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

CORPORATE GOVERNMENT SECTOR
Cluster 5 – Agricultural and Natural Resources

June 29, 2018

PHILIPPINE CROP INSURANCE CORP.
RECEIVED
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BY: RECORDS MANAGEMENT UNIT

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, 2017.

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

We expressed a qualified opinion on the fairness of presentation of the financial statements of PCIC as of December 31, 2017 in view of the following:

1. The absence of modules for special journals, subsidiary ledgers (SLs) and schedules for receivables and payables and program to generate periodic totals of the books of accounts in the PCIC Financial Management System (PFMS) resulted in inadequate information to ascertain the existence and completeness of the receivables and liabilities with balances of P130.411 million and P888.869 million, respectively.

2. The Consolidated Claims Registers (CCR) generated from the PCIC Automated Business System (PABS) have several deficiencies such as, among others, unreconciled variance of P49.992 million between the Trial Balance (TB) and CCR for Insurance Benefits. Moreover, a variance of P43.488 million exists between the Statement of Comprehensive Income (SCI) and the Consolidated Premium Registers (CPR) for Insurance Premiums and Government Premium Subsidy (GPS). Hence, the balances of Insurance Benefits and Gross Insurance Premiums accounts amounting to P1,879.252 million and P3,389.755 million cannot be relied upon.

3. The Other Receivables account totaling P154.793 million which remained dormant for 11 to 37 years and collectability of which is already remote was not provided with adequate allowance for impairment as required under Philippine Accounting Standard (PAS) 36, thereby overstating the said account by more or less P36.869 million.

We were unable to obtain sufficient appropriate audit evidence about the balance of the above mentioned accounts due to the inadequacy of accounting records. Consequently, we were unable to determine whether any adjustments to these amounts were necessary.

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

1.1 Direct the Information Technology Officer (ITO) I who spearheaded the development of PFMS to: (a) enhance the capability of the system to be able to generate SLs and schedules compliant with Sections 111 (1) and 112 of PD No. 1445; and (b) provide program in the system that can generate periodic totals of the registries and special journals to facilitate the reconciliation with the general ledger (GL) and ensure the completeness and correctness of the recorded transactions.

1.2 Instruct the Officer-in-Charge (OIC)-Accounting Division and Regional Accountants to: (a) continuously coordinate with the ITO I to ensure that desired deliverables are generated; (b) require the Accounting personnel to validate transactions posted in the Cash Receipts Book, Cash Disbursements Book and General Journal (GJ) to the GL to ensure correctness and completeness of recorded transactions; and (c) communicate in writing with the Manager, Project Management and Information Office (PMIO), the deficiencies noted in the outputs generated from the PFMS and monitor the actions taken thereon to ensure that these deficiencies were properly addressed.

2.1 We recommended and Management agreed to:

a. Instruct the Accounting personnel to reconcile the variances between the SCI and CPR for Insurance Premiums and GPS, TB and CCR for Insurance Benefits; and

b. Direct the Marketing and Sales Division (MSD), Claims Adjustment Division (CAD) and Accounting Division of ROs to coordinate on a monthly basis in order to reconcile balances of Insurance Premiums, GPS and Insurance Benefits with the balances in the CPR and CCR generated from PABS.

3.1 We recommended and Management agreed to:

a. Provide additional allowance for impairment to present the balance of Other Receivables account at its net realizable value; and

b. Require the Finance Manager to facilitate the request for authority to write-off the dormant receivable accounts aged more than 10 years totaling P138.942 million, by coordinating with concerned Accountants of ROs, and following the guidelines provided under COA Circular No. 2016-005 dated December 19, 2016, if collection efforts proved futile.

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

4. In RO No. VIII, checks for indemnity claims totaling P1.207 million for crop and non-crop insurance under the claims fund, which were not released to the insured beneficiaries were staled due to inability of the Claims and Settlements Division (CSD) to personally inform the beneficiaries, lack of response from the beneficiaries for information sent and failure to communicate due to incomplete addresses; thus depriving the rightful beneficiaries of immediately recouping/recovering their losses. Moreover, the staled checks which were not reverted back to Cash in Bank understated said account and overstated Claims Paid account.

4.1 We recommended and Management agreed to:

a. Improve the process of releasing indemnity pay to farmers/beneficiaries by: (i) directing the Disbursing Officers (DOs) to set specific date/s of releasing checks in the field offices particularly in cases of calamities; (ii) updating records of farmers as to their complete address/es and contact numbers; and (iii) consider the designation of a Special Disbursing Officer among the regular employees and have him/her bonded, to release checks in the field office on a weekly basis, in the absence of the DO, to prevent accumulation of staled checks and to serve the purpose of the insurance;

b. Identify the causes why checks remained unclaimed and explore the possibility of entering into Memorandum of Agreement with rural banks, Local Government Units and/or barangays which may facilitate the release of checks to claimants; and

c. Prepare adjusting entry to recognize the liability account in the books for the staled checks.

5. The Agri-Agra Funds (AAF) totaling P1.853 billion were not transferred on a quarterly basis from the Bangko Sentral ng Pilipinas (BSP) to the account of PCIC in CYs 2014 and 2017, and were not supported with Statements of Account (SAs), contrary to Subsection 15.2 of the Implementing Rules and Regulations (IRR) of RA No. 10000 or the "Agri-Agra Law;" hence, the completeness of the amounts credited to PCIC account could not be determined. Moreover, the absence of a separate bank account maintained for the Fund may result in the unauthorized use for other purposes other than for insurance.

5.1 We recommended that Management:

a. Instruct the Finance Department to communicate in writing to BSP requesting SAs to support the funds transferred to PCIC, as required in Subsection 15.2 of the IRR;

b. Require the Accounting Division to verify and check the completeness of remittances made by BSP once the SAs are received from BSP; and

c. Establish a separate bank account for AAF to facilitate recording, monitoring and reporting purposes, which shall be reconciled on a regular basis with the schedule or report maintained by the Accounting Division.

6. The PCIC was not able to regularly collect the 10 per cent of the net earnings of Philippine Charity Sweepstakes Office (PCSO) from lotto operations as payment of government subscription, mandated under Section 6.5 of RA No. 8175 dated December 20, 1995, thus depriving PCIC of additional funds of P249.046 million, representing unpaid subscription of the National Government (NG).

6.1 We recommended and Management agreed to instruct:

a. The Accounting Division to determine the years within which PCSO was not able to remit to PCIC its 10 per cent share in the net earnings from lotto operation and communicate in writing to PCSO of its arrears supported with schedule; and

b. The Collecting Officer and Accountant to provide complete information in the Official Receipt (OR) and Journal Entry Voucher (JEV) as to the nature of collection as basis in recording in the Cash Receipts and Deposits Journal and GJ, then to the GL, to facilitate monitoring of remittances made by PCSO.

7. The grant of multiple insurance coverage to farmer-beneficiaries in RO Nos. III and VII under the Registry System for Basic Sectors in Agriculture (RSBSA) and other insurance programs, was not compliant with Section 2.B.10, Part III of the Operations Manual for Rice and Corn Insurance and pertinent provisions of RA No. 10924 (GAA for FY 2017), due to absence of security features embedded in the PABS; thereby depriving other eligible farmers and fisherfolk to avail free insurance program of the government.

7.1 We recommended that Management require the PMIO to enhance the PABS-Underwriting and Marketing System to provide security features in the system to detect Application for Crop Insurance with the same: (a) name, (b) subject matter/object, (c) subject matter is separately insured two or more times, and (d) interest of the assured and risk or peril insured against, in order to prevent double insurance.

8. The Revised Implementing Guidelines (RIG) on the utilization of the Government Premium Subsidy (GPS) of P2.500 billion received from the NG for RSBSA Program did not provide policy and procedures on how it will be prorated to targeted beneficiaries in each recipient municipality to ensure that control mechanism is in place so that farmers and fisherfolk who had already availed of the program in previous years' would not be entitled to another free insurance, until all the 6,845,747 farmers and fisherfolk included in the RSBSA list have been served to give equal opportunity to all eligible beneficiaries.

8.1 We recommended that Management consider the inclusion of policy and procedures in the RIG on the utilization of GPS received from the NG on how it will be pro-rated to targeted beneficiaries in each recipient municipality to ensure that control mechanism is in place, such as but not limited to, list of targeted farmers/fisherfolk and their addresses so that all eligible farmers be given equal opportunity to avail of the free insurance program of the government.

The other audit observations together with the recommended courses of action which were discussed by the Audit Team with concerned Management officials and staff during the exit conference conducted on May 21, 2018 are discussed in detail in Part II of the report. We also invite your attention to the prior years' unimplemented and partially implemented audit recommendations embodied in Part III of the Report.

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

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

Very truly yours,

COMMISSION ON AUDIT

By:

CLEOTILDE M. TUAZON
Director IV
Cluster Director

Copy furnished:

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The Vice President
The Speaker of the House of Representatives
The Chairperson – Senate Finance Committee
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The Secretary of the Department of Budget and Management
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CORPORATE GOVERNMENT SECTOR
Cluster 5 – Agricultural and Natural Resources

June 29, 2018

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

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

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

Very truly yours,

COMMISSION ON AUDIT

By:

CLEOTILDE M. TUAZON
Director IV
Cluster Director

Copy furnished:

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Commonwealth Avenue, Quezon City

ANNUAL AUDIT REPORT

on the

PHILIPPINE CROP INSURANCE CORPORATION (PCIC)

For the Year Ended December 31, 2017

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 its Board of Directors with the Secretary of Agriculture as the Chairman and the President of PCIC as the Vice-Chairman.

PCIC has 13 Regional Offices (ROs) located nationwide and as of December 31, 2017 had personnel complement of 211 regular, 621 under job order and 4 consultants.

FINANCIAL HIGHLIGHTS (In Million Pesos)

I. Comparative Financial Position

	2017	2016 Restated	Increase
Assets	5,257.923	3,069.928	2,187.995
Liabilities	3,547.684	1,525.918	2,021.766
Equity	1,710.239	1,544.010	166.229

II. Comparative Results of Operations

	2017	2016 Restated	Increase
Total income	507.535	237.159	270.376
Direct costs	2,253.044	1,455.348	797.696
Personnel services	175.481	141.849	33.632
Maintenance and other operating expenses	230.574	186.001	44.573
Financial expenses	0.427	0.222	0.205
Non-cash expenses	11.011	8.622	2.389
Total expenses	2,670.537	1,792.042	878.495
Loss after tax	2,163.002	1,554.883	608.119
Net assistance/subsidy	2,500.000	1,600.000	900.000
Total comprehensive income	**336.998**	**45.117**	**291.881**

SCOPE OF AUDIT

Our audit covered the operations of PCIC for calendar year (CY) 2017. Our audit involved performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depended on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. Our audit was also made to assess the propriety of financial transactions in compliance with laws, rules and regulations and to identify improvement opportunities.

INDEPENDENT AUDITOR'S OPINION

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

1. The absence of modules for special journals, subsidiary ledgers (SLs) and schedules for receivables and payables and program to generate periodic totals of the books of accounts in the PCIC Financial Management System (PFMS) resulted in inadequate information to ascertain the existence and completeness of the receivables and liabilities with balances of P130.411 million and P888.869 million, respectively.

2. The Consolidated Claims Registers (CCR) generated from the PCIC Automated Business System (PABS) have several deficiencies such as, among others unreconciled variance of P49.992 million between the Trial Balance (TB) and CCR for Insurance benefits. Moreover, a variance of P43.488 million exists between the Statement of Comprehensive Income (SCI) and the Consolidated Premium Registers (CPR) for Insurance Premiums and Government Premium Subsidy (GPS). Hence, the balances of Insurance Benefits and Gross Insurance Premiums accounts amounting to P1,879.252 million and P3,389.755 million and cannot be relied upon.

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We were unable to obtain sufficient appropriate audit evidence about the balance of the above mentioned accounts due to the inadequacy of accounting records. Consequently, we were unable to determine whether any adjustments to these amounts were necessary.

SIGNIFICANT AUDIT OBSERVATIONS AND RECOMMENDATIONS

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

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1.2 Instruct the Officer-in-Charge (OIC)-Accounting Division and Regional Accountants to: (a) continuously coordinate with the ITO I to ensure that desired deliverables are generated; (b) require the Accounting personnel to validate transactions posted in the Cash Receipts Book, Cash Disbursements Book and General Journal (GJ) to the GL to ensure correctness and completeness of recorded transactions; and (c) communicate in writing with the Manager, Project Management and Information Office, the deficiencies noted in the outputs generated from the PFMS and monitor the actions taken thereon to ensure that these deficiencies were properly addressed.

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7. The grant of multiple insurance coverage to farmer-beneficiaries in RO Nos. III and VII under the Registry System for Basic Sectors in Agriculture (RSBSA) and other insurance programs, was not compliant with Section 2.B.10, Part III of the Operations Manual for Rice and Corn Insurance and pertinent provisions of RA No. 10924 (GAA for FY 2017), due to absence of security features embedded in the PABS; thereby depriving other eligible farmers and fisherfolk to avail free insurance program of the government.

7.1 We recommended that Management require the Planning Management and Information Office (PMIO) to enhance the PABS-Underwriting and Marketing System to provide security features in the system to detect Application for Crop Insurance with the same: (a) name, (b) subject matter/object, (c) subject matter is separately insured two or more times, and (d) interest of the assured and risk or peril insured against, in order to prevent double insurance.

8. The Revised Implementing Guidelines (RIG) on the utilization of the Government Premium Subsidy (GPS) of P2.500 billion received from the NG for RSBSA Program did not provide policy and procedures on how it will be prorated to targeted beneficiaries in each recipient municipality to ensure that control mechanism is in place so that farmers and fisherfolk who had already availed of the program in previous years' would not be entitled to another free insurance, until all the 6,845,747 farmers and fisherfolk included in the RSBSA list have been served to give equal opportunity to all eligible beneficiaries.

8.1 We recommended that Management consider the inclusion of policy and procedures in the RIG on the utilization of GPS received from the NG on how it will be pro-rated to targeted beneficiaries in each recipient municipality to ensure that control mechanism is in place, such as but not limited to, list of targeted farmers/fisherfolk and their addresses so that all eligible farmers be given equal opportunity to avail of the free insurance program of the government.

UNSETTLED AUDIT SUSPENSIONS, DISALLOWANCES AND CHARGES

As of December 31, 2017, the unsettled audit disallowances and suspensions amounted to P17.496 million and P9,613, respectively, details and status are shown in Annex A, Part IV of this Report. There were no unsettled audit charges at year-end.

STATUS OF IMPLEMENTATION OF PRIOR YEARS' AUDIT RECOMMENDATIONS

Out of 54 recommendations contained in the prior years' Annual Audit Reports (AARs), 26 were fully implemented, 18 were partially implemented and 10 were not implemented. Details are presented in Part III of this Report.

TABLE OF CONTENTS

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

Report on the Audit of the Financial Statements

Opinion

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, 2017, and the statement of comprehensive income, statement of changes in equity and statement of cash flow for the year then ended, and notes to financial statements, including a summary of significant accounting policies.

In our opinion, except for the effects and possible effects of the matters described 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, 2017, and of its financial performance and its cash flows for the year then ended in accordance with Philippine Financial Reporting Standards (PFRSs).

Basis for Qualified Opinion

The Current and Non-Current Receivables has total net realizable value of P496.700 million while the Current and Non-Current Liabilities amounted to P3,547.684 million as presented in the Statement of Financial Position, however, the existence and completeness of total receivables and liabilities of P130.411 million and P888.869 million, respectively, could not be ascertained due to the absence of modules in the PCIC Financial Management System for special journals, subsidiary ledgers and schedules as well as program to generate periodic totals in the books of accounts. Moreover, the Non-Current Receivables includes Other Receivables account totaling P154.793 million which remained dormant for 11 to 37 years and collectability of which is already remote, was not provided with adequate allowance for impairment as required under Philippine Accounting Standard 36, thereby overstating the said account by more or less P36.869 million.

We cannot rely on the Gross Insurance Premiums of P3,389.755 million included in the Service and Business Income account of P454.011 million because of the unreconciled variance of P43.488 million between the amount in the Statement of Comprehensive Income and the Consolidated Premium Registers; likewise, with the Insurance Benefits amounting to P1,879.252 million included in the Direct Costs of P2,253.044 million which had unreconciled variance of P49.992 million between the amount in the Trial Balance and Consolidated Claims Registers.

We were unable to obtain sufficient appropriate audit evidence about the balance of the above mentioned accounts due to the inadequacy of accounting records. Consequently, we were unable to determine whether any adjustments to these amounts were necessary.

We conducted our audit in accordance with International Standards of Supreme Audit Institutions (ISSAIs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements section of our report.* We are independent of the PCIC in accordance with the ethical requirements that are relevant to our audit of the financial statements in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with PFRSs, 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.

In preparing the financial statements, management is responsible for assessing the PCIC's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate PCIC or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the PCIC's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAI will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISSAIs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Corporation's internal control.

- Evaluate the appropriateness of accounting policies used in the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Corporation's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosure are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Corporation to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on Supplementary Information Required under BIR Revenue Regulation 15-2010

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information for the year ended December 31, 2017 required by the Bureau of Internal Revenue as disclosed in Note 39 to the financial statements is presented for purposes of additional analysis and is not a required part of the basic financial statements prepared in accordance with PRFSs. Such supplementary information is the responsibility of management.

COMMISSION ON AUDIT

DIVINA M. TELAN
OIC-Supervising Auditor
Audit Group F – QUEDANCOR & PCIC
Cluster 5 – Agricultural and Natural Resources
Corporate Government Sector

June 25, 2018

STATEMENT OF MANAGEMENT'S RESPONSIBILITY
FOR FINANCIAL STATEMENTS

The Management of the Philippine Crop Insurance Corporation is responsible for the preparation of the financial statements as at December 31, 2017, including the additional components attached thereto in accordance with the prescribed financial reporting framework indicated therein. The responsibility includes designing and implementing internal controls relevant to the preparation and fair presentation of financial statements that are free from material statement whether due to fraud or error, selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

The Board of Directors reviews and approves the financial statements before such statements are issued to the regulators, creditors and other users.

The Commission on Audit has audited the financial statements of the Philippine Crop Insurance Corporation in accordance with the International Standards of Supreme Audit Institutions and has expressed its opinion on the fairness of presentation upon completion of such audit, in its report to the Board of Directors.

CRISOLOGO DP. IGNACIO
Chairman of the Board

May 29, 2018
Date Signed

NOMER D. VIRAY
Manager, Finance Department

5-28-18
Date Signed

ATTY. JOVY C. BERNABE
President

5-29-2018
Date Signed

PHILIPPINE CROP INSURANCE CORPORATION
STATEMENT OF FINANCIAL POSITION
December 31, 2017
(In Philippine Peso)

	Note	2017	2016 Restated	1 January 2016 Restated
ASSETS				
Current assets				
Cash and cash equivalents	8	2,973,522,537	1,175,624,853	742,052,854
Receivables, net	9	167,732,498	169,337,700	278,603,920
Inventories	10	4,557,134	2,981,239	2,249,838
Other current assets	11	2,652,599	2,297,477	2,063,610
Total Current assets		**3,148,464,768**	**1,350,241,269**	**1,024,970,222**
Non-current Assets				
Financial assets - held to maturity	12	1,683,664,950	1,328,207,724	1,962,413,353
Other investments	13	2,141,600	2,115,700	2,115,700
Receivables, net	14	328,967,595	328,791,296	327,875,618
Property and equipment, net	15	90,328,808	55,618,505	47,402,814
Intangible assets	16	3,779,710	4,392,636	6,129,260
Other non-current assets		575,589	560,913	290,846
Total Non-current assets		**2,109,458,252**	**1,719,686,774**	**2,346,227,591**
TOTAL ASSETS		**5,257,923,020**	**3,069,928,043**	**3,371,197,813**
LIABILITIES				
Current liabilities				
Financial liabilities	17	761,465,644	605,000,000	797,232,597
Inter-agency payables	18	8,576,243	6,604,703	4,992,545
Trust liabilities	19	365,851	365,851	365,851
Provisions	20	44,180,709	31,980,112	-
Other payables	21	241,787,094	100,852,062	73,918,775
Total Current liabilities		**1,056,375,541**	**744,802,728**	**876,509,768**
Non-Current Liabilities				
Inter-agency payables	22	29,838,264	26,940,385	18,130,981
Trust liabilities	23	173,260,228	163,949,893	154,306,139
Deferred credits/unearned premiums	24	1,981,330,723	590,224,979	635,912,971
Provisions	25	306,879,000	-	148,549,000
Total Non-current liabilities		**2,491,308,215**	**781,115,257**	**956,899,091**
Total Liabilities		**3,547,683,756**	**1,525,917,985**	**1,833,408,859**
EQUITY				
Contributed capital	26	1,250,954,415	1,250,954,415	1,250,954,415
Stockholders' equity	27	259,451,431	259,451,431	259,451,431
Retained earnings	28	199,833,418	33,604,212	27,383,108
Total Equity		**1,710,239,264**	**1,544,010,058**	**1,537,788,954**
TOTAL LIABILITIES AND EQUITY		**5,257,923,020**	**3,069,928,043**	**3,371,197,813**

The Notes on pages 9 to 49 form part of these Financial Statements.

