,230
Interest income on savings/time deposit		220	-
		2,770,271	4,152,230
EXPENSES			
Salaries and wages		2,512,507	2,505,483
Travelling expense-local		39,431	28,517
Supplies and material expense		56,000	51,100
Communication and postage		20,340	4,268
		2,628,278	2,589,368
NET INCOME		**141,993**	**1,562,862**

The Notes on pages 82 to 86 form part of these financial statements.

SPECIAL REVOLVING TRUST FUND (LOI 1242)
PHILIPPINE CROP INSURANCE CORPORATION
STATEMENT OF CHANGES IN TRUST FUND
For the Year Ended December 31, 2014
(In Philippine Peso)

	Note	2014	2013
TRUST FUND			
Balance, January 1		112,603,813	110,215,893
Prior period adjustments	10	639,068	825,058
As restated		113,242,882	111,040,951
Net income		141,993	1,562,862
BALANCE AT END OF YEAR		**113,384,874**	**112,603,813**

The Notes on pages 82 to 86 form part of these financial statements.

SPECIAL REVOLVING TRUST FUND (LOI 1242)
PHILIPPINE CROP INSURANCE CORPORATION
STATEMENT OF FINANCIAL POSITION
December 31, 2014
(In Philippine Peso)

	Note	2014	2013
ASSETS			
Current asset			
Cash and cash equivalent	4	304,109,327	301,978,740
		304,109,327	301,978,740
Non-current assets			
Accounts receivable-net	5	469,863	469,863
Other assets	6	198,625	198,625
		668,488	668,488
TOTAL ASSETS		**304,777,815**	**302,647,228**
LIABILITIES AND TRUST FUND			
Current liability			
Due to other funds - PCIC	7	3,757,000	2,407,474
		3,757,000	2,407,474
Non-current liabilities			
Accounts payable		99,324	99,324
Claims payable	8	187,536,617	187,536,617
		187,635,941	187,635,941
		191,392,941	190,043,415
Special revolving trust fund		113,384,874	112,603,813
TOTAL LIABILITIES AND TRUST FUND		**304,777,815**	**302,647,228**

The Notes on pages 82 to 86 form part of these financial statements.

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

1. GENERAL INFORMATION

The Special Revolving Trust Fund (SRTF) was created under the Letter of Instructions (LOI) No. 1242 dated May 21, 1982, entitled “Providing a Measure to Facilitate Guarantee Payments Under the Masagana 99 Program.” Under this program, lending institutions, particularly the Philippine National Bank 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 Central Bank of the Philippines (now Bangko Sentral ng Pilipinas) 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 PCIC, as administrator of the fund, would pay up to 85 per cent of the principal portion of these arrearages in three installments: (i) 25 per cent of the eligible loan arrearages on the first year; (ii) 30 per cent on the second year; and (iii) 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 1982, P345.78 million during the last quarter of 1984, and P29.22 million in 1985.

Out of the total appropriations of P450 million, P304.109 million remained unutilized as of December 31, 2014, of which P304.031 million were all invested in the Land Bank of the Philippines – High Yield Savings Account (LBP-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 year ended December 31, 2014 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. The Insurance Premiums account in the Income Statement 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.

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 calendar year (CY 2014) 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 Fund'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 Special Guarantee Payment (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, 2014, SGP has been provided with 100 percent 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.

	2014	2013
Cash in bank	78,210	67,675
LBP-HYSA	304,031,117	301,911,065
	304,109,327	**301,978,740**

The details of the LBP-HYSA in CY 2014 is as follows:

	Account Number	Maturity Date	Amount
91 days at 1.128%	(0551-0552-80)	01/08/2015	115,951,478
90 days at 1.127%	(0551-0553-96)	01/05/2015	159,642,160
91 days at 1.125%	(0551-0562-87)	02/26/2015	28,437,479
			304,031,117

5. ACCOUNTS RECEIVABLE - NON-CURRENT

This account consists of the amount to be collected by Regional Offices from various farmer-borrowers/Banks.

	2014	2013
Accounts receivable-SGP	369,274,257	403,877,589
Less: Allowance for doubtful accounts	369,274,257	403,877,589
	-	-
Accounts receivable - banks	486,279	486,279
Less: Allowance for doubtful accounts	486,279	486,279
	-	-
Accounts receivable - PCIC (net)	469,863	469,863

Account 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 2007 after the collection was determined to be doubtful.

Account Receivables – Banks 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

This represents accounts payable to PCIC for expenses incurred in connection with the management of the Fund.

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 investments which is recognized based on the accrual method of accounting, net of the 20 per cent tax.