PHILIPPINE CROP INSURANCE CORPORATION
STATEMENT OF COMPREHENSIVE INCOME
For the Year Ended December 31, 2017
(In Philippine Peso)

	Note	2017	2016 Restated
Income			
Service and business income	30	454,011,446	191,376,554
Other non-operating income	31	53,523,206	45,782,489
Total Income		**507,534,652**	**237,159,043**
Expenses			
Direct costs	32	2,253,044,055	1,455,348,423
Personnel services	33	175,480,728	141,848,961
Maintenance and other operating expenses	34	230,574,245	186,000,459
Financial expenses	35	426,545	222,298
Non-cash expenses	36	11,011,073	8,621,838
Total Expenses		**2,670,536,646**	**1,792,041,979**
Loss before tax		(2,163,001,994)	(1,554,882,936)
Income tax expense/(benefit)		-	-
Loss after tax		(2,163,001,994)	(1,554,882,936)
Net assistance/subsidy	30.2	2,500,000,000	1,600,000,000
Net income		336,998,006	45,117,064
Other comprehensive income/(loss) for the period		-	-
TOTAL COMPREHENSIVE INCOME		**336,998,006**	**45,117,064**

The Notes on pages 9 to 49 form part of these Financial Statements.

PHILIPPINE CROP INSURANCE CORPORATION
STATEMENT OF CHANGES IN EQUITY
For the Year Ended December 31, 2017
(In Philippine Peso)

	Retained earnings Note 28	Contributed capital Note 26	Share capital Note 27.1	Share premium Note 27.2	TOTAL
BALANCE AT JANUARY 1, 2016	**27,383,108**	**1,250,954,415**	**100,000,000**	**159,451,431**	**1,537,788,954**
CHANGES IN EQUITY FOR 2016					
Add/(Deduct):					
Net income	45,117,064				45,117,064
Dividends (Note 29)	(22,558,532)				(22,558,532)
Prior period errors	(16,337,428)				(16,337,428)
RESTATED BALANCE AT DECEMBER 31, 2016	**33,604,212**	**1,250,954,415**	**100,000,000**	**159,451,431**	**1,544,010,058**
CHANGES IN EQUITY FOR 2017					
Add/(Deduct):					
Net income	336,998,006				336,998,006
Dividends (Note 29)	(170,768,800)				(170,768,800)
BALANCE AT DECEMBER 31, 2017	**199,833,418**	**1,250,954,415**	**100,000,000**	**159,451,431**	**1,710,239,264**

The Notes on pages 9 to 49 form part of these Financial Statements.

PHILIPPINE CROP INSURANCE CORPORATION
STATEMENT OF CASH FLOW
For the Year Ended December 31, 2017
(In Philippine Peso)

	Note	2017	2016 Restated
CASH FLOWS FROM OPERATING ACTIVITIES			
Insurance premiums		342,754,375	345,389,730
Government premium subsidy for the farmers and fisherfolk	30.2	2,500,000,000	1,600,000,000
Funds received from BSP-Agri-Agra law		1,558,332,272	-
Commission and other income		3,060,374	1,057,648
Payment of claims for insurance benefit		(1,825,408,592)	(1,554,737,077)
Payment to employees and suppliers		(401,314,265)	(591,160,680)
Payment of dividends	29	(22,558,532)	(36,556,247)
Net cash provided by (used) in operating activities		**2,154,865,632**	**(236,006,626)**
CASH FLOWS FROM INVESTING ACTIVITIES			
Investment in securities		(355,457,226)	650,211,000
Other investments		(25,900)	-
Interest and dividends		50,462,832	41,226,348
Proceeds from disposal of assets		-	58,323
Acquisition of property and equipment	15	(51,947,654)	(21,917,046)
Net cash provided by (used in) investing activities		**(356,967,948)**	**669,578,625**
NET INCREASE IN CASH AND CASH EQUIVALENTS		**1,797,897,684**	**433,571,999**
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		1,175,624,853	742,052,854
CASH AND CASH EQUIVALENTS AT END OF YEAR	**8**	**2,973,522,537**	**1,175,624,853**

The Notes on pages 9 to 49 form part of these Financial Statements.

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

1. GENERAL INFORMATION

The Philippine Crop Insurance Corporation (PCIC) is a Government-Owned and Controlled Corporation (GOCC) attached to the Department of Agriculture (DA). It was created as a social-oriented agency under Presidential Decree (PD) No. 1467 on June 11, 1978, as amended by PD No. 1733 on October 21, 1980 and Executive Order (EO) No. 708 dated July 27, 1981. It was further amended by Republic Act (RA) No. 8175 enacted on December 20, 1995. The address of PCIC's registered office is at 7th Floor Building A, National Irrigation Administration (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 equipment, transport facilities and related infrastructure arising from natural calamities, pests and diseases, and other perils beyond their effective control; and

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

PCIC has 13 regional offices located nationwide and as of December 31, 2017, it had a personnel complement of 211 regular, 621 under job order and 4 consultants, details are as follows:

Office/RO	Regular	Job Order/Consultant	Total
Head Office (HO)	50*	26	76
I	12	45	57
II	13	45	58
III	13	30	43
III-A	11	29	40
IV	11	58	69
V	12	36	48
VI	14	67	81
VII	14	52	66
VIII	11	50	61
IX	14	37	51
X	11	62	73
XI	12	37	49
XII	13	51	64
	211	**625**	**836**

**22 Job Orders, 4 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/fisherfolk/growers against losses in unharvested crop or stock in fisheries farms due to natural calamities and fortuitous events.

The financial statements of the PCIC for the calendar year ended December 31, 2017 were authorized for issue by the Board of Directors on March 23, 2018.

2. BASIS FOR THE PREPARATION AND PRESENTATION OF FINANCIAL STATEMENTS

2.1 Statement of Compliance

The Corporation's financial statements have been prepared in compliance with Philippine Financial Reporting Standards (PFRSs). The term PFRSs in general includes all applicable PFRS, Philippine Accounting Standards (PAS) and Standing Interpretations Committee (SIC)/International Financial Reporting Interpretations Committee (IFRIC) interpretations which have been approved by the Financial Reporting Standards Council (FRSC).

These are the Corporation's first financial statements prepared in accordance with PFRSs and PFRS 1 - First-time Adoption of Philippine Financial Reporting Standards has been applied.

An explanation of how the transition to PFRSs has affected the reported financial position of the Corporation is provided in Note 4.

The financial statements have been prepared on a historical basis, except for the financial assets - held to maturity which is measured at amortized cost.

2.2 Presentation and Functional Currency

Items included in the financial statements of the Corporation are measured using Philippine Peso, the currency of the primary economic environment in which the Corporation operates (the "functional currency"). All information presented in Philippine Peso has been rounded to the nearest peso, except when otherwise specified.

2.3 Use of Judgments and Estimates

The preparation of the Corporation's financial statements requires management to make judgments, estimates and assumptions that affect the amounts reported in the Corporation's financial statements and accompanying notes.

Judgments are made by management in the development, selection and disclosure of the Corporation's significant accounting policies and estimates and the application of these policies and estimates.

The estimates and assumptions are reviewed on an on-going basis. These are based on management's evaluation of relevant facts and circumstances as of the reporting date. Actual results could differ from such estimates.

Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

a. **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.

b. **Property and Equipment**

Property and equipment are stated at cost less accumulated depreciation. A residual value equivalent to 10 per cent of acquisition cost is deducted before depreciation is computed using straight-line method over the estimated useful lives of the assets ranging from 5 to 30 years. Depreciation is charged to operations on the month following the date of acquisition.

c. **Contingencies**

The preparation of the financial statements in accordance with current accounting policies requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses, and disclosure of contingent assets and contingent liabilities. Future events may cause the assumptions and estimates to change. The effects of any change in estimates are reflected in the financial statements as they become reasonably determinable.

2.4 Consolidation of Special Revolving Trust Fund (SRTF)

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

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

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

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

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

The balances of the accounts of SRTF are consolidated with PCIC as disclosed under Note 4.

2.5 Conversion of Accounts

The Corporation was not able to convert its chart of accounts to the Revised Chart of Accounts (RCA) prescribed under COA Circular No. 2015-010 dated December 1, 2015. However, for financial statements presentation purposes, the accounts were converted to the RCA.

3. ADOPTION OF PHILIPPINE FINANCIAL REPORTING STANDARDS (PFRSs)

Effective in 2017 that are Relevant to the Corporation

PFRS 1: First Time Adoption of PFRSs

These are the Corporation's first financial statements prepared in accordance with PFRSs and PFRS 1 – First-time Adoption of Philippine Financial Reporting Standards has been applied effective January 1, 2016. This standard sets out the procedures that an entity must follow when it adopts PFRSs for the first time as the basis for preparing its general purpose financial statements.

PFRS 4: Insurance Contracts

Insurance contracts applies virtually to all insurance contracts including reinsurance contracts that the Corporation issues and to reinsurance contracts that it holds.

Insurance contract - is a contract under which one party (the insurer) accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder.

Reinsurance - it is a process whereby one entity (the reinsurer) takes on all or part of the risk covered under a policy issued by an insurance company in consideration of a premium payment. In other words, it is a form of an insurance cover for insurance companies.

PFRS 7: Financial Instruments: Disclosures

The Corporation provided a reconciliation of equity which shows that the financial instruments are already in accordance with PFRS 7, specifically Short-term and Long-term investments that were reclassified to Financial assets - held to maturity.

Financial assets - held to maturity are non-derivative financial assets with or determinable payments and have fixed maturities that the Corporation has the intention and ability to hold on maturity. After initial measurement, Financial assets – held to maturity are subsequently measured at amortized cost using the effective interest rate method, less allowance for impairment. Amortized cost is calculated by taking in to 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 the Statement of Comprehensive Income when there is objective evidence that the asset is impaired.

In addition, the investments which were recorded retrospectively to Financial assets-held to maturity amounting to P2,115,700 were reclassified to Other investments.

PFRS 9: Financial Instruments

The Corporation recognizes a financial asset or a financial liability in its statement of financial position when, and only when, the entity becomes party to the contractual provision of the instruments. The Corporation is already adopting this from previous financial statements.

PFRS 13: Fair Value Measurement

The financial instruments have been prepared on a historical basis, except for the financial assets - held to maturity which is measured at fair value.

PAS 1: Presentation of Financial Statements

The Corporation's financial statements have been prepared in compliance with PFRSs. The term PFRSs in general includes all applicable PFRSs, PAS and SIC/IFRIC interpretations which have been approved by the FRSC.

PAS 2: Inventories

Inventories are assets in the form of materials or supplies to be consumed in the production process or in the rendering of services. The cost of inventories shall comprise all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition as the Corporation is already practicing in its recording.

In addition, pursuant to COA Circular No. 2016-006 dated December 29, 2016, tangible assets with acquisition cost below the capitalization threshold of P15,000 are classified as Inventories before issuance to end-user.

PAS 7: Statement of Cash Flow

The Corporation prepares a Statement of Cash Flow in accordance with the requirements of this Standard and shall present it as an integral part of its financial statements for each period for which financial statements are presented. It prepares cash flow based on its classification as to operating, investing and financing activities which includes Cash and cash equivalents.

PAS 8: Accounting Policies, Changes in Accounting Estimates and Errors

The Corporation conforms in applicable accounting policies and changes when it is recorded retrospectively like pursuant to COA Circular No. 2016-006 dated December 29, 2016 where tangible assets with acquisition cost below the capitalization threshold of P15,000 are classified as Inventories before issuance to end-user.

PAS 10: Events after the Reporting Period

Events after the reporting date are all events, both favorable and unfavorable, that occur between the reporting date and the date when the financial statements are authorized for issue. If warranted, PCIC makes the necessary adjustment and/or disclosures to reflect events after the reporting date.

PAS 16: Property, Plant and Equipment

The Corporation's depreciable properties are stated at cost less accumulated depreciation. The initial cost of property and equipment consists of its purchase price, taxes and any directly attributable costs of bringing the asset to its working condition and intended use.

Expenditures incurred after items were put into operation, such as repairs and maintenance are charged in the year in which the costs are incurred. Major repairs/renovations are depreciated over the remaining useful life of the related asset.

When property and equipment are retired or otherwise disposed of, the cost and the accumulated depreciation are removed from the accounts, and any resulting gain or loss is reflected as income or loss in the Statement of Comprehensive Income. Depreciation is computed using the straight-line method over the estimated useful lives of the respective assets. This is computed at cost less residual value of 10 per cent of acquisition cost over useful life.

In addition, pursuant to COA Circular No. 2016-006 dated December 29, 2016, tangible assets with acquisition cost below the capitalization threshold of P15,000 are classified as Inventories before issuance to end-user.

Moreover, pursuant to COA Circular No. 2016-010, intangible assets were classified as property and equipment which resulted in net adjustment of P3,779,710 to Intangible assets (Note 16).

PAS 17: Leases

The Corporation enters in leases in which substantially all risks and rewards of ownership are retained by another party, the lessor, are classified as operating leases. Payments including prepayments, made under operating lease are charged to the Statement of Comprehensive Income on straight-line basis over the period of the lease. The Corporation intends to apply PFRS 16 which is effective on January 1, 2019.

PAS 18: Revenue

Revenue is the gross inflow of economic benefits during the period arising in the course of the ordinary activities of an entity when those inflows result in increase in equity, other than increases relating to contributions from equity participants. The Corporation's main revenue arises from Insurance Premiums. It intends to apply in detailed PFRS 15 which is effective on January 1, 2018, if applicable.

PAS 19: Employee Benefits

The Corporation recognizes wages and other contribution as short-term employee benefit and termination benefit as post-employment benefit.

In addition, the Corporation recognizes the contribution to the Provident Fund equivalent to 20 per cent of the basic salaries of employees using the 1998 Salary Schedule as post-employment benefit.

PAS 20: Accounting for Government Grants and Disclosure of Government Assistance

The Corporation recognizes subsidy from the National Government (NG) like the P2.5 billion Government Premium Subsidy for CY 2017 as Net assistance/subsidy in the Statement of Comprehensive Income.

PAS 24: Related Party Disclosures

The Corporation's related party transactions pertain to the remuneration of the Key Management Personnel which includes per diem being received by the Board of Directors as short-term employee benefit and the terminal leave benefit by the President as post-employment benefit.

PAS 32: Financial Instruments: Presentation

The Corporation recognizes its financial instruments which includes both financial assets and financial liabilities. Financial assets - held to maturity and financial liabilities are reported in the Statement of Financial Position. Those Financial assets - held to maturity with maturities in less than one year are included in the current assets, and those with maturities beyond 12 months after the balance sheet date are classified as non-current assets.

PAS 37: Provisions, Contingent Liabilities and Contingent Assets

The Corporation prepares financial statements in accordance with previous accounting policies which require management to make estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses, and disclosure of contingent assets and contingent liabilities. Future events may cause the assumptions and estimates to change. The effects of any change in estimates are reflected in the financial statements as they become reasonably determinable.

PAS 36: Impairment of Assets

The Corporation provides allowance in its financial assets which is normally in its Receivables except for Premiums receivable from the NG and reverses any amount of allowance that will be recovered.

PAS 38: Intangible Assets

The Corporation recognizes acquisition, development and other related cost of Computer software pursuant to COA Circular No. 2015-010 dated December 1, 2015 as Intangible assets in the Statement of Financial Position.

PAS 39: Financial Instruments: Recognition and Measurements

The Corporation provided a reconciliation of equity which shows that the Financial Instruments is already in accordance with PFRS 7 specifically short-term and long-term investments that were reclassified to Financial assets - held to maturity.

Philippine Interpretations SIC-15: Operating Leases – Incentives

The Corporation shouldered the cost of leasehold improvement, depreciated using straight-line method with 20 years useful life or lease term whichever is shorter, and with salvage value of 10 per cent.

Effective in 2017 that are not Relevant to the Company

The following PFRSs/PAS/IFRIC were not applicable and considered in the preparation of the financial statements based on the nature of business and current operation of PCIC which are mainly to provide insurance protection to subsistence farmers and fisherfolk.

PFRS 2: Share-based Payment
PFRS 3: Business Combinations
PFRS 5: Non-current Assets Held for Sale and Discontinued Operations
PFRS 6: Exploration for and Evaluation of Mineral Resources
PFRS 8: Operating Segments
PFRS 10: Consolidated Financial Statements
PFRS 11: Joint Arrangements
PFRS 12: Disclosure of Interests in Other Entities
PFRS 14: Regulatory Deferral Accounts
PAS 11: Construction Contracts
PAS 12: Income Taxes
PAS 21: The Effects of Changes in Foreign Exchange Rates
PAS 23: Borrowing Costs
PAS 26: Accounting and Reporting by Retirement Benefit Plans
PAS 27: Separate Financial Statements
PAS 28: Investments in Associates and Joint Ventures
PAS 29: Financial Reporting in Hyperinflationary Economies
PAS 33: Earnings per share
PAS 34: Interim Financial Reporting

PAS 40: Investment Property
PAS 41: Agriculture

Philippine Interpretations IFRIC-1:	Changes in Existing Decommissioning, Restoration and Similar Liabilities
Philippine Interpretations IFRIC-2:	Members’ Shares in Co-operative Entities and Similar Instruments
Philippine Interpretations IFRIC-4:	Determining Whether an Arrangement contains a Lease
Philippine Interpretations IFRIC-5:	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
Philippine Interpretations IFRIC-6:	Liabilities arising from Participating in a Specific Market-Waste Electrical and Electronic Equipment
Philippine Interpretations IFRIC-7:	Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies
Philippine Interpretations IFRIC-8:	Scope of PFRS 2
Philippine Interpretations IFRIC-9:	Reassessment of Embedded Derivatives
Philippine Interpretations IFRIC-10:	Interim Financial Reporting and Impairment
Philippine Interpretations IFRIC-11:	PFRS 2 – Group and Treasury Share Transactions
Philippine Interpretations IFRIC-12:	Service Concession Arrangements
Philippine Interpretations IFRIC-13:	Customer Loyalty Programmes
Philippine Interpretations IFRIC-14:	PAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction
Philippine Interpretations IFRIC-15:	Agreements for the Construction of Real Estate
Philippine Interpretations IFRIC-16:	Hedges of a Net Investment in a Foreign Operation
Philippine Interpretations IFRIC-17:	Distributions of Non-Cash Assets to Owners
Philippine Interpretations IFRIC-18:	Transfers of Assets from Customers
Philippine Interpretations IFRIC-19:	Extinguishing Financial Liabilities with Equity Instruments
Philippine Interpretations IFRIC-20:	Stripping Costs in the Production Phase of a Surface Mine
Philippine Interpretations IFRIC-21:	Levies
Philippine Interpretations IFRIC-22:	Foreign Currency Transactions and Advance Consideration
Philippine Interpretations IFRIC-23:	Uncertainty over Income Tax Treatments
Philippine Interpretations SIC-7:	Introduction of the Euro
Philippine Interpretations SIC-10:	Government Assistance - No Specific Relation to Operating Activities
Philippine Interpretations SIC-15:	Operating Leases - Incentives
Philippine Interpretations SIC-25:	Income Taxes - Changes in the Tax Status of an Entity or its Shareholders
Philippine Interpretations SIC-27:	Evaluating the Substance of Transactions Involving the Legal Form of a Lease
Philippine Interpretations SIC-29:	Service Concession Arrangements: Disclosures
Philippine Interpretations SIC-31:	Revenue - Barter Transactions Involving Advertising Services
Philippine Interpretations SIC-32:	Intangible Assets - Web Site Costs

Effective Subsequent to 2017 but not Adopted early

PFRS 15: Revenue from Contracts with Customers

It establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. The Corporation is already recording income based on accrual method. It intends to apply in detailed the said standard by January 1, 2018, which is the effective date, if applicable.

PFRS 16: Leases

Specifies how a PFRS reporter will recognize, measure, present and disclose leases. The Standard provides a single lessee accounting model, requiring lessees to recognize assets, liabilities for all leases unless the term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with PFRS 16's approach to lessor accounting substantially unchanged from its predecessor, PAS 17. The Corporation intends to apply in detailed the said standard by January 1, 2019 which is the effective date, if applicable.

4. EXPLANATION OF TRANSITION TO PFRSs

As stated in Note 2.1, these are the Corporation's first financial statements prepared in accordance with PFRSs.

The accounting policies set out in Note 5 have been applied in preparing the financial statements for the year ended December 31, 2017, the comparative information presented in these financial statements for the year ended December 31, 2016 and in the preparation of an opening PFRSs Statement of Financial Position as at January 1, 2016 (the Corporation's date of transition).

In preparing its opening PFRSs Statement of Financial Position, the Corporation has adjusted amounts reported previously in financial statements prepared in accordance with Generally Accepted Accounting Principles (GAAP). An explanation on how the transition from previous GAAP to PFRSs has affected the Corporation's financial position, financial performance and cash flows is set out in the following tables:

Reconciliation of Equity
At January 1, 2016 (Transition Date)

	Note	Previous Generally Accepted Accounting Principles	Consolidation with SRTF	Effect of Transition to PFRSs: Reclassification	Effect of Transition to PFRSs: Difference in recognition and measurement	PFRSs	
ASSETS							**ASSETS**
Current assets							**Current assets**
Cash and cash equivalents	8	440,336,060	301,716,794	-	-	742,052,854	Cash and cash equivalents
Receivables - current	9	278,215,237	(1,302,597)	1,691,280	-	278,603,920	Receivables, net
	10	-	-	2,249,838	-	2,249,838	Inventories
Other current assets	11	4,252,081	-	(2,188,471)	-	2,063,610	Other current assets
Total Current assets		**722,803,378**	**300,414,197**	**1,752,647**	**-**	**1,024,970,222**	**Total Current assets**
Non-current assets							**Non-current assets**
Long term investment	12	1,964,529,053	-	(2,115,700)	-	1,962,413,353	Financial assets - held to maturity
	13	-	-		2,115,700	2,115,700	Other investments
Receivables - non-current, net	14	327,318,466	-	557,152	-	327,875,618	Receivables, net
Property and equipment, net	15	53,468,015	-	(6,065,201)	-	47,402,814	Property and equipment, net
	16	-	-	6,129,260	-	6,129,260	Intangible assets
Other non-current assets		92,221	120,287	78,338	-	290,846	Other assets
Total Non-current assets		**2,345,407,755**	**120,287**	**(1,416,151)**	**2,115,700**	**2,346,227,591**	**Total Non-current assets**
TOTAL ASSETS		**3,068,211,133**	**300,534,484**	**336,496**	**2,115,700**	**3,371,197,813**	**TOTAL ASSETS**
LIABILITIES							**LIABILITIES**
Current liabilities							**Current liabilities**
Accounts payable	17	683,796,323	187,536,617	(74,100,343)	-	797,232,597	Financial liabilities
Inter-agency payable	18	4,782,537	-	210,008	-	4,992,545	Inter-agency payables
	19	-	-	365,851	-	365,851	Trust liabilities
Other current liabilities	21	803,644	-	73,115,131	-	73,918,775	Other payables
Total Current liabilities		**689,382,504**	**187,536,617**	**(409,353)**	**-**	**876,509,768**	**Total Current liabilities**
Non-current liabilities							**Non-current liabilities**
Due to other National Government Agencies (NGAs)	22	17,555,839	-	575,142	-	18,130,981	Inter-agency payables
Due to other funds	23	174,689	115,394,993	38,736,457	-	154,306,139	Trust liabilities
Deferred credits	24	51,883,416	-	584,029,555	-	635,912,971	Deferred credits/unearned premiums
Reserve for unearned premium		622,876,731	-	(622,876,731)	-	-	
	25	-	-	148,549,000	-	148,549,000	Provisions
Total Non-current liabilities		**692,490,675**	**115,394,993**	**149,013,423**	**-**	**956,899,091**	**Total Non-current liabilities**
Total Liabilities		**1,381,873,179**	**302,931,610**	**148,604,070**	**-**	**1,833,408,859**	**Total Liabilities**
EQUITY							**EQUITY**
Government equity	26	1,350,954,415	-	(100,000,000)	-	1,250,954,415	Contributed capital
	27	-	-	100,000,000	-	100,000,000	Share capital
Contributed surplus	27	159,451,431	-		-	159,451,431	Share premium
Retained earnings-unappropriated	28	27,383,108	-		-	27,383,108	Retained earnings
Reserve for indemnity fluctuation		148,549,000	-	(148,549,000)	-	-	
Total Equity		**1,686,337,954**	**-**	**(148,549,000)**	**-**	**1,537,788,954**	**Total Equity**
TOTAL LIABILITIES AND EQUITY		**3,068,211,133**	**302,931,610**	**55,070**	**-**	**3,371,197,813**	**TOTAL LIABILITIES AND EQUITY**

Reconciliation of Equity
At December 31, 2016

				Effect of Transition to PFRSs				
	Note	Previous Generally Accepted Accounting Principles	Consolidation with SRTF	Prior Period Adjustments	Reclassification	Difference in Recognition and Measurement	PFRSs	
ASSETS								**ASSETS**
Current assets								**Current assets**
Cash and cash equivalents	8	870,440,374	304,765,190	419,289	-	-	1,175,624,853	Cash and cash equivalents
Receivables – current, net	9	288,810,305	(1,357,496)	(117,172,238)	(942,871)	-	169,337,700	Receivables, net
	10	-	-	-	2,981,239	-	2,981,239	Inventories
Other current assets	11	5,070,440	-	-	(2,772,963)	-	2,297,477	Other current assets
Total Current assets		**1,164,321,119**	**303,407,694**	**(116,752,949)**	**(734,595)**	**-**	**1,350,241,269**	**Total Current assets**
Non-current assets								**Non-current assets**
Long-term investment	12	1,314,318,053	-	16,005,371	(2,115,700)	-	1,328,207,724	Financial assets - held to maturity
	13	-	-	-	-	2,115,700	2,115,700	Other investments
Receivables - non-current, net	14	327,859,714	437,882	196,988	296,712	-	328,791,296	Receivables , net
Property and equipment, net	15	66,106,752	-	(6,095,611)	(4,392,636)	-	55,618,505	Property and equipment, net
	16	-	-	-	4,392,636	-	4,392,636	Intangible assets
Other assets		362,288	198,625	-	-	-	560,913	Other non-current assets
Total Non-current assets		**1,708,646,807**	**636,507**	**10,106,748**	**(1,818,988)**	**2,115,700**	**1,719,686,774**	**Total Non-current assets**
TOTAL ASSETS		**2,872,967,926**	**304,044,201**	**(106,646,201)**	**(2,553,583)**	**2,115,700**	**3,069,928,043**	**TOTAL ASSETS**
LIABILITIES								**LIABILITIES**
Current liabilities								**Current liabilities**
Accounts payable	17	444,421,223	187,536,617	70,862,699	(97,820,539)	-	605,000,000	Financial liabilities
Inter-agency payable	18	6,161,429	-	-	443,274	-	6,604,703	Inter-agency payables
	19	-	-	-	365,851	-	365,851	Trust liabilities
	20	-	-	-	31,980,112	-	31,980,112	Provisions
Other current liabilities		830,691	-	-	(830,691)	-	-	
	21	-	-	-	100,852,062	-	100,852,062	Other payables
Total Current liabilities		**451,413,343**	**187,536,617**	**70,862,699**	**34,990,069**	**-**	**744,802,728**	**Total Current liabilities**
Non-current liabilities								**Non-current liabilities**
Due to other NGAs	22	26,365,242	-	-	575,143	-	26,940,385	Inter-agency payables
Due to other funds	23	551,929	116,246,646	-	47,151,318	-	163,949,893	Trust liabilities
Deferred credits	24	49,010,127	-	(1,935)	541,216,787	-	590,224,979	Deferred credits/unearned premiums
Reserve for unearned premium		785,279,799	-	(196,183,352)	(589,096,447)	-	-	
Total Non-current liabilities		**861,207,097**	**116,246,646**	**(196,185,287)**	**(153,199)**	**-**	**781,115,257**	**Total Non-current liabilities**
Total Liabilities		**1,312,620,440**	**303,783,263**	**(125,322,588)**	**34,836,870**	**-**	**1,525,917,985**	**Total Liabilities**
EQUITY								**EQUITY**
Government equity	26	1,350,954,415	-	-	(100,000,000)	-	1,250,954,415	Contributed capital
	27	-	-	-	100,000,000	-	100,000,000	Share capital
Contributed surplus	27	159,451,431	-	-	-	-	159,451,431	Share premium
Retained earnings - unappropriated	28	49,941,640	-	(16,337,428)	-	-	33,604,212	Retained earnings
Total Equity		**1,560,347,486**	**-**	**(16,337,428)**	-	**-**	**1,544,010,058**	**Total Equity**
TOTAL LIABILITIES AND EQUITY		**2,872,967,926**	**303,783,263**	**(141,660,016)**	**34,836,870**	**-**	**3,069,928,043**	**TOTAL LIABILITIES AND EQUITY**

Reconciliation of Comprehensive Income
At December 31, 2016

	Note	Previous Generally Accepted Accounting Principles	Effect of Transition to PFRSs Reclassification	Difference in Recognition and Measurement	PFRSs	
INSURANCE PREMIUM		**2,695,301,604**	**-**	-	**-**	**INCOME**
Add/(Deduct):						
Premium reserve		(154,313,356)	-	-	-	
Premium discount		(749,572,716)	-	-	-	
Premium refund		(38,978)	-	-	-	
Net premiums	28	1,791,376,554	(1,600,000,000)	-	191,376,554	Service and business income
	29		39,293,924	6,488,565	45,782,489	Other non-operating income
					237,159,043	Total Income
UNDERWRITING EXPENSE						**EXPENSES**
Insurance benefit		1,554,737,077	-	6,546,888	1,561,283,965	
Insurance premium ceded treaty		1,041,383	-	-	1,041,383	
Commission expense		37,009,372	-	-	37,009,372	
Death benefits		3,265,000	-	-	3,265,000	
Honoraria		1,297,703	-	-	1,297,703	
Applied reserve for indemnities		(148,549,000)	-	-	(148,549,000)	
Net underwriting expense	30	1,448,801,535	-	6,546,888	1,455,348,423	Direct costs
NET UNDERWRITING INCOME		**342,575,019**	-	-	-	
Other income		39,293,924	(39,293,924)	-	-	
GROSS OPERATING INCOME		**381,868,943**	-	**(58,323)**	-	
OPERATING EXPENSES						
Personal services	31	141,848,961	-	**-**	141,848,961	Personnel services
Maintenance and other operating expenses	32	194,680,620	-	(8,680,161)	186,000,459	Maintenance and other operating expenses
Financial expenses	33	222,298	-	-	222,298	Financial expenses
	34	-	-	8,621,838	8,621,838	Non-cash expenses
TOTAL OPERATING EXPENSES		**336,751,879**	-	**(58,323)**	**1,792,041,979**	**TOTAL EXPENSES**
		-	-	**-**	**(1,554,882,936)**	**LOSS BEFORE TAX**
		-	-	-	**-**	Income tax expense/(benefit)
		-	-	**-**	**(1,554,882,936)**	**LOSS AFTER TAX**
		-	1,600,000,000	-	1,600,000,000	Net assistance/subsidy
NET INCOME		**45,117,064**	**-**	**-**	**45,117,064**	**TOTAL COMPREHENSIVE INCOME**

5. SIGNIFICANT ACCOUNTING POLICIES

5.1 Financial Assets

Initial recognition

Financial assets are recognized in the Corporation's financial statements when the Corporation becomes a party to the contractual provisions of the instrument. Financial assets are recognized initially at fair value. Transaction costs are included in the initial measurement of the Corporation's financial assets.

All recognized financial assets are subsequently measured in their entirety at either amortized costs or fair value, depending on the classification of the financial assets.

Classification of financial assets

The Corporation classifies its financial assets into financial assets, marketable securities (MS) and held to maturity (HTM). The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting date.

MS are highly-liquid securities such as stocks, short-term bonds, commercial papers treasury bills and money market instruments, etc. sold in the secondary financial markets to meet immediate cash needs of the company.

HTM 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, HTM 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. Those HTM investments with maturities of less than one year are included under current assets, and those with maturities greater than 12 months after the balance sheet date are classified as non-current assets.

Impairment of financial assets

The Corporation determines at each reporting date if there is objective evidence that a financial asset may be impaired.

An impairment loss is recognized in Statement of Comprehensive Income when there is objective evidence that the asset is impaired. The amount of impairment loss recognized is the difference between the asset's carrying amount and the present value of estimated future cash flows reflecting the amount of collateral and guarantee, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss for all financial assets, where the carrying amount is reduced through the use of an allowance account. When a receivable account is considered uncollectible, it is written-off against the allowance account subject to required approval. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in Statement of Comprehensive Income.

If, in subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit and loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

An 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 the accounts. The Corporation provides an allowance of 10 per cent after two years when the account becomes past due, except for the guaranteed receivables from the National Government.

Assets carried at cost

If there is objective evidence that an impairment loss on an unquoted equity instruments that are not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such unquoted equity instrument has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

Derecognition of financial assets

The Corporation derecognizes a financial asset only when the contractual rights to the cash flows from asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Corporation neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Corporation recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Corporation retains substantially all the risks and rewards of ownership of a transferred financial asset, the Corporation continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

On derecognition of a financial asset measured at amortized cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognized in the Statement of Comprehensive Income.

5.2 Inventories

Inventories are assets in the form of materials or supplies to be consumed in the rendering of services. The cost of inventories shall comprise all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Pursuant to COA Circular No. 2016-006 dated December 29, 2016, tangible assets with acquisition cost below the capitalization threshold of P15,000 are classified as Inventories before issuance to end-user.

5.3 Property and Equipment

The Corporation's depreciable properties are stated at cost less accumulated depreciation. The initial cost of property and equipment consists of its purchase price, taxes and any directly attributable costs of bringing the asset to its working condition and intended use.

Subsequent costs incurred 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.

Expenditures incurred after items of Property and equipment has been put into operation, such as repairs and maintenance are charged against operation in the year in which the costs are incurred and recognized in the Statement of Comprehensive Income, while major repairs/renovations are capitalized and depreciated over the remaining useful life of the related asset.

Depreciation is computed using the straight-line method over the estimated useful lives of the respective assets. This is computed at cost less residual value of 10 per cent of acquisition cost over useful life. The estimated useful life of the respective assets follows:

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

When property and equipment are retired or otherwise disposed of, the cost and the corresponding accumulated depreciation are removed from the accounts, and any resulting gain or loss is reflected as income or loss in the Statement of Comprehensive Income.

In addition, pursuant to COA Circular No. 2016-006 dated December 29, 2016, tangible assets with acquisition cost below the capitalization threshold of P15,000 are classified as Inventories before issuance to end-user.

5.4 Intangible Assets

The Corporation recognizes acquisition, development and other related cost of Computer software pursuant to COA Circular No. 2015-010 dated December 1, 2015 as Intangible assets in the Statement of Financial Position.

5.5 Prepaid Expenses

Prepaid expenses are future expenses that have been paid in advance. The amount of prepaid expenses that have not yet expired are recognized as an asset on the Corporation's Statement of Financial Position and the amount that expired are recognized as expense in the Statement of Comprehensive Income.

5.6 Provisions

Terminal Leave Benefits

Provisions pertain to terminal leave benefits which are the money value of the earned leave credits of government personnel. It increases based on the leave earned for the year and decreases by the amount of monetized leave credits.

Provident Fund

This pertains to provident benefit of employees which is the money value of contribution to the fund equivalent to 20 per cent of the basic salaries of employees using the 1998 salary schedule.

5.7 Deferred Credits

Reserve for Unearned Premiums

A reserve for unearned premiums is provided to cover premiums recorded but not earned as of reporting date. This is classified under Deferred credits and reported in the Statement of Financial Position. The amount set-up is equivalent to 40 per cent of the net premiums except for palay and corn.

Reserve for palay and corn are computed 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

5.8 Income Recognition

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

a. **Income from Insurance Operations**

Income is recognized for insurance premium upon the effectivity of the policy. The corresponding reinsurance, commission and service fees are deducted from gross income.

b. **Income from Investment**

Interests from short-term and long-term investments are recognized as the interest accrues, net of 20 per cent final tax.

6. RISK MANAGEMENT OBJECTIVES AND POLICIES

The Board of Directors (BODs) has overall responsibility for the establishment and oversight of the Corporation's Risk Management Framework (RMF). The Board has established Risk Management and Audit Committee who is responsible in developing and monitoring the Corporation's risk management policies.

The committee is responsible for the following:

a. Overseeing, monitoring and evaluating the adequacy and effectiveness of the Corporation's internal control system, engage and provide oversight of the PCIC's internal and external auditors and coordinate with the Commission on Audit (COA).

b. Performing oversight risk management functions specifically in the areas of managing credit, market, liquidity, operational, legal, reputational and other risks of the PCIC, and crisis management, which shall include receiving from Senior Management periodic information on risk exposures and risk management activities.

c. Developing the Risk Management Policy of the PCIC, ensuring compliance with the same and guarantee that the risk management process and compliance are embedded throughout the operations of the PCIC, especially at the Board and Management level providing quarterly reporting and updating the Board on key risk management issues as well as ad hoc reporting and evaluation on investment proposals.

The Board Committee may conduct meetings as may be deemed appropriate by the Committee Chairman.

7. PRIOR PERIOD ADJUSTMENTS

7.1 Changes in Accounting Policies

In accordance with COA Circular Nos. 2015-007 and 2015-006, tangible properties below the capitalization threshold of P15,000 shall be accounted as semi-expendable property. Semi-expendable property previously recognized as property and equipment shall be reclassified to expense, if issued to end-user within the year and to retained earnings account, if issued in prior years. In view thereof, a total of P1.737 million was reclassified and booked as adjustment in the previous year's financial statements. Effect on retained earnings is reflected on Notes 16 and 28.

7.2 Correction of Prior Period Error

Errors in recording had occurred in CY 2016 which resulted to net adjustment in Retained earnings account totaling P16.337 million as disclosed under Note 28.

8. CASH AND CASH EQUIVALENTS

This account consists of the following:

	2017	2016 Restated	1 January 2016 Restated
Cash in bank-local currency	2,970,456,353	1,173,046,809	740,375,498
Cash on hand	3,066,184	2,578,044	1,677,356
	2,973,522,537	**1,175,624,853**	**742,052,854**

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

	2017	2016 As Restated	1 January 2016 As restated
Marketable securities	2,567,395,356	941,055,589	502,049,245
General and administrative fund	219,264,125	54,056,525	77,325,333
Claims fund	150,626,947	147,417,296	108,989,715
Savings account OSDA	17,247,279	13,932,862	28,926,143
Mother account	15,863,859	16,538,105	22,995,445
Investment fund	58,787	46,432	89,617
	2,970,456,353	**1,173,046,809**	**740,375,498**

In accordance with PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*, the General and administrative fund under Cash in bank-local currency account for CY 2016 is restated as follows:

	Amount
General and administrative fund, December 31, 2016	53,496,693
Add (Deduct) Adjustments:	
Cash in bank SRTF (due to consolidation)	140,543
Cancelled checks	419,289
General and administrative fund, December 31, 2016, as restated	**54,056,525**

9. RECEIVABLES – CURRENT

This account consists of the following:

	2017	2016 Restated	1 January 2016 Restated
Loans and receivable	163,703,053	166,541,602	273,173,032
Inter-agency receivables	1,379,244	2,962	2,962
Other receivables	2,650,201	2,793,136	5,427,926
	167,732,498	**169,337,700**	**278,603,920**

9.1 Loans and receivable account consists of:

	2017	2016 Restated	1 January 2016 Restated
Contributions and premiums receivable	158,063,288	161,877,588	265,116,507
Interest receivable - bonds	5,472,222	4,662,853	8,055,364
Reinsurance commission	166,382	-	-
Reinsurance receivable	1,161	1,161	1,161
	163,703,053	**166,541,602**	**273,173,032**

9.2 Contributions and premiums receivable from:

	2017	2016 Restated	1 January 2016 Restated
National Government	146,402,104	83,405,040	200,351,819
Farmers	13,168,777	80,063,589	66,387,433
Less: Allowance for impairment	(3,740,130)	(3,740,130)	(3,740,769)
Farmers, net	9,428,647	76,323,459	62,646,664
Lending institutions	2,232,537	2,149,089	2,118,024
	158,063,288	**161,877,588**	**265,116,507**

Premiums receivable - National Government (NG) represents the amount of unreleased share of government in the total insurance premiums, pursuant to Section 5 of RA No. 8175.

In accordance with PAS 8, Accounting *Policies, Changes in Accounting Estimates and Errors*, the Receivables – current for December 31, 2016 and January 1, 2016 and Premiums receivable – NG for December 31, 2016 is restated as follows:

	2016	1 January 2016
Receivables - current	288,810,305	278,215,237
Add (Deduct) Adjustments:		
Prior year adjustment of Premiums receivable – NG	(117,172,238)	-
Prior year adjustment	(117,172,238)	-
Add (Deduct) Reclassifications:		
Allowance for impairment – contributions and premium farmers	(3,740,130)	(3,740,769)
Elimination of due from SRTF account per consolidation	(1,357,496)	(1,302,597)
Due to reinsurer	1,161	1,161
Inter-agency receivable	2,962	2,962
Other receivable	2,793,136	5,427,926
Reclassification of account	(2,300,367)	388,683
Receivables – current, as restated	**169,337,700**	**278,603,920**

10. INVENTORIES

This account consists of the following:

	2017	2016	1 January 2016
Other supplies and materials inventory	3,618,516	2,981,239	2,249,838
Semi-expendable machinery and equipment	699,884	-	-
Semi-expendable furniture and fixtures	238,734	-	-
	4,557,134	**2,981,239**	**2,249,838**

Inventories held for consumption consist mainly of consumable materials and supplies.

Semi-expendables are tangible items below the capitalization threshold of P15,000 which are yet to be issued to end-users.