10. PRIOR YEARS' ADJUSTMENT

Schedule of prior years' adjustment:

	Amount
Receipt of Fund Transfer from PCIC due to Recoveries Received from:	
Region 2	57,071
Region 3	584,843
	641,914
Less: Adjustment made in JV no. 12-018	2,846
Prior years' adjustment, CY 2014	**639,068**

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 (4) 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 4 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 on May 15, 2012. 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 Sub-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 P 3 million to partly finance the activities in 2014 and ensure the continuity of the project.

FINANCIAL HIGHLIGHTS (In Million Pesos)

I. Balance Sheet

	2014	2013	Increase (Decrease)
Assets	1.439	1.086	0.353
Liabilities	2.045	1.025	1.020
Trust fund	(0.606)	0.061	(0.667)

SCOPE OF AUDIT

Our audit was conducted on a test basis covering the accounts and operations of the PCIC-PhilCCAP for the CY 2014. Our audit was also 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 2014.

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 funds available as of December 31, 2014, 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 Philippine Financial Reporting Standards, 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, 2014, and of its financial performance in accordance with Philippine Financial Reporting Standards.

COMMISSION ON AUDIT

ARSENIO S. RAYOS, JR.
Supervising Auditor
Audit Group F
Cluster 5 – Agricultural and Natural Resources
Corporate Government Sector

July 8, 2015

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, 2014 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	**ATTY. JOVY C. BERNABE**
OIC, Finance Department	President

7[th] Floor, Building A, NIA Complex, EDSA, Quezon City
Tel # (02) 441-1323 to 24 Telefax # (02) 441-1325

PHILIPPINE CLIMATE CHANGE ADAPTATION PROJECT
PHILIPPINE CROP INSURANCE CORPORATION
BALANCE SHEET
AS OF DECEMBER 31, 2014
(In Philippine Peso)

	Note	2014	2013
ASSETS			
Cash in bank - local-currency account	3	31,665	41,647
Petty cash fund	4	10,000	-
Due from regional offices/PhilRice	5	888,028	498,156
Furniture and fixtures		-	5,000
Other receivables - PCIC		-	15,000
Office equipment, net	6	509,357	526,169
TOTAL ASSETS		**1,439,050**	**1,085,972**
LIABILITIES AND FUND			
PCIC-PhilCCAP fund	7	(606,164)	60,721
Withholding tax payable		2,917	2,917
Other payables - PCIC	8	2,042,163	1,022,334
Accounts payable - others		134	-
TOTAL LIABILITIES AND FUND		**1,439,050**	**1,085,972**

The Notes on pages 93 to 96 form part of these financial statements.

PHILIPPINE CLIMATE CHANGE ADAPTATION PROJECT
PHILIPPINE CROP INSURANCE CORPORATION
STATEMENT OF EXPENSES
AS OF DECEMBER 31, 2014
(In Philippine Peso)

Particulars	**Amount**
Agricultural expenses	2,530,990
Travelling expense - local	455,410
Other professional expenses	666,730
Communication and postage	41,439
Materials, stationeries and office supplies	344,238
Other MOOE	491,974
Bank charges	550
Representation expenses	693,006
Fuel and lubricants	31,085
Internet expense	7,613
Depreciation expense	397,830
Repairs and maintenance	2,039
Delivery expenses	990
Other office supplies expense	48,000
Total Expenses	**5,711,894**

The Notes on pages 93 to 96 form part of these financial statements.

PHILIPPINE CLIMATE CHANGE ADAPTATION PROJECT
PHILIPPINE CROP INSURANCE CORPORATION
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, PCIC received funds amounting to P4.191 million 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.

It also aims to strengthen the capabilities of government agencies involved in climate change adaptation with the following implementing agencies:

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

The PhilCCAP1 has four (4) 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:
- 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 the Corporation are as follows:

2.1 Basis of preparation

The accompanying financial statements of PCIC-PhilCCAP for the year ended December 31, 2014 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. The Insurance Premiums account in the Income Statement 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.

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-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 CY 2014 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 PhilCCAP.

4. PETTY CASH FUND

This account pertains to the fund on hand set aside for small purchases or reimbursements made for the implementation of the PhilCCAP.

5. DUE FROM REGIONAL OFFICES/PHILRICE

This account consists of the following:

	2014
Due from regional office current no. 2	47,245
Due from PhilRice	840,783
	888,028

6. OFFICE EQUIPMENT

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

	2014
Office equipment	907,187
Less: Accumulated depreciation	397,830
	509,357

7. PCIC-PHILCCAP FUND

This account consists of the following:

	2014
Fund received from DA dated June 29, 2012	4,191,000
Total amount of IT/office equipment received from DA	907,187
	5,098,187
Interest income	7,543
	5,105,730
Total amount of expenses	5,711,894
	(606,164)

8. OTHER PAYABLE- PCIC

This account represents the total payable of PCIC-PhilCCAP to PCIC under PCIC Bridge Financing for a maximum amount of P3,000,000 per PCIC Board Resolution No. 2014-004.