11. OTHER CURRENT ASSETS

This account includes the following:

	2017	2016 Restated	1 January 2016 Restated
Deposits	1,334,718	1,087,768	1,066,608
Prepayments	838,720	711,457	645,659
Advances to officers and employees	234,677	208,276	61,367
Other assets	244,484	289,976	289,976
	2,652,599	**2,297,477**	**2,063,610**

In accordance with PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*, the Other current assets account for December 31, 2016 and January 1, 2016 is restated as follows:

	2016	1 January 2016
Other current assets	5,070,440	4,252,081
Add (Deduct) Reclassifications:		
Reclassification of inventory	(2,981,239)	(2,249,838)
Inclusion of advances	208,276	61,367
Other current assets, as restated	**2,297,477**	**2,063,610**

12. FINANCIAL ASSETS – HELD TO MATURITY – NON-CURRENT

This account represents investments in the following:

	2017	2016 Restated	1 January 2016
Investment in bonds - LBP	1,131,464,000	1,126,006,774	1,512,519,401
Investment in bonds - BTr	552,200,950	202,200,950	449,893,952
	1,683,664,950	**1,328,207,724**	**1,962,413,353**

LBP - Land Bank of the Philippines BTr - Bureau of the Treasury

In accordance with PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*, Investment in bonds - LBP and Investment in bonds - BTR for CY 2016 are restated as follows:

	Amount
Investment in bonds - LBP, December 31, 2016	1,112,308,401
Add (Deduct) Adjustments:	
Amortization of discount and adjustment of interest income earned	13,698,373
Investment in bonds - LBP, December 31, 2016, as restated	**1,126,006,774**

	Amount
Investment in bonds- BTr, December 31, 2016	199,893,952
Add (Deduct) Adjustments:	
Amortization of discount and adjustment of interest income earned	2,306,998
Investment in bonds - BTr, December 31, 2016, as restated	**202,200,950**

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

	Amount	Term	Interest Rate (in %)	Maturity Date
LBP-FXTN				
	393,000,000	4.54 years	2.125	May 23, 2018
	438,464,000	4.40 years	2.125	May 23, 2018
	50,000,000	4.10 years	2.125	May 23, 2018
	881,464,000			
LBP-LTNCD				
	200,000,000	5.5 years	3.725	April 9, 2021
	50,000,000	5.5 years	3.125	May 5, 2019
	250,000,000			
	1,131,464,000			
BTr Retail Treasury Bonds (RTB)				
RTB-13	100,000,000	10 years	7.375	March 3, 2021
RTB-10-4	102,200,950	9.16 years	3.250	August 15, 2023
RTB-20	350,000,000	5 years	3.250	December 4, 2022
	552,200,950			

13. OTHER INVESTMENTS

This account represents investments in the following:

	2017	2016 Restated	1 January 2016 Restated
Asia Pacific Rural and Agricultural Credit Association (APRACA)	1,500,000	1,500,000	1,500,000
Cooperative Insurance System of the Philippines (CISP) - 3,000 shares at P100 per share	300,000	300,000	300,000
Philippine Long Distance Telephone Company (PLDT) - 10,140 shares at P10 per share	199,100	173,200	173,200
Club Filipino	100,000	100,000	100,000
Pool of Livestock Insurers (PLIs)	40,000	40,000	40,000
Eastern Visayas Telephone Company, Inc. (EVTCI)- 50 shares at P50 per share	2,500	2,500	2,500
	2,141,600	**2,115,700**	**2,115,700**

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

14. RECEIVABLES – NON-CURRENT

This account consists of the following:

	2017	2016 Restated	1 January 2016 Restated
Premiums receivable - arrearages NG	315,664,677	315,664,677	315,664,677
Inter-agency receivable	367,620	367,620	367,620
Other receivables	12,935,298	12,758,999	11,843,321
	328,967,595	**328,791,296**	**327,875,618**

In accordance with PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*, Receivables, net - non-current for January 1, 2016 and December 31, 2016 are reclassified as follows:

	2016	1 January 2016
Receivables, net - non-current	327,859,714	327,318,466
Add (Deduct) Adjustments:		
Amount disallowed in 2016	196,988	-
Prior year adjustment	196,988	-
Add (Deduct) Reconciliation/reclassifications:		
Other receivables miscellaneous reclassified to current	(2,797,259)	(3,122,251)
Advances to officers and employees reclassified current	(208,276)	
Allowance for impairment	3,302,247	3,679,403
Other receivable banks from SRTF books	437,882	
Reclassification of accounts	734,594	557,152
Receivables, net - non-current, as restated	**328,791,296**	**327,875,618**

14.1 Premiums receivable - arrearages NG

The premiums receivable pertains to the cumulative premium subsidy arrearages from the NG when RA No. 8175 was enacted in 1995. This is 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 (GPS) from 1996 to 2011. Details of the Premiums receivable from the NG are as follows:

	CYs 1981 to 1995	CYs 1996 to 2008	Total
Unrealized GPS	542,941,295	146,906,182	689,847,477
Less: Collections	374,182,800	-	374,182,800
	168,758,495	**146,906,182**	**315,664,677**

14.2 Other receivables

	2017	2016 Restated	1 January 2016 Restated
Receivable-disallowance/charges	12,237,879	12,528,840	11,685,781
Due from officers and employees	141,858	228,421	155,162
Guarantee receivables	51,857,868	51,912,007	51,972,343
Less: Allowance for impairment	51,857,868	51,912,007	51,972,343
Net	-	-	-
Adjudicated claims	3,724,229	3,724,229	3,724,229
Less: Allowance for impairment	3,724,229	3,724,229	3,724,229
Net	-	-	-
Special time deposit (STD) claims paid	43,402,371	43,578,842	43,582,755
Less: Allowance for impairment	43,402,371	43,578,842	43,582,755
Net	-	-	-
Claims paid 3rd International banks for rural development project	85,511	85,511	85,511
Less: Allowance for impairment	85,511	85,511	85,511
Net	-	-	-

	2017	2016 Restated	1 January 2016 Restated
Banks	1,094,562	540,739	540,739
Less: Allowance for impairment	540,739	540,739	540,739
Net	553,823	-	-
STD Advances on claims	178,528	178,528	178,528
Less: Allowance for impairment	178,528	178,528	178,528
Net	-	-	-
Claims on banks-unremitted recoveries	2,286,634	2,286,634	2,287,273
Less: Allowance for impairment	2,284,896	2,284,896	2,284,895
Net	1,738	1,738	2,378
	12,935,298	**12,758,999**	**11,843,321**

In accordance with PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*, Receivables, net - non-current for January 1, 2016 and December 31, 2016 are reclassified as follows:

	2016	1 January 2016
Other receivables, net-non-current	12,195,037	11,653,789
Add (Deduct) Adjustments:		
Amount disallowed in 2016	196,988	-
Prior year adjustment	196,988	-
Add (Deduct) Reconciliation/reclassifications:		
Other receivables miscellaneous reclassified to current	(2,797,259)	(3,122,251)
Advances to officers and employees reclassified current	(208,276)	(61,367)
Allowance for impairment	3,740,129	3,740,770
Pool of livestock reclassified to inter-agency receivable	(367,620)	(367,620)
Reclassification of accounts	366,974	189,532
Other receivables, net - non-current, as restated	**12,758,999**	**11,843,321**

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

STD claims paid was governed by PCIC Circular Letter No. 004 dated May 27, 1981. The PCIC pays 85 percent of the outstanding loan balances of farmers, while LBP undertakes the collection to be remitted to the PCIC Regional Office within 30 days from receipt.

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

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.

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 AGF.

Claims on bank–unremitted recoveries represent 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. The amount of P553,823 represents P356,934 erroneously debited by LBP to PNP Account but was credited back to PCIC on March 2018, and P196,889 from Regional Office III-A which was collected in January 2018.

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

15. PROPERTY AND EQUIPMENT (PE)

This account consists of the following:

	Building	Information technology equipment and software	Land transportation equipment	Furniture and fixtures, office equipment and other PE	Leasehold and leasehold improvement	Total
Cost						
January 1, 2017, as restated	10,960,246	25,740,478	43,681,737	10,372,297	9,531,601	100,286,359
Additions	8,431,113	10,651,665	20,883,438	10,611,781	1,369,657	51,947,654
Disposal/transfer/adjustment		(3,728,907)	(574,626)	(2,668,626)	(259,814)	(7,231,973)
December 31, 2017	**19,391,359**	**32,663,236**	**63,990,549**	**18,315,452**	**10,641,444**	**145,002,040**
Accumulated depreciation						
January 1, 2017, as restated		11,593,342	22,460,200	5,746,097	4,868,215	44,667,854
Depreciation (Note 36)	385,898	3,387,006	3,351,074	2,506,401	519,103	10,149,482
Disposal/transfer/adjustment				(144,104)		(144,104)
December 31, 2017	**385,898**	**14,980,348**	**25,811,274**	**8,108,394**	**5,387,318**	**54,673,232**
Net book value, December 31, 2017	**19,005,461**	**17,682,888**	**38,179,275**	**10,207,058**	**5,254,126**	**90,328,808**
Net book value, Dec. 31, 2016, as restated	**10,960,246**	**14,147,136**	**21,221,537**	**4,626,200**	**4,663,386**	**55,618,505**

Pursuant to COA Circular Nos. 2015-010 and 2016-006 as well as PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*, Property and equipment for CY 2016 is reclassified and restated as follows:

	Cost	Accumulated Depreciation	Carrying Value
Information technology equipment and software, December 31, 2016	34,005,575	13,116,253	20,889,322
Add (Deduct) Adjustments:			
Reclassification to intangible assets (Note 16)	(6,129,260)	(1,123,698)	(5,005,562)
Reclassification to inventories of P15,000 or less and recorded as expense during the year	(2,135,837)	(399,213)	(1,736,624)
Information technology, equipment and software, December 31, 2016, as restated	**25,740,478**	**11,593,342**	**14,147,136**

	Cost	Accumulated Depreciation	Carrying Value
Furniture and fixtures, office equipment and other PE, December 31, 2016	19,335,517	11,451,343	7,884,174
Add (Deduct) Adjustments:			
Reclassification to inventories of P15,000 or less and recorded as expense during the year	(8,963,220)	(5,705,246)	(3,257,974)
Furniture and fixtures, officer equipment and other PE, December 31, 2016, as restated	**10,372,297**	**5,746,097**	**4,626,200**

	Cost	Accumulated Depreciation	Carrying Value
Leasehold and leasehold improvement, December 31, 2016	10,075,405	4,923,932	5,151,473
Add (Deduct) Adjustments:			
Removal of the net balance of the asset as of 2008 due to relocation of the office	(543,804)	(55,717)	(488,087)
Leasehold and leasehold improvement, December 31, 2016, as restated	**9,531,601**	**4,868,215**	**4,663,386**

16. INTANGIBLE ASSETS

This account represents the cost of developing the PCIC Automated Business System (PABS) which is being amortized for 10 years.

	2017	2016 Restated	1 January 2016 Restated
Cost	6,129,260	6,129,260	6,129,260
Less: Accumulated amortization			
Beginning balance	(1,736,624)	(1,123,698)	-
Amortization expense during the year	(612,926)	(612,926)	-
Accumulated amortization, ending balance	2,349,550	1,736,624	-
	3,779,710	**4,392,636**	**6,129,260**

17. FINANCIAL LIABILITIES – CURRENT

This account consists of the following:

	2017	2016 Restated	1 January 2016 Restated
Accounts payable	761,211,199	604,769,149	797,004,812
Due to officers and employees	254,445	230,851	227,785
	761,465,644	**605,000,000**	**797,232,597**

In accordance with PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*, Financial liabilities - current for CY 2016 is restated and reclassified as follows:

	2016	1 January 2016
Accounts payable	444,421,223	683,796,323
Add (Deduct) Adjustments:		
Insurance benefits	70,862,699	-
Prior year adjustments	70,862,699	-
Add (Deduct) Reclassifications:		
Claims payable – SRTF	187,536,617	187,536,617
Dividends payable	(22,558,532)	(36,556,247)
Accrued expenses	(11,564,906)	(10,893,695)
Return premiums payable	(5,343,500)	(5,296,273)
Creditors	(3,224,706)	(667,358)
Provident fund	(262,833)	(2,138,350)
Others	(55,096,913)	(18,776,205)
Reclassification of accounts	89,485,227	113,208,489
Accounts payable, as restated	**604,769,149**	**797,004,812**

17.1 The Accounts payable account consists of the following:

	2017	2016 Restated	1 January 2016 Restated
Claims payable - SRTF	187,536,617	187,536,617	187,536,617
Crops	535,779,279	383,796,560	559,142,341
High Value Commercial Crop (HVCC)	14,375,954	16,413,008	47,223,504
Livestock	11,132,113	4,790,544	1,628,440
Fisheries	5,414,953	1,075,752	-
Term insurance	5,309,281	4,907,757	1,124,910
Non-crop	775,002	6,028,911	99,000
Death benefit	888,000	220,000	250,000
	761,211,199	**604,769,149**	**797,004,812**

Claims payable – SRTF represents the remaining unpaid portion of claims for special guarantee payment (SGP) [2nd and 3rd installments] of the banks.

18. INTER-AGENCY PAYABLES – CURRENT

This account consists of the following:

	2017	2016 Restated	1 January 2016 Restated
Due to Bureau of Internal Revenue (BIR)	3,360,675	4,351,124	3,051,584
Due to Local Government (fire and other taxes)	2,908,001	148,852	107,558
Due to Government Service Insurance System (GSIS)	1,688,033	1,394,810	1,390,097
Due to Local Government Units (LGUs)	277,935	233,989	210,008
Due to Home Mutual Development Fund (HDMF)	217,047	141,815	120,745
Due to other funds	67,972	209,285	-
Due to Philippine Health Insurance Corporation (PHIC)	56,580	124,828	112,553
	8,576,243	**6,604,703**	**4,992,545**

In accordance with PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*, Inter-agency payables, current for January 1, 2016 and December 31, 2016 are reclassified as follows:

	2016	1 January 2016
Inter-agency payables	6,161,429	4,782,537
Add (Deduct) Reclassification:		
Due to Local Government Units (LGUs)	233,989	210,008
Due to other funds	209,285	-
Inter-agency payables, as restated	**6,604,703**	**4,992,545**

19. TRUST LIABILITIES – CURRENT

This account represents guaranty deposits received from various suppliers/bidders corresponding to their bidders bond and performance bonds.

20. PROVISIONS

This account represents Leave benefits payable. Pursuant to PAS 19, *Employee Benefits*, the Corporation recognizes wages and other contribution as short-term employee benefit and termination benefit as post-employment benefit.

21. OTHER PAYABLES - CURRENT

This account consists of the following:

	2017	2016 Restated	1 January 2016 Restated
Dividends payable	170,768,800	22,558,532	36,556,247
Accrued expenses	28,353,369	10,786,489	10,893,695
Creditors	15,110,324	3,224,706	667,358
Return premium payable	6,148,255	5,343,500	5,296,273
Provident fund	161,138	262,833	2,138,350
Others	21,245,208	58,676,002	18,366,852
	241,787,094	**100,852,062**	**73,918,775**

In accordance with PAS 8, Accounting Policies, Changes in Accounting Estimates and Errors, Other payables-current for January 1, 2016 and December 31, 2016 are reclassified as follows:

	2016	1 January 2016
Other payables – current	830,691	803,644
Add (Deduct) Prior year adjustments:		
Overstatement of auditing services and accrual of other expenses	(778,418)	-
Accrual of commission and service fees	3,988,533	-
Prior year adjustments	3,210,115	-
Add (Deduct) Reclassification of accounts:		
Trust liability (ACPC) to Inter-agency payables	(478,791)	(478,791)
From Accounts payable-non-business to Other payables-current:		
Dividends payable	22,558,532	36,556,247

	2016	1 January 2016
Accrued expenses	11,564,906	10,893,695
Return premiums payable	5,343,500	5,296,273
Creditors	3,224,706	667,358
Provident fund	262,833	2,138,350
Others	55,096,913	18,776,205
From Other current liabilities to Accounts payable, Trust liabilities and Inter-agency payables:		
Due to officers and employees	(230,851)	(227,785)
Guarantee deposits payable	(365,851)	(365,851)
Due to LGUs	(233,989)	(210,008)
Payable SRTF	69,348	69,438
Reclassification of accounts	96,811,256	73,115,131
Other payables - current, as restated	**100,852,062**	**73,918,775**

22. INTER-AGENCY PAYABLES – NON-CURRENT

This account consists of the following:

	2017	2016 Restated	1 January 2016 Restated
Due to National Government Agencies (NGAs)	16,557,088	14,844,020	17,555,839
COA	12,706,034	11,521,223	-
Agricultural Credit and Policy Council (ACPC)	478,791	478,791	478,791
Comprehensive Agricultural Loan Facility (CALF)	96,351	96,351	96,351
	29,838,264	**26,940,385**	**18,130,981**

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).

In accordance with PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*, Inter-agency payables - non-current for January 1, 2016 and December 31, 2016 are reclassified as follows:

	2016	1 January 2016
Inter-agency payables, non-current	26,365,243	17,555,839
Add (Deduct) Reclassification:		
Agricultural Credit Policy Council (ACPC) from Accounts Payable	478,791	478,791
Comprehensive Agricultural Loan Facility (CALF) from due to other funds	96,351	96,351
Reclassification of accounts	575,142	575,142
Inter-agency payables, non-current, as restated	**26,940,385**	**18,130,981**

23. TRUST LIABILITIES – NON-CURRENT

This consists of the following:

	2017	2016 Restated	1 January 2016 Restated
Trust liabilities – SRTF	116,875,608	116,246,646	115,394,993
Trust liabilities – premiums	49,216,818	40,823,960	31,801,996
Others	7,167,802	6,879,287	7,109,150
	173,260,228	**163,949,893**	**154,306,139**

Trust liabilities – SRTF represents the balance of the fund as discussed under Note 2.4.

In accordance with PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*, Trust liabilities for January 1, 2016 and December 31, 2016 are reclassified as follows:

	2016	1 January 2016
Trust liabilities	551,929	174,689
Add (Deduct) prior year adjustment:		
Agricultural guarantee fund	(175,128)	-
Prior year adjustments	(175,128)	-
Add (Deduct) Reclassification:		
Trust liabilities SRTF	116,246,646	115,394,993
Due to other funds SRTF	(280,450)	(78,338)
Trust liabilities premiums from deferred credits	40,823,960	31,801,995
CALF to inter-agency payable non-current	(96,351)	(96,351)
Trust liability others	6,833,494	7,098,169
Others from deferred credits	45,793	10,982
Reclassification of accounts	163,573,092	154,131,450
Trust liabilities, as restated	**163,949,893**	**154,306,139**

24. DEFERRED CREDITS/UNEARNED PREMIUMS

This consists of the following:

	2017	2016 Restated	1 January 2016 Restated
Deferred credits	1,012,902,660	1,128,532	13,036,240
Reserve for unearned premiums	968,428,063	589,096,447	622,876,731
	1,981,330,723	**590,224,979**	**635,912,971**

In accordance with PAS 8, Accounting Policies, Changes in Accounting Estimates and Errors, Deferred credits/unearned premiums for January 1, 2016 and December 31, 2016 are reclassified as follows:

	2016	1 January 2016
Deferred credits/unearned premiums	49,010,127	51,883,416
Add (Deduct) Prior year adjustment:		

Reserve for unearned premiums	(196,183,352)	-
Prior year adjustments	(196,183,352)	-
Add (Deduct) Reclassification:		
Reserve for unearned premiums	785,279,799	622,876,731
Deferred premium payable	(40,823,960)	(31,801,995)
Deferred credits	(7,011,841)	(7,098,169)
Deferred credits others	(45,794)	(10,982)
Deferred premium income	-	63,970
Reclassification of accounts	737,398,204	584,029,555
Deferred credits/unearned premiums, as restated	**590,224,979**	**635,912,971**

24.1 DEFERRED CREDITS

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

This includes the following:

	2017	2016 Restated	1 January 2016 Restated
Deferred premium income	1,012,749,087	980,732	12,888,440
Deferred credits-gain on valuation of securities	153,573	147,800	147,800
	1,012,902,660	**1,128,532**	**13,036,240**

24.2 RESERVE FOR UNEARNED PREMIUMS

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

	2017	2016 Restated	1 January 2016
Crops	640,626,633	285,739,741	382,936,209
Livestock	120,274,816	170,339,640	129,444,948
HVCC	164,825,800	76,628,874	62,789,977
Term insurance	27,698,630	44,469,493	37,453,915
Non-crop	9,132,087	10,417,032	8,313,298
Fisheries	5,870,097	1,501,667	1,938,384
	968,428,063	**589,096,447**	**622,876,731**

In accordance with PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*, Reserve for unearned premium - crops for CY 2016 is restated as follows:

	Amount
Reserve for unearned premium - crops, December 31, 2016	481,923,093
Add (Deduct) Adjustments:	
Correction in prior year	(196,183,352)
Reserve for unearned premium - crops, December 31, 2016, as restated	**285,739,741**

25. PROVISIONS

This represents Reserve for indemnity fluctuations wherein portion of the income is reserved in anticipation of future variations in the insurance claims payment.

	2017	2016	1 January 2016
Beginning balance	-	148,549,000	113,161,000
Add : Provision for the year	306,879,000	-	35,388,000
Less: Application for the year	-	(148,549,000)	-
Ending balance	**306,879,000**	**-**	**148,549,000**

26. CONTRIBUTED CAPITAL

Under RA No. 8175, authorized share capital 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, 2017, the Corporation's paid-up Contributed capital stood at P1.251 billion. This consists of 12,509,544 shares of common stock with a par value of P100 per share subscribed and paid by the National Government (NG). The total subscription receivable from the NG as of December 31, 2017 is P249.046 million.

27. STOCKHOLDERS' EQUITY

This consists of the following:

	2017	2016	1 January 2016
Share capital	100,000,000	100,000,000	100,000,000
Share premium	159,451,431	159,451,431	159,451,431
	259,451,431	**259,451,431**	**259,451,431**

27.1 SHARE CAPITAL

The total authorized preferred share is 5 million shares with par value of P100 per share. As of December 31, 2017, the Corporation's paid-up Share capital stood at P100 million subscribed and paid by the LBP.

27.2 SHARE PREMIUM

This 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

	2017	2016
Balance, beginning of year	33,604,212	27,383,108
Add (Deduct):		
Prior period adjustments	-	(16,337,428)
Dividends	(170,768,800)	(22,558,532)
Net income	336,998,006	45,117,064
Balance, end of the year	**199,833,418**	**33,604,212**

In accordance with PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*, Retained earnings as of December 31, 2016 is restated as follows:

	Amount
Retained earnings, December 31, 2016	49,941,640
Add (Deduct) prior period adjustments:	
Maturity of premium reserve	196,183,352
Amortization of bond discounts and adjustment of interest income earned	16,005,371
Adjustment of auditing services	887,907
Cancelled checks	419,289
Disallowances	196,988
Payables CALF	175,128
Trust liabilities	1,935
Overstatement of salaries and wages	1,285
Janitorial services	(2,962)
Miscellaneous expenses	(10,000)
Travelling	(17,197)
Rent expense	(20,000)
Supplies expense	(28,187)
Insurance expense	(31,144)
Amortization of intangible assets 2016	(612,926)
Accrual of leave benefits for 2016	(851,883)
Incentives for 2016 paid in 2017	(3,988,533)
Adjustments/reclassification of property and equipment	(5,482,685)
Accrual of prior year leave benefits	(31,128,229)
Accrual of claims	(70,862,699)
Adjustments of premiums receivable from the National Government (NG)	(117,172,238)
Prior period adjustments	(16,337,428)
Retained earnings, December 31, 2016, as restated	**33,604,212**

29. DIVIDENDS TO THE NATIONAL GOVERNMENT

For the year 2017, PCIC declared dividends to the NG amounting to P170,768,800 representing the 50 per cent of the year's income. In 2014, 2015 and 2016, PCIC declared and remitted dividends to the NG through the Bureau of the Treasury (BTr) in the amount of P100,082,698, P36,556,247 and P22,558,532 respectively.

30. SERVICE AND BUSINESS INCOME

This represents Losses/Claims paid for the period amounting to P1.875 Billion as follows:

	2017	2016
Rice	1,884,909,324	1,636,121,783
Corn	537,020,809	582,400,344
High value crops	498,378,826	198,913,735
Livestock	346,435,832	206,695,066
Term insurance	83,452,952	56,932,920
Non-crop	27,405,182	10,512,387
Fisheries	12,151,719	3,725,369
Gross insurance premiums	3,389,754,644	2,695,301,604
Less: Net assistance/subsidy	(2,500,000,000)	(1,600,000,000)
Insurance premiums, net of subsidy	889,754,644	1,095,301,604
Less: Premium reserve	(434,643,877)	(154,313,356)
Premium discounts	(872,355)	(749,572,716)
Returns and cancellations	(226,966)	(38,978)
	454,011,446	**191,376,554**

30.1 INSURANCE PREMIUMS, NET OF SUBSIDY

An insurance premium is the amount of money that the farmers and fisherfolk must pay for an insurance policy. The insurance premium is income for PCIC, once it is earned, and also represents a liability since the PCIC must provide coverage for claims being made against the policy. Breakdown of the sources of insurance premiums, net of subsidy are as follows:

	2017	2016
Agri-Agra funds from BSP	548,739,497	-
Farmers, fisherfolk and lending institutions	327,311,519	304,009,280
PCIC funds and other sources	13,703,628	791,292,324
	889,754,644	**1,095,301,604**

Pursuant to Section 5 of RA 8175 on rate of premiums and its sharing, the rate of premium, as well as the allocated sharing thereof by the farmers, the lending institutions, the Government of the Republic of the Philippines (herein called the Government) and other parties, shall be determined by the Board of Directors of the Corporation, subject to approval by the President of the Philippines and provided that the share of the Government in the premium cost, in the form of premium subsidy, shall be limited to the subsistence farmers.

30.2 NET ASSISTANCE/SUBSIDY

This account represents the share of the National Government (NG) in the premiums in the form of Government Premium Subsidy (GPS). 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 2017, the approved GPS amounted to P2.500 billion representing 100 per cent cost of insurance premium of farmers and fisherfolk listed under the Registry System for Basic Sectors in Agriculture (RSBSA) for all the insurance program of PCIC.

Aside from the P2.500 billion approved GPS for farmers and fisherfolk listed under the RSBSA, PCIC also underwrites P562.443 million worth of premium production.

Below is the breakdown of Insurance premiums – Government share:

	2017
Premiums from GPS for RSBSA listed farmers and fisherfolk	2,500,000,000
Premiums given to farmers and fisherfolk in excess of the approved GPS sourced from Agri-Agra funds from BSP, PCIC funds and other sources	562,443,125
	3,062,443,125

30.3 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. Details of Premium reserve are as follows:

	2017	2016
High value crops	131,330,016	16,959,265
Rice	130,076,743	90,193,456
Livestock	94,567,545	40,421,179
Corn	48,940,474	(2,124,336)
Term insurance	18,302,882	7,099,918
Non-crop	7,829,647	2,198,089
Fisheries	3,596,570	(434,215)
	434,643,877	**154,313,356**

30.4 PREMIUM DISCOUNTS

This represents amount of premium discounts granted to assured farmers in accordance with PCIC policy. In the year 2016, the PCIC shouldered the cost of insurance premiums, in the form of premium discounts, representing Government share that should have been paid by the NG.

30.5 RETURNS AND CANCELLATIONS

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

31. OTHER NON-OPERATING INCOME

This consists of the following:

	2017	2016
Interest income on bonds	39,298,990	34,811,430
Interest income on deposits with local banks	11,163,842	3,366,523
Fees and commission income	185,808	286,139
Other service income – fines and penalties	3,299	585
Other miscellaneous income	2,871,267	770,924
Proceeds from insurance/indemnities	-	6,546,888
	53,523,206	**45,782,489**

32. DIRECT COSTS

This consists of the following:

	2017	2016
Insurance benefits	1,879,251,872	1,561,283,965
Reserve for indemnity fluctuations (Note 25)	306,879,000	(148,549,000)
Commission expense	56,986,054	37,009,372
Death benefits	4,483,000	3,265,000
Service fee	2,730,852	-
Honoraria and incentives	1,691,728	1,297,703
Reinsurance premiums ceded treaty/facultative	1,021,549	1,041,383
	2,253,044,055	**1,455,348,423**

32.1 INSURANCE BENEFITS

This represents losses/claims paid and accrued for the period, details as follows:

	2017	2016 Restated
Regular lines	1,752,932,122	1,434,132,636
High value crops	68,725,561	79,107,752
Term insurance	27,134,070	17,010,864
Livestock	23,999,856	24,467,921
Fisheries	6,050,469	416,500
Non-crop	409,794	6,148,292
	1,879,251,872	**1,561,283,965**

The total accrued claims in CY 2017 amounted to P53.843 million and none in CY 2016.

In accordance with PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*, Insurance benefits account for CY 2016 is restated as follows:

	Amount

Insurance benefits, December 31, 2016	1,554,737,077
Add (Deduct) Reclassification:	
Reinsurance recoveries treated as other non-operating income (Note 31) and not a reduction to claims paid	6,546,888
Insurance benefits, December 31, 2016, as restated	**1,561,283,965**

32.2 COMMISSION EXPENSE

This represents commission, service fees, and incentives given to underwriters and/or solicitors.

32.3 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.

32.4 REINSURANCE PREMIUMS CEDED TREATY/FACULTATIVE

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

33. PERSONNEL SERVICES

This account consists of the following:

	2017	2016 Restated
Salaries and wages	94,644,054	80,682,344
Other compensation	35,584,680	33,692,438
Other personnel benefits	25,410,175	9,330,241
Personnel benefits contribution	19,841,819	18,143,938
	175,480,728	**141,848,961**

34. MAINTENANCE AND OTHER OPERATING EXPENSES (MOOE)

This account consists of the following:

	2017	2016 Restated
Professional services	103,827,003	77,622,852
Traveling expenses	29,365,468	21,532,336
Training and scholarship expenses	12,751,183	11,503,005
Supplies and material expenses	8,466,933	4,059,757
Utility expenses	7,912,244	6,251,465
General services	7,836,471	7,069,767
Communication expenses	6,734,808	4,625,782
Repairs and maintenance	4,839,336	3,209,768
Confidential, intelligence and extraordinary expenses	1,968,461	1,983,678
Taxes, insurance premiums and other fees	1,295,007	865,131
Other MOOE	45,577,331	47,276,918
	230,574,245	**186,000,459**

35. FINANCIAL EXPENSES

This account consists of the following:

	2017	2016
Bank charges	288,830	160,805
Other financial charges	137,715	61,493
	426,545	**222,298**

36. NON-CASH EXPENSES

This account consists of the following:

	2017	2016
Depreciation expense (Note 15)	10,149,482	8,680,161
Amortization expense (Note 16)	612,926	-
Losses on sale of assets	248,665	(58,323)
	11,011,073	**8,621,838**

37. PHILIPPINE CLIMATE CHANGE ADAPTATION PROJECT (PHILCCAP)

On June 29, 2012, PCIC received funds amounting to P4.191 million to be used for the implementation of the (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. Additional funds were received on September 10, 2016 and December 2, 2016 amounting to P7.000 million and P2.860 million, respectively.

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 Department of Agriculture (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, 2017, the total expenses incurred in the implementation of the program amounted to P14.743 million broken down as follows:

	2017
Training expenses	4,071,640
Agricultural expenses	2,846,026
Other agricultural supplies	1,626,041
Other MOOE	1,336,902
Travelling expense	1,149,495
Representation	1,060,611
Professional and technical expenses	1,058,052
Depreciation expense	765,130
Materials and office supplies	650,589
Communication and postage	101,305
Fuel and lubricants	37,910
Delivery expense	7,825
Internet expense	7,613
Repairs and maintenance	4,729
Bank charges	910
	14,724,778

The program was terminated on December 31, 2016. All the remaining funds were properly returned back to DA as follows:

Official Receipt No.	Date	Amount
1615756	April 11, 2017	107,202
1615757	April 11, 2017	235
		107,437

38. RELATED PARTY TRANSACTIONS

The key management personnel consist of the Board of Directors (BODs), President, Senior Vice President and two Vice Presidents.

38.2 Related Party Transaction

The Corporation does not have dealings with related parties involving transfer of resources and obligations.

38.2 Remuneration of Key Management Personnel

Below are the key management personnel compensation for the year ended December 31, 2017 and 2016. The BODs are not entitled to post-employment benefits.

	2017	2016
Post-employment benefits	482,423	378,589
Short-term employee benefits	9,421,913	8,747,531
	9,904,336	**9,126,120**

39. 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 company engaged in the business of crop insurance. The company is exempted from all kinds of taxes in accordance with Section 16 of PD No. 1467, the law creating the PCIC.

Other taxes and licenses:

	2017	2016
Taxes paid	329,827	40,675
Licenses and registrations	137,582	106,112
	467,409	**146,787**

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

	2017	2016
Tax on compensation and benefits	18,446,842	15,817,089
Creditable withholding taxes	6,180,799	7,745,624
Final withholding taxes	7,108,691	4,125,310
	31,736,332	**27,688,023**

40. COMPLIANCE WITH GOVERNMENT SERVICE INSURANCE SYSTEM (GSIS), PAG-IBIG AND PHILHEALTH LAW

In compliance with the requirements of RA 8291, below are the remittances made by PCIC to GSIS for the year 2017.

	Amount
Life and retirement premium, employer share	11,225,452
Life and retirement premium, employee share	8,783,394
Employee compensation premium	248,863
	20,257,709

Also, below are the PCIC remittances to Pag-ibig or Home Development Mutual Fund (HMDF) and Philippine Health Insurance Corporation (Philhealth), in compliance with RA Nos. 7742 and 7875.

	Amount
HDMF contributions	
Employer share	320,180
Employee share	926,924
	1,247,104

	Amount
Philhealth contributions	
Employer share	990,150
Employee share	990,150
	1,980,300

PART II – OBSERVATIONS AND RECOMMENDATIONS

A. FINANCIAL

1. The absence of modules for special journals, subsidiary ledgers (SLs) and schedules for receivables and payables and program to generate periodic totals of the books of accounts in the PCIC Financial Management System (PFMS) resulted in inadequate information to ascertain the existence and completeness of the receivables and liabilities with balances of P130.411 million and P888.869 million, respectively.

1.1 Sections 111 (1) and 112 of Presidential Decree (PD) No. 1445 provide that:

> *The accounts of an agency shall be kept in such detail as is necessary to meet the needs of the agency and at the same time be adequate to furnish the information needed by fiscal or control agencies of the government. [Section 111(1)]*
>
> *Each government agency shall record its financial transactions and operations conformably with generally accepted accounting principles and in accordance with pertinent laws and regulations. [Section 112]*

1.2 Ideally, a computerized accounting system is the integration of different component systems to produce computerized books of accounts and computer-generated accounting records and documents. The computerized books of accounts refer to General Ledger (GL), General Journal (GJ), Cash Receipts Book (CRB), Cash Disbursements Book (CDB), etc., which are systems generated. Likewise, the computer generated accounting records refer to Accounts Payable Book, Receivable Book and other underlying subsidiary accounting records being generated under a computerized system. Moreover, accounting form such as disbursement vouchers (DVs), official receipts (ORs), journal entry vouchers (JEVs) and other accounting forms can also be generated from the system.

1.3 PCIC had been adopting the Accounting Package (ACCPAC) system since 1980. However, on February 29, 2016, PCIC hired a Consultant for a contract duration of five months starting from March 1, 2016 to July 31, 2016 to develop the PFMS, an in-house developed computerized accounting system, patterned from ACCPAC. The contract of the Consultant was subsequently renewed from August 1, 2016 to December 31, 2016 and again from January 1, 2017 to May 31, 2017. Effective June 1, 2017, the Consultant was hired as Information Technology Officer (ITO) I in PCIC.

1.4 The PFMS was made operational in August 2017 in view of the bug down of the ACCPAC system and now in the process of development.

1.5 The system was able to generate computerized books of accounts composed of the GL, GJ, CRB and CDB; and a Trial Balance (TB).

1.6 Review of the books of accounts as well as TB generated from the system revealed several deficiencies as discussed in the succeeding paragraphs.

SLs to support the details of the GL accounts could not be generated from the system

1.7 The GL is the core financial records of the Corporation. It constitutes the central books of the accounting system, where every transaction flows directly to the GL, either through an entry from the GJ or through a summary of entries from the special journals [Cash Receipts Journal (CRJ), Cash Disbursements Journal (CDJ) and Check Disbursements Journal (CkDJ)], regardless of whether the system is manual or automated.

1.8 The GL/TB has 623 accounts with sub accounts, however audit disclosed that there is no module to generate SLs to support these accounts. The SL contains the details to support a GL control account. As such, it should have the necessary information/data to support the transactions such as name, office address and contact number/e-mail address of the debtor/creditor (individuals, companies and agencies) and the nature and amount of transactions.

1.9 While the existence and completeness of Cash and Cash Equivalents, Other Current Assets, Investments including other accounts' balances were established, the Audit Team were not able to establish existence and completeness of receivables and liabilities with balances of P130.411 million and P888.869 million, respectively, due to absence of subsidiary records as well as schedules to support the accounts, presented in Table 1.

Table 1- Receivables and Liability Accounts Without SLs and Schedules

Account Title	Balance
Receivables – Current, Contributions and Premiums Receivable:	
Farmers	P 13,168,777
Lending institutions	2,232,537
	15,401,314
Receivables – Non-Current, Other receivables:	
Guarantee receivables	51,857,868
Special time deposit (STD) claims paid	43,402,371
Receivables-disallowances and charges	12,237,879
Adjudicated claims	3,724,229
Claims on banks-unremitted recoveries	2,286,634
Banks	1,094,562
STD Advances on claims	178,528
Due from officers and employees	141,858
Claims paid 3rd International banks for rural development project	85,511
	115,009,440
	130,410,754
Financial Liabilities - Current	
Accounts payable	761,211,199
Due to officers and employees	254,445
	761,465,644
Other Payables - Current	
Accrued expenses	28,353,369
Creditors	15,110,324
Return premium payable	6,148,255
Provident fund	161,138
Others	21,245,208
	71,018,294

Account Title	Balance
Trust Liabilities – Non-Current	
Trust liabilities – premiums	49,216,818
Others	7,167,802
	56,384,620
	P 888,868,558

1.10 In the absence of SLs, reconciliation of the GL balances with the corresponding SL balances to check the completeness of the recorded receivables and payables could not be performed.

GL, CRB, CDB and GJ have no program to generate month/year to date totals

1.11 Moreover, review of the PFMS showed that periodic totals of the books of accounts could not be generated from the system. The periodic totals are necessary for control purposes and to check equality of debit and credit totals as well as to ensure that debit and credit totals of the accounts in the CRB, CDB and GJ tally with the total debit and credit of the GL; thus, providing proof of completeness of recorded transactions.

1.12 Further review of the consultancy services contract showed that the specific deliverables to be generated from the system such as books of accounts, financial reports and other reports as well as timeframe within which to submit the same were not provided.

1.13 The Manager of the Finance Department (FD) informed that he has provided the Consultant with the format of accounting reports and records that should be generated from the system and also collaborated with the latter on the problems encountered in the system. He also added that PCIC is expanding its insurance lines, hence there is a need to constantly update and enhance PFMS.

1.14 On this regard, the Audit Team would like to point out that providing accounting formats and records to be generated from the system to the Consultant is not sufficient. Being the end-user of the system, there is a need for the Manager as well as accounting personnel to review the PFMS outputs to ensure that all required registries, reports and records are complete and contain necessary information for accurate financial recording and reporting. Moreover, actions on errors reported to the ITO I and updates/enhancement on the system should be reviewed and monitored by the FD to check if these are compliant with their requirements and with existing rules and regulations.

1.15 These issues were also discussed with the ITO I and he assured that the observations noted will be addressed as enhancement of the system is on-going.

1.16 In view of the aforementioned observations, the reliability and existence of the receivables and liabilities with balances of P130.411 million and P888.869 million, respectively, could not be ascertained.

1.17 **We recommended and Management agreed to:**

a. Direct the ITO I who spearheaded the development of PFMS to:

a.1 Enhance the capability of the system to be able to generate SLs and schedules compliant with Sections 111 (1) and 112 of PD No. 1445; and

a.2 Provide program in the system that can generate periodic totals of the registries and special journals to facilitate the reconciliation with the GL and ensure the completeness and correctness of the recorded transactions.

b. Instruct the OIC-Accounting Division and Regional Accountants to:

b.1 Continuously coordinate with the ITO I to ensure that desired deliverables are generated. Moreover, instruct the Accounting personnel to validate transactions posted in the CRB, CDB and GJ to the GL to ensure correctness and completeness of recorded transactions; and

b.2 Communicate in writing with the Manager, Project Management and Information Office (PMIO), the deficiencies noted in the outputs generated from the PFMS and monitor the actions taken thereon to ensure that these deficiencies were properly addressed.

2. The Consolidated Claims Registers (CCR) generated from the PCIC Automated Business System (PABS) have several deficiencies such as: (a) unreconciled variance of P49.992 million between the Trial Balance (TB) and CCR for Insurance benefits; (b) incorrect reporting of hospitalization, accident, burial assistance and death benefit of beneficiaries under Credit and Life Term Insurance (CLTI) and Rice and Corn Insurance as well as error in encoding livestock and HVC insurance in the CCR that resulted in a variance of P5.156 million and P46,596, respectively, between the insurance cover and indemnity; (c) no information as to date of payment and check number for 20,924 claims totaling P188.961 million; (d) similar information in the CCR for 11,521 claims totaling P223.457 million, except for amounts paid and check numbers, which cast doubts on the validity and reliability of claims paid in the Regional Offices (ROs), among others. Moreover, a variance of P43.488 million exists between the Statement of Comprehensive Income (SCI) and the Consolidated Premium Registers (CPR) for Insurance Premiums and Government Premium Subsidy (GPS). Hence, the balances of Insurance Benefits and Gross Insurance Premiums accounts amounting to P1,879.252 million and P3,389.755 million cannot be relied upon.

2.1 The Information System Strategic Plan (ISSP) for CYs 2015-2017 endorsed by the Information and Communications Technology Office (ICTO) of the Department of Science and Technology (DOST) provided information about the automated business systems adopted by PCIC. Currently, PCIC adopted three systems under the PABS, consisting of Underwriting and Marketing System (UMS), Claims Processing and Settlement System (CPSS) and Information Management System (IMS).

2.2 These systems are implemented for insurance lines comprising rice and corn, high value crop (HVC), livestock, non-crop insurance (NCI), CLTI and fisheries insurance. A Virtual Private Network (VPN) is used to provide connectivity between the

PCIC ROs and HO. The VPN enables PCIC to process transactions between the ROs and HO online-real time through the internet for selected transactions. All transactions processed in the ROs are transmitted to the HO through the VPN in a batch mode. Pseudo-Servers and Workstations are deployed in the ROs to enable processing of all transactions for the three operating systems under the PABS. A server is installed at the PCIC HO to consolidate all transactions of the 13 ROs. This is referred to as Phase 1 of the planned computerization of PCIC that is currently implemented.

2.3 Review of the electronic copy of the CPR and CCR of ROs, SCI and TB for CY 2017 disclosed the following observations:

Unreconciled variance of P43.488 million between the SCI vis-à-vis CPR for Insurance Premiums and Government Premium Subsidy (GPS) and between TB and CCR of P49.992 million for Insurance Benefits

2.4 The Premiums Register (PR) is a registry for all insurance premium. On the other hand, the Claims Register (CR) is a registry for all claims of beneficiaries per insurance line. It contains the following information: RO No., insurance line, policy no., farmer name or name of insured, barangay, municipality, province, date of loss, cause of loss, amount of cover, amount paid, date paid and check no.

2.5 Audit of CY 2017 account balance of Insurance Premiums and GPS reported in the SCI for P3,389.755 million vis-à-vis CPR of P3,346.266 million showed a total variance of P43.488 million, details shown in Table 2.

Table 2 - Variances Between Balances per SCI and PR of Insurance Premiums and GPS

Particulars	Balance
Per SCI	
GPS	P 2,500,000,000
Insurance premiums	889,754,644
	3,389,754,644
Per CPR	
Rice	1,884,632,783
Corn	536,281,730
HVC	502,567,419
Livestock	350,769,503
CLTI	32,714,099
Non-Crop	28,012,106
Fisheries	11,288,432
	3,346,266,072
Variance	**P 43,488,572**

2.6 Likewise, comparison of the balance of Insurance Benefits in the TB vis-a-vis CCR of RO generated from PABS, showed an unreconciled variance of P49.992 million between the two records, details shown in Table 3.

Table 3 - Variance between Balances in the TB vis-à-vis CCR of Insurance Benefits

Insurance Line	TB	CCR	Difference (Absolute Figures)
Rice	P1,435,235,803	P1,411,899,406	P 23,336,397
Corn	317,696,319	338,959,461	21,263,142
Livestock	23,999,856	21,489,793	2,510,063
Fisheries	5,693,339	3,716,534	1,976,805
CLTI	27,134,070	26,504,667	629,403
HVC	68,725,561	68,602,483	123,078
Non-Crop Insurance	766,924	614,036	152,888
			P 49,991,776

2.7 The variance of P43.488 million is due mainly to the absence of review and coordination between the Accounting Division and the Marketing and Sales Division (MSD) at the ROs level which is also true between the Accounting Division and Claims Adjustment Division (CAD) for the variance of P49.992 million. As such, the reliability of the balances of the Insurance Premiums and GPS of P3.390 billion could not be ascertained. Likewise, the unreconciled variance between the balance per TB and CCR of P49.992 million for Insurance Benefit affected the accuracy and reliability of the Insurance Benefits account amounting to P1.879 billion.

Incorrect reporting of hospitalization, accident, burial assistance and death benefit of beneficiaries under CLTI and Rice and Corn Insurance as well as error in encoding livestock and HVC insurance in the CCR resulted in a variance of P5.156 million and P46,596, respectively, or a total of P5.202 million between the insurance cover and indemnity

2.8 Perusal of the CCR disclosed that PCIC paid 725 indemnity claims more than the amount of insurance cover under various insurance lines, as shown in Table 4.

Table 4 – Comparison Between Indemnity Paid and Insurance Cover

Insurance Line	No. of Claims	Insurance Cover	Insurance Indemnity	Variance
Rice and Corn	344	P -	P 3,440,000	P 3,440,000
CLTI	369	16,555,000	18,270,505	1,715,505
	713	16,555,000	21,710,505	5,155,505
Livestock	10	83,500	112,580	29,080
HVC	2	7,300	24,816	17,516
	12	90,800	137,396	46,596
	725	**P 16,645,800**	**P 21,847,901**	**P 5,202,101**

2.9 The death benefit which was given free to insured beneficiaries of P10,000 each paid to 344 deceased farmers equivalent to P3.440 million was reported under rice and corn insurance lines.

2.10 Likewise, the variance under CLTI represents additional benefit such as hospitalization benefit of 10 per cent of the sum insured and accident and burial assistance benefit of P5,000 and P2,000 under the Agricultural Protection Plan and Accident and Dismemberment Scheme Program of PCIC.

2.11 On the other hand, the variance of P46,596 (Table 4) for livestock and HVC were due to error in encoding committed by job order personnel. Although the variance for livestock and HVC is not significant, such errors could have been avoided if proper review of the data encoded was made prior to on-line approval by the Head of CAD and concerned Regional Managers.

2.12 The Death Benefit is a separate account in the TB, hence it should also be shown separately in the CCR for control purposes, accuracy of financial recording and reporting and to facilitate reconciliation of the account with the GL. Henceforth, the hospitalization, accident and burial assistance should also be shown separately in the CCR and TB for the same reason.

Payments of 20,924 claims in the total amount of P188.961 million with no date of payment and check number while the word “NULL” was indicated in the date of payment and check number for 6,579 claims totaling P212.167 million, thus casting doubt on the validity and reliability of claims paid in ROs

2.13 Further review of the CCR showed that 20,924 claims in the total amount of P188.961 million were paid without indicating the date of payment and check number in the register, presented in Table 5.

Table 5 - Claims Paid Without Date of Payment and Check Number

Insurance Line	No. of Claims	Amount Paid
Rice	16,523	P 140,945,518
Corn	2,575	17,416,499
HVC	957	16,981,307
CLTI	220	7,876,461
Livestock	515	4,888,960
Fisheries	122	624,195
Non-crop	12	227,910
	20,924	**P 188,960,850**

2.14 The date of payment and the check number of transactions are relevant information in the CCR as proof that claims included in the register are claims of insured farmers and fisherfolk which are verifiable in the Check Disbursements Journal (CDJ). The non-inclusion in the CCR of these two information casts doubt on the validity and reliability of claims processed and paid in all ROs.

2.15 We noted further in the CCR that the word “NULL” was indicated in the dates of payment and check numbers of 6,579 claims totaling P212.167 million.

2.16 The ITO I informed that the date paid and the check number are indicated in PFMS, however there are claims paid without date of payment and check number as well as indication of the word “NULL” in the CCR for reason that PABS and PFMS are not yet fully integrated in some ROs or there is no complete interface yet between the two systems.

Similar information in the CCR for 11,521 claims paid in the total amount of P223.456 million except for amounts paid and check numbers

2.17 The Audit Team conducted thorough review and detailed sorting of the CCR to verify whether there are embedded security controls or features in the system which can detect presence of duplicate data or information encoded in PABS to avoid processing and payment thereof.

2.18 Results disclosed that 11,521 claims totaling P223.456 million have similar information as to insurance policy number, name of insured, address, date of loss and cause of loss, except for amount paid and check number, with details shown in Table 6.

Table 6 - Claims Paid with Similar Information in CCR except for Check Number and Amount Paid

Insurance Line	No. of Claims	RO Nos.	Amount
Livestock	145	II, III, IV, VII, VIII, X	P 164,063,684
Rice	10,428	All ROs	52,991,086
Corn	804	I to VII, IX to XII	4,269,097
HVC	134	I, III-A, IV to VI, X to XII	1,878,658
CLTI	10	III, IV, IX, XI, XII	254,000
	11,521		**P 223,456,525**

Date of payment was ahead of the date of loss on 102 claims totaling P0.682 million

2.19 In the CCR, there were also 102 claims with dates of payment ahead of the date of loss, as shown in Table 7.

Table 7 - Claims with Date of Payment Ahead of the Date of Loss

Insurance Line	No. of Claims	RO Nos.	Amount
Rice	72	All ROs except VII and X	P 460,091
HVC	17	I,IV, V, VIII, XI	111,077
Corn	6	IV, V, IX, X, XI	64,154
Livestock	6	IV, VII	45,000
Credit and Life Term Insurance	1	II	2,000
	102		**P 682,322**

2.20 Apparently, the PABS also lacked security features where it should *“pop up or prompt”* transactions that have dates of payments ahead of the dates of loss.

2.21 The CCR and other reports generated by PABS are very relevant in the operations of PCIC, as such, embedded security controls or features should be in place to mitigate risks of processing and paying invalid claims to eliminate errors in the CCR, to come up with reliable, accurate and valid reports. The deficiencies noted by the Audit Team are major issues which should be considered by the users of PABS. These matters should have been laid down to the programmer/s before the system was developed.

2.22 The deficiencies noted cast doubts on the validity and reliability of CCR generated from the PABS which in effect affects the reliability of Insurance Benefits account totaling P1.879 billion and other affected accounts in the financial statements.

2.23 The ITO I informed that they are currently in the process of enhancing the PABS. He also informed that CCR for rice and corn insurance lines could only be generated from the PABS, while CCRs for the other insurance lines are being extracted from the daily back up of data base in ROs, in which his colleagues may have erred in generating the CCR for other insurance lines. He assured that he will immediately check and verify the CCR to address the deficiencies noted by the Audit Team which would help in the enhancement of PABS to strengthen internal control over transactions encoded and processed by the system.

2.24 **We recommended and Management agreed to:**

a. Direct the Manager, PMIO and Finance Manager to instruct the ITO I to consider enhancement of the system and the OIC-Accounting Division to review the enhancement which includes (i) providing a separate column for hospitalization, accident, burial assistance and death benefit of insured beneficiaries under CLTI and Rice and Corn Insurance as well as other insurance lines in the CCR to facilitate control and for proper recording and reporting of insurance benefits; and (ii) work out for the immediate completion of interface between the PABS and PFMS in the RO level to address the lacking information on check number and date of payment;

b. Instruct the Accounting personnel to reconcile the variances between the SCI and CPR for Insurance Premiums and GPS, TB and CCR for Insurance Benefits and check payments with similar information in the CCR to ensure validity of claims paid. Moreover, direct the MSD, CAD and Accounting Division of ROs to coordinate on a monthly basis in order to reconcile balances of Insurance Premiums, GPS and Insurance Benefits with the balances in the CPR and CCR generated from PABS;

c. Request the PMIO to generate a copy of the CPR and CCR on a monthly basis for validation by the Accounting Division to detect errors, if any, and submit report thereon so that this would be addressed promptly by the PMIO;

d. Require the CAD and Regional Managers (RMs) to review the data for encoding by job order personnel including supporting documents prior to on-line approval to ensure completeness and prevent occurrence of error in encoding; and

e. Require the ITO - I to provide security features embedded in the system that will detect the errors noted.

3. The Other Receivables account totaling P154.793 million which remained dormant for 11 to 37 years and collectability of which is already remote was not provided with adequate allowance for impairment as required under Philippine Accounting Standard (PAS) 36, thereby overstating the said account by more or less P36.869 million.

3.1 This is a reiteration with updates of audit observations embodied in the CY 2016 Annual Audit Report (AAR).

3.2 Note 2.3 of the Notes to Financial Statements provides PCIC's policy on Allowance for Doubtful Accounts, to wit:

> *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.*

3.3 Likewise, pertinent provisions of PAS 36 – Impairment of Assets provide as follows:

> *Paragraph 6: Xxx. An impairment loss is the amount by which the carrying amount of an asset or a cash-generating unit exceeds its recoverable amount.*
>
> *The recoverable amount of an asset or a cash-generating unit is the higher of its fair value less costs of disposal and its value in use.*
>
> *Paragraph 8: An asset is impaired when its carrying amount exceeds its recoverable amount.*
>
> *Paragraph 9: An entity shall assess at the end of each reporting period whether there is any indication that an asset may be impaired. If any such indication exists, the entity shall estimate the recoverable amount of the asset.*
>
> *Paragraph 12: In assessing whether there is any indication that an asset may be impaired, an entity shall consider, as a minimum, the following indications:*
>
> *External sources of information*
>
> *(a) There are observable indications that the asset's value has declined during the period significantly more than would be expected as a result of the passage of time or normal use.*

(b) Xxxx

Paragraph 59-60: If, and only if, the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset shall be reduced to its recoverable amount. That reduction is an impairment loss. An impairment loss shall be recognized immediately in profit or loss unless the asset is carried at revalued amount in accordance with another Standard (for example, in accordance with the revaluation model in IAS 16. Xxx.

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

accounts with balances remained inactive nor non-moving in the books of accounts for ten (10) years or more and where settlement/collectability could not be ascertained.

3.5 Audit of Non-Current Assets - Other Receivables account showed that P154.793 million have been dormant for 5 to 37 years, as shown in Table 8.

Table 8 - Aging of Receivables - Non-Current Assets

Account Title	RO Nos.		Aged of Receivables		
			5-10 yrs	**11-20 yrs**	**21 – 37 yrs**
Other receivables					
AGF-SRTF	III-A	P58,256,751	-	-	P 58,256,751
CALF guarantee receivable	I, II, IV, V, VII,VIII, IX	33,413,547	P4,748,428	P17,242,698	11,422,421
STD claims paid	I, II, III-A, V, VII, IX	32,924,050	7,154,907	-	25,769,143
STD-claims	I, IX	2,196,166	-	1,019,924	1,176,242
STD	IV	1,984,461	-	1,984,461	-
Premiums receivable-LI-palay	III	1,554,209	1,554,209	-	-
Adjudicated claims	I, II, IV, VII, IX	1,264,045	713,207	271,810	279,028
Receivable - disallowance charges	III	539,720	539,720	-	-
Pool of Livestock Insurers (PLI)	IV, VIII	367,620	-	367,620	-
Claims on banks unremitted	III, IV, IX	354,377	343,427	1,738	9,212
Due from banks	III, V	301,569	26,820	274,749	-
STD 3rd IBRD project	III	71,606	71,606	-	-
Premiums receivable-farmers-LI corn	III	47,783	47,783	-	-
Premiums receivables-farmers-palay	III	18,479	18,479	-	-
STD advances on claims	III	17,092	17,092	-	-
Premiums receivable-LI corn	I	7,511	-	7,511	-
Premiums receivable-LHVCC	III	7,501	7,501	-	-
Premiums receivable-farmers-corn	III	374	374	-	-
Other receivables	IX, VIII	20,127,351	-	176,471	19,950,880
Other receivables-miscellaneous	I, II, IV, VIII, X	1,338,937	607,058	719,734	12,145
		P154,793,149	**P15,850,611**	**P22,066,716**	**P 116,875,822**

3.6 The Comprehensive Agricultural Loan Fund (CALF) Guarantee Program started way back in the 1980s and 1990s. 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) was tasked to collect from the covered defaulting borrower.

3.7 The Special Time Deposit (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 Land Bank of the Philippines (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.

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

3.9 Moreover, the Non-Current Assets - Other Receivables account aged 11 – 37 years totaling P138.942 million (Table 8) was provided with allowance for impairment amounting to P102.074 million only. Considering however, that it is the Agency's policy to provide allowance of 10 per cent after two years when the account becomes past due, it is assumed that these accounts could have been provided with 100 per cent allowance for impairment.

3.10 Management informed that they have been exerting efforts to verify the details of the Other Receivables account that had been dormant, but to no avail as detailed documents/files were not found. Confirmation letters were also sent to the cooperatives and LIs with outstanding balances for validation purposes but only one settled its account, while the others still have no reply as of to date. Management in the ROs mentioned that a Memorandum will be sent to PCIC HO inquiring on the status of their request for a centralized request for authority to write-off the subject receivable accounts.

3.11 In view of the inadequacy of allowance for impairment provided on Other Receivables account, the said account is overstated by more or less P36.868 million.

3.12 **We recommended and Management agreed to:**

a. Provide additional allowance for impairment to present the balance of Other Receivables account at its net realizable value; and

b. Require the Finance Manager to facilitate the request for authority to write-off the dormant receivable accounts aged more than 10 years totaling P138.942 million, by coordinating with concerned Accountants of ROs, and following the guidelines provided under COA Circular No. 2016-005 dated December 19, 2016, if collection efforts proved futile.

4. The existence and completeness of Property and Equipment (PE) account with net carrying amount of P90.329 million as at December 31, 2017 could not be ascertained due to unreconciled variances of P31.533 million between the GL balance and the Report on the Physical Count of PPE (RPCPPE) and also P28.010 million and P10.114 million between the cost and accumulated depreciation in the books and Lapsing Schedule (LS). Moreover, there is net overstatement of the PE account by P7.013 million and understatement of Intangible Assets, Semi-expendable items and Income from Grants and Donations in Kind by P6.129 million, P1.752 million and P0.869 million, respectively, among others, due to:

(a) inclusion of acquisition, development and other related cost of a Computer Software totaling P6.129 million; (b) non-adjustment to appropriate account of semi-expendable properties below the P15,000 threshold in HO and RO No. XI of P1.752 million; and (c) non-recognition in HO, RO Nos. X and XI of project equipment transferred from the Weather Index-Based Insurance (WIBI) Mindanao-United Nations Development Program (UNDP) funded Project with carrying amount of P0.869 million.

4.1 The PE account has a net carrying value of P90.329 million as at year-end. Audit of the account disclosed the following observations:

Unreconciled variance of P31.533 million between the GL balance and RPCPPE and P28.010 million (PE cost) and P10.114 million (accumulated depreciation) between the balance per books and LS in HO

4.2 A variance of P31.533 million between balances of six PE accounts in the GL compared with their corresponding balances in the RPCPPE at HO was noted as at year-end, as shown in Table 9.

Table 9 - Variances between Property and Equipment Balances per Books and RPCPPE in HO

Account Title	Books	RPCPPE	Variance (Absolute Figure)
Transportation equipment	P 24,568,621	P 7,385,073	P 17,183,548
IT software	6,129,260	-	6,129,260
Leasehold and leasehold improvements	4,589,565	796,523	3,793,042
IT equipment	8,227,256	5,542,877	2,684,379
Office equipment	3,595,273	2,261,692	1,333,581
Furniture and fixtures	723,018	314,172	408,846
			P 31,532,656

4.3 Comparing the variance with last year's audit of P19.794 million, there was an increase of P11.738 million or 59.30 per cent.

4.4 The significant amount of variance is attributed to the non-inclusion in the RPCPPE of the acquisition cost of 16 motor vehicles procured on December 11, 2017 at the HO, consisting of 13 units Honda BR-V and three units Toyota Innova E Gas A/T in the amount of P13.418 million and P3.766 million, respectively, or a total of P17.184 million. Likewise, Computer Software including its development cost, licensing and installation fee, implementation and other incidental cost in the total amount of P6.129 million were erroneously recorded under PE account instead of Intangible Assets as required under Revised Chart of Account (RCA) prescribed under COA Circular No. 2015-010 dated December 1, 2015.

4.5 Another factor is the non-maintenance of PPE Ledger Cards (PPELCs) by the Accounting Division and Property Cards (PCs) by the Property Officer. The PPELCs and PCs serve as control in monitoring the assets as well as to facilitate reconciliation of PPE records of the two offices. In CY 2017, the Property Officer started the preparation of PCs for each PE.

4.6 Moreover, review of the LS attached to JEV No. 2017-12-199 dated December 29, 2017, which was the basis in recording depreciation expense from July - December 2017 disclosed that only those properties with remaining useful life or still subject to depreciation were included in the LS.

4.7 As a result, variances of P28.010 million and P10.114 million exist between the PPE cost and accumulated depreciation of the PE accounts in the books and the amounts in the LS, details shown in Table 10.

Table 10 - Comparison of Property and Equipment Balances In the Books with Lapsing Schedule

	Book Balance		Lapsing Schedule		Difference	
Particulars	Cost	Accumulated Depreciation	Cost	Accumulated Depreciation	Cost	Accumulated Depreciation
Transportation equipment	P 24,568,621	P 5,522,139	P 6,612,000	P 1,439,357	P 17,956,621	P 4,082,782
IT equipment	8,227,256	4,390,529	3,518,388	1,644,950	4,708,868	2,745,579
Office equipment	3,595,272	2,383,720	1,483,231	422,068	2,112,041	1,961,652
Leasehold and leasehold improvements	4,589,565	924,199	2,035,096	261,463	2,554,469	662,736
Furniture and fixtures	723,018	681,423	44,721	19,789	678,297	661,634
	P 41,703,732	**P 13,902,010**	**P 13,693,436**	**P 3,787,627**	**P 28,010,296**	**P 10,114,383**

4.8 It was also noted that the LS has no information as to specific date of acquisition, reference check/DV/JEV numbers, life in years, monthly depreciation and ending balance of accumulated depreciation.

4.9 For complete and reliable information, the LS should include all properties acquired by Management, be it fully depreciated or not and the balance of the cost and accumulated depreciation of each PE account should tally with the balances in the GL and TB.

Computer Software and other related cost in the total amount of P6.129 million were recognized under PE instead of Intangible Assets and monthly amortization for obsolescence was not provided thereof

4.10 The RCA for Government Corporations (GCs) was provided under COA Circular No. 2015-010 dated December 1, 2015. It prescribed a uniform chart of accounts for GCs to align reportorial requirements with those of COA and other oversight bodies including compliance with the standards issued by International Accounting Standard-setting bodies.

4.11 In the RCA, Intangible Assets include Computer Software which is provided with corresponding Accumulated Amortization-Computer Software as contra-account and Development in Progress-Computer Software, defined as follows:

> *Computer software - Normal balance: Debit. This account is used to recognize the purchase cost or capitalized development cost of computer*

software programs for use in government operation. Development costs include cost of coding, testing and cost to produce product masters. Credit this account for obsolescence, transfers or other disposal.

Accumulated amortization - Computer software - Normal balance: credit. This account is credited for the allocation cost of computer software in accordance with the prescribed policy on amortization. Debit this account for obsolescence of the computer software, transfers or other disposal.

Development in progress - Computer software - Normal balance: Debit. This account is used to recognize the cost of coding, testing and other costs incurred during the development of computer software. Credit this account upon completion and transfer to "Computer software" account, and when the asset is impaired.

4.12 Review of transactions recorded under Information Technology (IT) - Software account disclosed that computer software acquired for the PCIC Automated Business System (PABS) together with the software's development and other related costs incurred from CYs 2011 to 2014 totaling P6.129 million were capitalized under PE account.

4.13 Currently, the services rendered by job order (JO) personnel and consultants who are involved in the development of PABS are recognized as Professional Fees and Consultancy Services accounts instead of being capitalized under Computer Software account due to absence of cost allocation of wages on their monthly accomplishment reports, although these expenses are directly attributable and related to the cost of developing the system.

4.14 It was further noted that the carrying amount of the IT- Software account was not provided with amortization for obsolescence even though the PABS was already operational in the HO and ROs.

4.15 For purposes of computing the monthly amortization, Annex A of COA Circular No. 2013-007 dated December 11, 2013, provided five years estimated useful life for IT Equipment - Hardware. Hence, for consistency of application and to harmonize the relationship between IT Equipment - Hardware and Computer Software, the latter should be amortized also for five years and Accumulated Amortization-Computer Software should also be provided, as required under COA Circular No. 2015-010.

Non-adjustment of semi-expendable properties below the P15,000 threshold in the total amount of P1.752 million as required in Section 5.4 of COA Circular No. 2016-006, thus overstating the PE account in HO and RO No. XI

4.16 COA Circular No. 2016-006 dated December 29, 2016 provides, among others, additional accounts and revised code, title and/or description of accounts to facilitate the proper implementation of the new and revised accounting policies. Item 5.4 of the Circular specified that tangible items below the capitalization threshold of P15,000 shall be accounted as semi-expendable property. The following policies shall be applied as follows:

> *5.4.1 Semi-expendable property which were recognized as PPE shall be reclassified to the affected appropriate semi-expendable inventory accounts (if not yet issued to end-user), expense accounts (if issued within the year), or accumulated surplus/(deficit)/retained earnings accounts (if issued in prior years).*
>
> *5.4.2 These tangible items shall be recognized as expenses upon issue to the end-user.*
>
> *5.4.3 Inventory Custodian Slip (ICS) shall be issued to end-user to establish accountability over the semi-expendable property. Accountability shall be extinguished upon return of the item to the Property and Supply Division/Unit or in case of loss, upon approval of the relief from property accountability.*

4.17 In HO, the RPCPPE for CY 2017 disclosed that the report included several semi-expendable tangible items costing P15,000 and below, consisting of office and IT equipment, furniture and fixtures, leasehold/leasehold improvements and other properties totaling P3.564 million. Of this amount, purchases from CYs 2010 to 2017 worth P2.522 million were reclassified to Retained Earnings account, leaving an unadjusted balance of P1.042 million.

4.18 Inquiry from the Accountant disclosed that the reclassification made was based on the LS prepared by the Accounting Division which include items with remaining useful life only or still subject to depreciation and did not include fully depreciated items with residual value of 10 per cent of the acquisition cost. She also admitted that they were not able to coordinate with the Property Officer regarding the adjustments made on the PE account.

4.19 Likewise, in RO No. XI, various tangible items with unit cost below P15,000 totaling P0.710 million were also not adjusted to proper account and remained part of the PE account.

4.20 In effect, the non-adjustment of semi-expendable items below the P15,000 capitalization threshold in HO and RO No. XI amounting to P1.042 million and P0.710 million, respectively, or a total of P1.752 million resulted in the overstatement of PE account by the same amount.

Non-recognition in HO, RO Nos. X and XI of project equipment transferred from the WIBI Mindanao-UNDP funded Project with carrying amount of P0.869 million or equivalent to US$17,296, *thus understating the PE account*

4.21 The National Implementation by Government of UNDP Supported Projects: Guidelines and Procedures provides that the UNDP has the discretion to transfer all assets acquired during the project implementation upon completion of the Project to the Implementing Partner (IP).

4.22 PCIC is the IP of the UNDP funded Project entitled "Scaling Up Risk Transfer Mechanisms for Climate Vulnerable Agriculture-based Communities in Mindanao or the Weather Index-Based Insurance Project. The Project commenced in November 2014 and was completed on December 31, 2017. In the Project's Statement of Assets and Equipment as at December 31, 2016, a total of P0.869 million or equivalent to US$17,296 project equipment were procured during the CYs 2014-2016 for the use of HO, RO Nos. X and XI.

4.23 The authority to transfer the project equipment to PCIC was signed by the Country Deputy Director of UNDP on November 8, 2017 and accepted by the PCIC, Vice President Support Services Group of even date. However, validation disclosed that the project equipment has not been recognized in the books of PCIC as at year-end, thus understating the PE account by P0.869 million.

4.24 Management commented during the UNDP exit conference held last March 13, 2018 that the equipment are still being used by UNDP personnel as part of the completion of the project and will be physically transferred to PCIC within the year.

4.25 In the RCA for GCs, the project equipment will be debited in the books of PCIC under Office Equipment and credited to Income from Grants and Donations.

4.26 Other observations noted in the HO and RO No. XI are as follows:

a. Physical inventory was conducted by the Property Officer alone because an Inventory Committee was not created in CY 2017 at the HO.

The RPCPPE for CY 2017 at HO was signed by the Property Officer, reviewed by the Officer-in-Charge of the Property Management and General Services Division (PMGSD) and noted by the Administrative Manager. This is due to non-creation of an Inventory Committee during the year, contrary to Section V.1 of COA Circular No. 80-124 dated January 18, 1980.

Management claimed that the absence of Inventory Committee was due to lack of manpower; hence, other intervening activities and reports on procurement that need immediate action, had to be prioritized.

b. Inadequacy of accounting and property records in RO No. XI.

As lifted from the ML of RO No. XI, the PPELCs and Property Cards (PCs) which are both prepared by the accounting personnel were not updated and with incomplete information such as date of procurement and other specifications pertaining to prior year's purchases. Moreover, inventory tag numbers were not reflected in the PCs. There were also properties without property tag numbers and properties issued to end-users were not supported with Acknowledgement Receipt of Equipment (ARE) for accountability purposes.

The aforementioned deficiencies were likewise attributed to lack of manpower. Currently, RO No. XI has only 12 permanent employees catering to the increasing number of farmers and other clients served by PCIC. Its manpower is augmented by 53 JO personnel who assist in processing voluminous transactions.

4.27 It is important to create Inventory Committee to conduct annual physical inventory for check and balance. Moreover, keeping updated accounting and property reports are also necessary to ensure that all properties owned by the Corporation are accurately and completely recorded in the books and reconciled with property records. Also, the keeping and maintenance of updated records is meant to safeguard the properties from possible loss and for being utilized for purposes other than the purpose for which these were procured.

4.28 In view of the aforementioned deficiencies, the existence and completeness of the PE account with net carrying amount of P90.329 million as at December 31, 2017 could not be ascertained.

4.29 **We recommended and Management agreed to:**

a. Require the OIC-Accounting Division to:

a.1 Reconcile the variance of P31.533 million between the balance in the books and RPCPPE as well as the variance of P28.010 million (PE cost) and P10.114 million (Accumulated Depreciation) between the book balances and LS, and prepare the necessary adjustments where appropriate;

a.2 Instruct the personnel in-charge of preparing LS to include all properties acquired, be it fully depreciated or not and ensure that the acquisition cost, depreciation expense and accumulated depreciation tally with the amounts in the corresponding GL accounts;

a.3 Reclassify Computer Software under Intangible Assets and provide monthly amortization in accordance with existing regulations. Likewise, provide costing for accomplishments of hired personnel attributable to the development of PABS from the date of contract up to the date of acceptance by PCIC of their respective deliverables, and reclassify the same from Expense to Intangible Asset under Computer Software account. Moreover, reclassify the remaining tangible assets below the capitalization threshold of P15,000 and provide the Property Officer with the list of items as basis of dropping from the RPCPPE and subsequently adjust any overstatement or understatement in the reclassification from PE to Inventories – Semi-expendable Machinery and Equipment and/or Semi-expendable Furniture and Fixtures once reconciliation has been completed; and

a.4 Recognize in the books the project equipment transferred from UNDP under the WIBI Mindanao Project;

b. Create an Inventory Committee to conduct annual physical inventory of PE and submit the corresponding RPCPPE to the Audit Team not later than January 31 of each year, in accordance with COA Circular No. 80-124;

c. Instruct the Property Officer to reconcile the property records with accounting records and prepare the necessary adjustments accordingly; and

d. Require the Regional Manager of RO No. XI to designate a Property Officer among its permanent personnel who could help address the lapses in property management and reconcile property records with the accounting records.

5. The balance of Investment in Bonds account of P1.684 billion was overstated by the net amount of P3.676 million due to error in recording accrued interest and other related transaction costs to the account which did not conform to Paragraphs 4.1.2 and 5.1.1 of the Philippine Financial Reporting Standards (PFRS) 9 and Paragraph 9 of Philippine Accounting Standards (PAS) 39 - Financial Instruments on the Recognition and Measurement.

5.1 Paragraphs 4.1.2 and 5.1.1 of PFRS 9 state that:

A financial asset shall be measured at amortized cost if both of the following conditions are met:

a. The business model is to hold the financial asset in order to collect contractual cash flows on specified dates; and

b. The contractual cash flows are solely payments of principal and interest on the principal amount outstanding.

5.2 Likewise, Paragraph 9 of PAS 39 - Financial Instruments: Recognition and Measurement states that:

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayment, plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

5.3 The Investment in Bonds has a total face value of P1.684 billion and book value of P1.658 billion as at December 31, 2017 based on our examination of the Confirmation of Sale (COS) or Purchase Advice (PA) issued by the LBP and the Bureau of the Treasury (BTr), details are shown in Table 11.

Table 11 - Investment in Bonds as at December 31, 2017

Particulars	Transaction Date	Issue Date	Maturity Date	Interest Rate	Term (In Years)	Face Value (FV)	Book Value (BV)	Bond Discount
LBP								
LTNCD	11/5/2013	N/A	5/5/2019	3.125%	5.5	P 50,000,000	P 50,000,000	P -
FXTN 5-72	11/6/2013	5/23/2013	5/23/2018	2.125%	4.54	393,000,000	384,758,994	8,241,006
FXTN 5-72	1/6/2014	5/23/2013	5/23/2018	2.125%	4.4	438,464,000	426,343,561	12,120,439

Particulars	Transaction Date	Issue Date	Maturity Date	Interest Rate	Term (In Years)	Face Value (FV)	Book Value (BV)	Bond Discount
FXTN 5-72	4/14/2014	5/23/2013	5/23/2018	2.125%	4.1	50,000,000	47,945,385	2,054,615
LTNCD	10/9/2015	N/A	4/9/2021	3.750%	5.5	200,000,000	200,000,000	-
BTr								
RTB-13	3/3/2011	3/3/2011	3/3/2021	7.375%	10	100,000,000	100,000,000	-
RTB-10-4	6/17/2014	8/15/2013	8/15/2023	3.250%	9.16	102,778,000	99,002,657	3,775,343
RTB-20	12/4/2017	12/4/2017	12/4/2022	4.625%	5	350,000,000	350,000,000	-
						P 1,684,242,000	**P 1,658,050,597**	**P 26,191,403**

Legend:
RTB – Retail Treasury Bonds
FXTN – Fixed Rate Treasury Notes

5.4 Analysis of the Investment in Bonds account showed that the amortization of bond discount amounting to P21.938 million drawn under JEV No. 2017-12-387 dated December 29, 2017 overstated the account by approximately P3.676 million, computed in Table 12.

Table 12 - Computation of Overstatement in Investment in Bonds

Total FV of investment in bonds (Table 11)	P 1,684,242,000
Total bond discount (Table 11)	26,191,403
Less: Amortization of bond discount	21,938,023
Unamortized portion of bond discount	4,253,380
Should be balance, 12.31.2017	1,679,988,620
Investment in bonds, 12.31.2017	1,683,664,950
Net overstatement	**P 3,676,330**

5.5 The net overstatement of the Investment in Bonds account is accounted for as follows:

Accrued interest		P 9,406,561
Transaction and other related cost		454,275
Sub total		9,860,836
Understatement of GL Balance, 12.31.2017		
Should be balance, 12.31.2017	P1,679,988,620	
GL balance after deducting accrued interest and transaction cost (P1,683,664,950-P9,860,836)	1,673,804,114	6,184,506
		P 3,676,330

5.6 The net overstatement of Investment in Bonds account was due to recording of accrued interest, brokers fee and other related transaction fees as part of the Investment in Bonds instead of Interest Income or Accrued Interest Receivable and Bank Charges.

5.7 The bonds were acquired between interest dates, hence the purchase price (bond holder) or selling price (bond issuer) includes accrued interest, which represents interest earned from issue date to transaction date. Records showed that Investment in Bonds account is recorded using the Selling Price (SP) instead of BV of the bonds. Table 13 shows the comparison of SP and BV of the bonds acquired and the accrued interest purchased on transaction, recorded as part of the Investment in Bonds account.

Table 13 – Comparison between SP and BV of Bonds

Particulars	Transaction Date	Issue Date	SP	BV	Accrued Interest
LBP					
LTNCD	11/5/2013	N/A	P 50,000,000	P 50,000,000	P -
FXTN 5-72	11/6/2013	5/23/2013	389,347,343	384,758,994	4,588,349
FXTN 5-72	1/6/2014	5/23/2013	429,550,169	426,343,561	3,206,608
FXTN 5-72	4/14/2014	5/23/2013	48,665,695	47,945,385	720,310
LTNCD	10/9/2015	N/A	200,000,000	200,000,000	-
BTr					
RTB-13	3/3/2011	3/3/2011	100,000,000	100,000,000	-
RTB-10-4	6/17/2014	8/15/2013	99,893,952	99,002,657	891,295
RTB-20	12/4/2017	12/4/2017	350,000,000	350,000,000	-
			P 1,667,457,159	**P 1,658,050,597**	**P 9,406,562**

5.8 Thus, in Table 13, the accrued interest of P9.407 million should be debited either as Accrued Interest Receivable or Interest Income while the book value of the bonds totaling P1.658 billion will be debited to Investment in Bonds account.

5.9 Moreover, the inclusion of transaction costs or fees incurred in the placement consisting of brokers fee, transaction fee and uplift fee as part of the Investment in Bonds instead of Bank Charges, overstated the account by P454,275.

5.10 The errors noted demonstrate that the PFRS and PAS on the investment transactions were not complied with by the OIC-Accounting Division.

5.11 In view hereof, we want to point out the principle of reliability provided in paragraph 31 of the Framework for the Preparation and Presentation of Financial Statements (FPPFS) which states that:

> *To be useful, information must also be reliable. Information has the quality of reliability when it is free from material error and bias and can be depended upon by the users to represent faithfully that which it either purports to represent or could reasonably be expected to represent.*

5.12 **We recommended and Management agreed to require the Accounting Personnel to:**

a. Comply with PFRS 9 and PAS 39 in accounting for Investment in Bonds;

b. Review the accounting entries for the Investment in Bonds including accrued interest and transaction costs recognized since CY 2013, and adjust the accounts accordingly, if necessary; and

c. Require the Bookkeeper/Accountant to attend seminars and trainings relative to PAS 39 to update knowledge on recognition and measurement of Investment in Bonds and other financial instruments to come up with reliable balances, which are compliant with said Standards.

6. The stock certificates for 5,354,104 common shares were issued to the NG without full payment of the subscription, contrary to Section 64 of Batas Pambansa (BP) Bilang 68. Further, the required disclosure for Share Capital under Section 79 of PAS 1 was not complied that might deprive the users of financial statements of useful information for decision making.

6.1 The PCIC was created as a socially-oriented agency under PD No. 1467 dated June 11, 1978. Section 8 thereof provides for the Capital Stock of the Corporation, as follows:

> *Section 8.1 The authorized capital stock of the Corporation is SEVEN HUNDRED FIFTY MILLION PESOS (P750,000,000.00) divided into FIVE MILLION (5,000,000) common shares with a par value of ONE HUNDRED PESOS (P100.00) each share, which shall be fully subscribed by the Government; and TWO MILLION FIVE HUNDRED THOUSAND (2,500,000) preferred shares with a par value of ONE HUNDRED PESOS (P100.00) per share Xxx.*
>
> *Section 8.2 The paid-in capital of the Corporation upon its organization shall be TWO HUNDRED FIFTY MILLION PESOS (P250,000,000.00), and shall be appropriated and paid in as follows:*
>
> *Section 8.2.1 ONE HUNDRED FIFTY MILLION PESOS (P150,000,000.00) to be subscribed and paid in by the Government out of the net assets transferred from the Agricultural Guarantee Funds Xxx*
>
> *Section 8.2.2 An additional ONE HUNDRED MILLION PESOS (P100,000,000.00) to be likewise subscribed and paid in by the Government out of the funds of the National Treasury not otherwise appropriated.*

6.2 On July 24, 1995, RA No. 8175 was enacted to amend PD No. 1467. Under Section 7 of RA No. 8175, Subsections 8.1 and 8.3 of Section 8, PD No. 1467, as amended, are further amended, to read as follows:

> *8.1 The authorized capital stock of the Corporation is Two billion pesos (P2,000,000,000.00) divided into Fifteen million (15,000,000) common shares with a par value of One hundred pesos (P100) each share, which shall be fully subscribed by the Government; and Five million (5,000,000) preferred shares with a par value of One hundred pesos (P100) per share, which shall have the features as provided in Section 8.4 hereof and shall be issued in accordance with the provisions of Section 8.5 hereof.*
>
> *8.3 The additional common capital stock of One billion pesos (P1,000,000,000.00) shall be fully subscribed by the Government and the necessary funds shall be appropriated by Congress unless otherwise provided by existing laws: Provided, That Congress shall provide, on an annual basis, at least fifty per cent (50%) of the needed capital until the authorized capital stock is fully paid up.*

6.3 The audit Subscriptions Receivable account with a book balance of P249.046 million as at year-end disclosed the observations discussed in the succeeding paragraphs.

Stock certificates for 5,354,104 common shares were issued without full payment of the subscription by the NG

6.4 The Schedule of Equity showed common and preferred shares of stocks of 10,354,104 and 1,000,000 shares, respectively, or a total of 11,354,104 shares, with paid up capital of P1.351 billion, representing the amount subscribed by the NG, LBP and PCSO, presented in Table 14.

Table 14 - Schedule of Stock Certificates and Government Equity

	No. of Shares	Paid up Capital	Type of Stock
PD No. 1467			
NG	5,000,000	P 500,000,000	Common
NG	-	150,000,000	Common
LBP	1,000,000	100,000,000	Preferred
	6,000,000	750,000,000	
RA No. 8175			
NG	5,354,104	535,410,400	Common
PCSO	-	65,544,013	-
	5,354,104	600,954,413	
	11,354,104	**P 1,350,954,413**	

6.5 Records showed that stock certificates were already issued to the NG and LBP for their subscription even without full payment by the NG of its subscription.

6.6 The issuance of stock certificates for 5,354,104 common shares to NG without full payment of the subscription of P1.000 billion is contrary to Section 64 of BP Bilang 68, otherwise known as "*The Corporation Code of the Philippines*" which provides that:

> *No certificate of stock shall be issued to a subscriber until the full amount of his subscription together with interest and expenses (in case of delinquent shares), if any is due, has been paid.*

6.7 A stockholder shall only be entitled to the issuance of certificate of stock upon full payment of the total amount of subscription, in consonance with the doctrine of indivisibility of the subscription contract implicitly set forth under the said Code, that is, a subscription is one, entire and indivisible contract, meaning it cannot be divided into portions so that the stockholder shall not be entitled to a certificate of stock until full payment of his subscription. The purpose of the prohibition is to prevent the partial disposition of a subscription which is not fully paid. This if permitted, and the subscriber suddenly becomes delinquent in the payment of subscription, the corporation may not be able to sell as many subscribed shares as would be necessary to cover the total amount due from the delinquent subscriber. [Securities and Exchange Commission-Office of the General Counsel (SEC-OGC) Opinion No. 16-05]

Adequate disclosure for Share Capital was not complied, contrary to Section 79 of PAS 1

6.8 Financial Statements (FSs) are structured representation of the financial position and financial performance of an entity. The objective of FSs is to provide information about the financial position, financial performance and cash flows of an entity that is useful to a wide range of users in making economic decisions. Among the composition of FSs is the Notes to Financial Statements (NFS) which comprises a summary of significant accounting policies and other explanatory information for better understanding of the figures presented in the Statements of Financial Position, Comprehensive Income, Changes in Equity and Cash Flow.

6.9 Section 79 of PAS 1 provides that "*An entity shall disclose the following, either in the statement of financial position or the statement of changes in equity, or in the notes:*"

(a) for each class of share capital:

(i.) the number of shares authorized;
(ii.) the number of shares issued and fully paid, and issued but not fully paid;
(iii.) par value per share, or that the shares have no par value;
(iv.) a reconciliation of the number of shares outstanding at the beginning and at the end of the period;
(v.) the rights, preferences and restrictions attaching to that class including restrictions on the distribution of dividends and the repayment of capital;
(vi.) shares in the entity held by the entity or by its subsidiaries or associates; and
(vii.) shares reserved for issue under options and contracts for the sale of shares, including terms and amounts; and

(b) a description of the nature and purpose of each reserve within equity.

6.10 The FSs require the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria set out in the Framework. The application of the standard, with additional disclosure when necessary, will achieve the faithful representation of the Financial Statements.

6.11 Review of the NFS for CY 2017 showed that Share Capital was not adequately disclosed in Note 25.1, as necessary information were not presented, such as:

a. A reconciliation of the number of shares outstanding at the beginning and at the end of the period; and

b. The rights, preferences and restrictions attaching to that class including restrictions on the distribution of dividends and the repayment of capital.

6.12 The absence of adequate disclosures might deprive the users of FS of useful information that may be used for decision making purposes.

6.13 **We recommended and Management agreed to:**

a. Issue stock certificates only upon full payment of subscriptions in compliance with Section 64 of BP No. 68; and

b. Request the Manager of the Finance Department to provide adequate disclosures in the NFS for Share Capital in compliance with Section 79 of PAS 1.

7. In RO No. I, Premium Reserve with debit balance of P45.598 million and Reserve for Unearned Premium accounts with credit balance of P67.257 million as at December 31, 2017 were misstated due to incomplete provision of the required reserve for the unearned premium amounting to P5.713 million, thus overstating the net income and understating the liability account by the same amount.

7.1 Premium Reserve is a contra account of the Gross Insurance Premium account and used to increase or decrease the statutory legal reserve for unexpired risks of PCIC or the Reserve for Unearned Premium account in the Statement of Financial Position, depending on the required reserve for the period. When the balance of the reserve is more than the required amount for the period, Premium Reserve is credited, therefore increasing the premium earned during the period, but when the balance of reserve is less than the required amount, Premium Reserve is debited which decreases the premiums earned during the period.

7.2 Part 6.8.15 of PCIC Accounting Systems and Procedures Manual provides that:

1. *For palay and corn insurance, the following table shall be used for the setting up of an allowance for unexpired risks.*

Computation of Reserve for Unearned Premium
As of Date of Report

Month:	*Required Reserve*
Date of Report	*7/8*
1st Month preceding date of report	*5/8*
2nd Month preceding date of report	*3/8*
3rd Month preceding date of report	*1/8*

2. *The ratio above shall be multiplied by the premiums written during the month inclusive of government premium share. The total amount that will be drawn from the stated procedure shall be the required reserve for unearned premium as of the date of report. Compare the required reserve from the previous month, to get the required increase or decrease in the allowance for unexpired risks. The same computations shall hold true for all succeeding months.*

Xxx.

4. *For other insurance lines, the required statutory legal reserve or allowance shall be equal to 40% of basic premiums written.*

   Xxx.

9. *Thereafter, and upon expiration of the insurance contract/policy, recognize the expired portion by reversing the previous entry made.*

7.3 As reported in the ML of RO No. I, the TB for CY 2017 showed a balance of P67.257 million for Reserve for Unearned Premium account. Analysis and re-computation of the required statutory reserve following the afore-mentioned guidelines showed that statutory legal reserve of P72.970 million is required as at December 31, 2017, thus the balance of P67.257 million as at year-end is deficient by P5.713 million.

7.4 Consequently, the Premium Reserve account with debit balance of P43.020 million as at December 31, 2017, is understated by P5.713 million, with corresponding overstatement in net income by the same amount, computed as follows:

Adjusted reserve for unearned premium, 12/31/16	P 24,237,006
Required reserve for unearned premium, 12/31/17	72,969,856
Should be premium reserve for CY 2017	**P (48,732,850)**
Premium reserve per Income Statement, 12/31/17	P 43,019,702
Should be premium reserve for CY 2017	48,732,852
Net effect of overstatement of net income	**P (5,713,150)**
Reserve for unearned premium per books, 12/31/17	P 67,256,708
Credit balance of should be unearned premium for CY 2017	72,969,858
Net understatement of the liability account	**P (5,713,150)**

7.5 Analysis revealed that not all unexpired premiums were provided with sufficient statutory legal reserve as required in the aforementioned guidelines.

7.6 **We recommended and Management agreed to require the Accounting Division to have a thorough analysis and review of the accounts and prepare the necessary adjustments in the books to correct the overstatement of income and and understatement of liability accounts.**

8. In RO No. VIII, checks for indemnity claims totaling P1.207 million for crop and non-crop insurance under the claims fund, which were not released to the insured beneficiaries were staled due to inability of the Claims and Settlements Division (CSD) to personally inform the beneficiaries, lack of response from the beneficiaries for information sent and failure to communicate due to incomplete addresses; thus depriving the rightful beneficiaries of immediately recouping/recovering their losses. Moreover, the staled checks which were not reverted back to Cash in Bank understated said account and overstated Claims Paid account.

8.1 PCIC is mandated to provide insurance protection to farmers against losses arising from natural calamities, plant diseases and pest infestations of their palay and corn crops as well as other crops. The Corporation also provides guarantee cover for production loans extended by LIs to agricultural producers for crops not yet covered by insurance.

8.2 The Corporation's primary task is to help in the stabilization of the income of the farmers and promote the flow of credit in the rural areas, while steered with the core values of dependability, integrity, innovation and partnership.

8.3 As reported in the ML of RO No. VIII, inventory of unreleased/outstanding checks conducted on January 26, 2018 revealed that 255 checks totaling P1.207 million were staled, as summarized in Table 15.

Table 15 - Unreleased Staled Checks

Period Covered	Quantity	Amount
January to December 2016	170	P 808,865
January to June 2017	85	398,212
	255	**P 1,207,077**

8.4 Management informed that the reason/s for non-issuance/release of checks to beneficiaries, are due to the following:

a. Beneficiaries were not personally informed of the availability of their checks although list of checks issued were posted in barangay halls by team leaders;

b. Notices of available checks to beneficiaries cannot be made due to the absence of specific address, only names of barangay were stated in the application for insurance; and

c. Some of the farmers and fisherfolk who were informed through text messages in their contact numbers did not respond.

8.5 The staled checks of P1.207 million was alarming because the non-issuance of these checks to rightful payees deprived the farmers/beneficiaries of the opportunity to immediately recover their losses, or at least a portion of their production expenses, thus, adversely affected the performance of agency's primary mandate.

8.6 Moreover, the non-reversion of the staled checks of P1.207 million to Cash in Bank account understated said account and overstated Claims Paid account by the same amount.

8.7 **We recommended and Management agreed to:**

a. Improve the process of releasing indemnity pay to farmers/beneficiaries by: (i) directing the Disbursing Officers (DOs) to set specific date/s of releasing checks in the field offices particularly in cases of calamities; (ii) updating records of farmers as to their complete address/es and contact numbers; and (iii) consider the designation of a

Special Disbursing Officer (SDO) among the regular employees and have him/her bonded, to release checks in the field office on a weekly basis, in the absence of the DO, to prevent accumulation of staled checks and to serve the purpose of the insurance;

b. Identify the causes why checks remained unclaimed and explore the possibility of entering into Memorandum of Agreement (MOA) with rural banks, Local Government Units (LGUs) and/or barangays which may facilitate the release of checks to claimants; and

c. Prepare adjusting entry to recognize the liability account in the books for the staled checks.

9. The balance of Leave Benefits Payable (LBP) account was understated by P1.283 million and the corresponding Terminal Leave Benefits (TLB) and Retained Earnings–Unappropriated accounts were overstated and understated by P90,985 and P1.374 million, respectively, due to erroneous computation in HO and RO No. X of accrual on earned leave credits of regular employees for CY 2017 and prior years; thus casting doubt on the reliability of the balances of accounts affected.

9.1 Sections 165 and 169 of the Philippine Accounting Standards (PAS) 19 on Employee Benefits state:

Section 165: An entity shall recognise a liability and expense for termination benefits at the earlier of the following dates:

(a) when the entity can no longer withdraw the offer of those benefits; and

(b) when the entity recognises costs for a restructuring that is within the scope of PAS 37 and involves the payment of termination benefits.

Section 169: An entity shall measure termination benefits on initial recognition, and shall measure and recognise subsequent changes, in accordance with the nature of the employee benefit, provided that if the termination benefits are an enhancement to post-employment benefits, the entity shall apply the requirements for post-employment benefits. Otherwise:

(a) if the termination benefits are expected to be settled wholly before twelve months after the end of the annual reporting period in which the termination benefit is recognized, the entity shall apply the requirements for short-term employee benefits.

(b) if the termination benefits are not expected to be settled wholly before the twelve months after the end of the annual reporting period, the entity shall apply the requirements for other long-term employee benefits.

9.2 The accrual of earned leave credits is required under PAS 19 to comply with the matching principle in accounting that expenses should be recorded during the period in which they are incurred, regardless of the date of payment.

9.3 In addition, COA Circular No. 2015-010 dated December 1, 2015 on the adoption of the RCA for GCs provides, among others, the following accounts:

Account Title	*Terminal Leave Benefits*
Account Number	*50104030*
Normal Balance	*Debit*
Description	*This account is used to recognize the money value of the accumulated leave credits of government officials and employees.*

Account Title	*Leave Benefits Payable*
Account Number	*20601020*
Normal Balance	*Credit*
Description	*This account is used to recognize accrual of money value of the earned leave credits of government personnel. Debit this account for monetization of earned leave and payment of terminal leave benefits.*

9.4 On the other hand, Section 40 of the Civil Service Commission (CSC) Memorandum Circular (MC) No. 41, s. of 1998 provides the formula in computing TLB, as shown below.

$$\text{TLB} = \frac{\text{(No. of Accumulated Leave-VL and SL) x (Highest Monthly Salary Received)}}{\text{22 days (Number of Working Days in a Month pursuant to RA No. 6758)}}$$

Where: VL – Vacation Leave and SL – Sick Leave

9.5 As at year-end, Journal Entry Vouchers (JEVs) were drawn to recognize the accrual of the money value of earned leave credits of regular personnel for CY 2017 and prior years and to adjust the entry made on the monetization of leave credits, when necessary.

9.6 Recomputation of the accrual of TLB using the Monthly Report of Absences/Undertimes/Tardiness (MRAUT) and highest salary rates covering CYs 2017 and 2016 duly approved by the Governance Commission for Government-Owned and Controlled Corporations (GCG), disclosed under provision of accrual in the amount of P1.283 million in HO and RO No. X, details is shown in Table 16.

Table 16 - Discrepancy in the Accrual of TLB of Regular Employees

Office	Per Books			Per Audit			(Over)/Under Provision		
	Accrual of Prior Years Leave Benefits	**TLB**	**LBP**	**Accrual of Prior Years Leave Benefits**	**TLB**	**LBP**	**Accrual of Prior Years Leave Benefits**	**TLB**	**LBP**
HO	P 5,986,054	P 2,245,995	P 8,232,049	P 5,895,069	P 2,217,143	P 8,112,212	P (90,985)	P (28,852)	P (119,837)
X	-	6,420,528	6,420,528	-	7,823,760	7,823,760	-	1,403,232	1,403,232
	P 5,986,054	**P 8,666,523**	**P 14,652,577**	**P 5,895,069**	**P 10,040,903**	**P 15,935,972**	**P (90,985)**	**P 1,374,381**	**P 1,283,395**

9.7 In view of the foregoing discrepancies, LBP was understated by P1.283 million and the corresponding TLB and Retained Earnings - unappropriated accounts were overstated and understated by P90,985 and P1.374 million, respectively; thus casting doubt on the reliability of the balances of accounts affected as shown in the financial statements.

9.8 **We recommended and Management agreed to instruct the Accountant/Bookkeeper to:**

> **a. Prepare JEV to correct the LBP, TLB and Retained Earnings-Unappropriated accounts;**
>
> **b. Request from the HRMD certified balances of the VL and SL and check the correctness of leave credits by comparing with the balances of the leave cards; and**
>
> **c. Check the salary rates approved by the GCG as basis in computing the accrued leave benefits at the end of the year.**

B. COMPLIANCE

10. The Agri-Agra Funds (AAF) totaling P1.853 billion were not transferred on a quarterly basis from the Bangko Sentral ng Pilipinas (BSP) to the account of PCIC in CYs 2014 and 2017, and were not supported with Statements of Account (SAs), contrary to Subsection 15.2 of the Implementing Rules and Regulations (IRR) of Republic Act (RA) No. 10000 or the "Agri-Agra Law", hence the completeness of the amounts credited to PCIC account could not be determined. Moreover, the absence of a separate bank account maintained for the Fund may result in the unauthorized use for other purposes other than for insurance.

10.1 RA No. 10000, an act providing for an Agriculture and Agrarian Reform Credit and Financing System (AARCFS) through banking institutions was approved by then President Gloria Macapagal-Arroyo on February 23, 2010. Among the pertinent provisions of the Act, are as follows:

> *Section 4. Agriculture, Fisheries and Agrarian Reform Credit, Insurance and Financing System. - There shall be evolved an agriculture, fisheries and agrarian reform credit, insurance and financing system to improve the productivity of the agriculture and fisheries sectors, particularly the farmers, fisherfolk and agrarian reform beneficiaries, settlers, agricultural lessees, amortizing owners, farmworkers, fishworkers, owner-cultivators, compact farmers, farmers and fisherfolk's cooperatives, organizations and associations, through government and private banking institutions.*
>
> *Section 6. Credit Quota. - All banking institutions, whether government or private, shall set aside at least twenty-five per cent (25%) of their total loanable funds for agriculture and fisheries credit in general, of which at least ten per cent (10%) of the loanable funds shall be made available for agrarian reform beneficiaries mentioned in Section 5 hereof. Provided,*

however, That total loanable funds as used in this section shall refer to funds generated from the date of effectivity of this Act. Xxx

Section 10. Penalty clause. - The BSP shall impose administrative sanctions and other penalties on the lending institutions for noncompliance with the provisions of this Act. Penalties on noncompliance shall be computed at one-half of one per cent (0.5%) of noncompliance and under compliance and shall be directed to the development of the agri-agra sector. Ninety per cent (90%) of the penalties collected shall be allocated between the Agricultural Guarantee Fund Pool (AGFP) and the PCIC according to the needs of the agri-agra sector as provided in the implementing rules and regulations of this Act and the remaining ten per cent (10%) shall be given to the BSP to cover administrative expenses.

10.2 The IRR of the Act was approved on July 14, 2011. Quoted hereunder are the applicable provisions of the IRR:

Section 15.2 Disposition of penalties collected

Ninety per cent (90%) of the total penalties collected on non-compliance/under-compliance with the mandatory agri-agra credit under Item (1)" above shall be remitted by the BSP to the Agricultural Guarantee Fund Pool (AGFP) and the Philippine Crop Insurance Corporation (PCIC), in accordance with the following percentage allocation:

Recipient	*Per cent Allocation*
AGFP	*50 %*
PCIC	*50 %*

The percentage allocation may be amended by the Secretary of Agriculture in consultation with the Agricultural Credit Policy Council, PCIC and the Secretary of Agrarian Reform, according to the needs of the agri-agra sector.

10.3 The audit of the P1.853 billion AAF credited to PCIC LBP Current Account in CYs 2014 and 2017 disclosed the observations discussed in the succeeding paragraphs.

AAF of P1.853 billion credited to LBP-CA of PCIC in CYs 2014 and 2017 by BSP were not remitted on a quarterly basis and not supported with SAs, contrary to Subsection 15.2 of the IRR of RA No. 10000; hence the completeness of the funds credited could not be determined

10.4 Subsection 15.2 of the IRR of RA No. 10000 states that:

Regardless of amount, the penalties collected by the BSP at the end of every quarter shall be credited to the AGFP and PCIC within fifteen (15) days from the end of every quarter. The BSP shall issue a statement of *account to the AGFP and PCIC, copy furnished the DA and DAR, for amounts credited to the respective agencies.*

10.5 As mentioned in the preceding paragraph, the IRR of the Act was approved on July 14, 2011. Considering the date of approval, the BSP should have credited 26 quarterly remittances to PCIC, covering the period from July 15, 2011 to December 31, 2017.

10.6 Records showed that the funds received in the total amount P1.853 billion by PCIC from BSP in CYs 2014 and 2017 were recognized in the books of PCIC as Deferred Premium Income account and remittances were credited to PCIC LBP CA.

10.7 Review of the eight JEVs pertaining to remittances received from BSP revealed that these were not supported with SAs or its equivalent, required under Subsection 15.2 of the IRR, hence, the completeness of the funds credited to the LBP-Current Account (CA) of PCIC could not be determined.

Absence of a separate bank account maintained for AAF may result in unauthorized use of fund for purposes other than insurance

10.8 Audit of Cash and Cash Equivalents account disclosed that the AAF received from BSP were directly credited to PCIC LBP-CA and that no separate bank account is being maintained for the Fund. However, as at year end, LBP-CA had a balance of P198.724 million which represents 19.69 per cent only of the unutilized AAF of P1.009 billion as at December 31, 2017; thus showing that the balance of LBP-CA did not include the AAF.

10.9 In the absence of a separate bank account, the Audit Team could not establish if the unutilized funds of AAF formed part of Cash and Cash Equivalents or part of Investment in Bonds accounts which showed balances of P2.665 billion and P1.685 billion, respectively, as at year end.

10.10 For purposes of monitoring and control, a separate bank account for the AAF is necessary to facilitate the preparation of reports that may be required from time to time by legislators from Congress composed of both Houses, House of Representatives (Lower House) and Senate (Upper House) taking into consideration the significant amount of AAF involved. This is also to ensure that the interest earned from the investments or deposits of the AAF will accrue or add to the Fund and form part of the amount to be utilized for the intended purpose.

10.11 In view of the aforementioned observations, the attainment of the goal of the Agri-Agra Law provided under Section 4 thereof may be affected, which will eventually deprive the intended beneficiaries of the benefits that can be derived therefrom.

10.12 **We recommended that Management:**

a. Instruct the Finance Department to communicate in writing to BSP requesting SAs to support the funds transferred to PCIC, as required in Subsection 15.2 of the IRR;

b. Require the Accounting Division to verify and check the completeness of remittances made by BSP once the SAs are received from BSP; and

c. Establish a separate bank account for AAF to facilitate recording, monitoring and reporting purposes, which shall be reconciled on a regular basis with the schedule or report maintained by the Accounting Division.

10.13 Management assured that they will comply with the audit recommendations, except with regard to the maintenance of a separate bank account, where they contended that PCIC already maintains a liability account under the Deferred Premium Income to monitor the movements of the Fund and that a separate report is already being prepared to check its balance, with the information that any amount received from BSP becomes part of the common fund of PCIC being invested until there is a need for disbursement.

10.14 As a rejoinder, we maintain our view that a separate bank account should be maintained for AAF so that the interest income earned shall accrue to the fund and to be used only for the intended purpose as provided by RA No. 10000.

11. The PCIC was not able to regularly collect the 10 per cent of the net earnings of Philippine Charity Sweepstakes Office (PCSO) from lotto operations as payment of government subscription, mandated under Section 6.5 of Republic Act (RA) No. 8175 dated December 20, 1995, thus depriving PCIC of additional funds of P249.046 million, representing unpaid subscription of the National Government (NG).

11.1 PD No. 1467 which created PCIC as a social-oriented agency was amended by RA No. 8175 dated December 20, 1995 to make the crop insurance system more stable and more beneficial to the farmers covered, and for purposes of the national economy.

11.2 Section 8.1 of RA No. 8175 authorizes the increase in capital stock of the PCIC to P2.000 billion. Of this amount P1.500 billion or 15 million common shares with par value of P100 each share shall be fully subscribed by the Government.

11.3 In addition, Section 6.5 of RA No. 8175 provides that:

> *Ten percent (10%) of the net earnings of the Philippine Charity Sweepstakes Office (PCSO) from its lotto operation 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.*

11.4 Review of Subscriptions Receivable account with balance of P249.046 million as at December 31, 2017 showed that P1.251 billion has been collected out of the total subscribed capital stock of P1.500 billion to date, P65.544 million of which represents remittances of PCSO from CYs 1997-2012, details is shown in Table 17.

Table 17 - Remittances Received by PCIC from PCSO in CYs 1997-2012

Date	OR/JEV No.	Particulars	Amount
6/30/1997	97-008	CE per OR No. 253715	P 507,128
4/14/1999	515539	Share from Lotto	6,416,307
9/08/1999	515928	PCSO equity	6,400,000
10/01/2003	897832	PCSO-10% share in net earnings	5,017,365
9/01/2004	901890	Share in PCSO	5,000,000
5/30/2006	787510	Collections from PCSO	10,000,000
1/30/2008	798462	PCSO-RA No. 8175, Section 6.5	1,250,000
2/26/2008	798474	PCSO-mandatory allotment for CY 2006	1,250,000
12/16/2008	563724	PCSO-CY 2007 share in net earnings	2,351,607
4/22/2009	140889	PCSO-allotment/2007 earnings	2,351,607
10/29/2009	843244	PCSO-allotment	5,000,000
6/17/2010	895119	PCSO-allotment for CY 2008	10,000,000
9/11/2012	747417	PCSO-payment of allotment	5,000,000
10/04/2012	747430	PCSO-payment of mandatory allotment	5,000,000
			P 65,544,014

11.5 The data provided in the particulars of the above table showed that there were remittances from PCSO without the particular year to which the remittance/s pertained. Hence, the years in which PCSO had no remittances could not be determined.

11.6 Starting CY 1996, PCSO is required to remit 10 per cent of the net earnings from its lotto operation every six months. As such, a total of 44 remittances (22 years x 2 semesters) should have been made by PCSO, however as shown in Table 17, only 14 remittances were recorded as of December 31, 2017. Likewise, the accuracy of the amount remitted by PCSO to PCIC could not be validated by the Audit Team because the PCSO financial statements for CY 2016 uploaded at www.coa.gov.ph had no separate income statement for lotto operation and no disclosures in the Notes to Financial Statements about the outstanding obligation of PCSO to PCIC. We also noted in PCSOs Statement of Financial Position that the Due to Other GOCCs account had a balance of P665,874 only (Note 15), which means that PCSO did not set-up a liability account for its mandatory obligation to PCIC.

11.7 Records showed that the latest written communication sent by PCIC to PCSO requesting the latter to remit its 10 per cent share in the net earnings of lotto operation was on June 1, 2015. The OIC-Accounting Division informed that several verbal follow-ups through telephone were made, however the contact person informed that no budget was allocated by PCSO for the purpose. On February 12, 2018, a letter was sent to the Accounting and Budget Department of PCSO, informing them of its outstanding balance of P249.046 million.

11.8 The non-collection of the 10 per cent of the net earnings of PCSO from lotto operations deprived PCIC of additional funds for its equity that is fully subscribed by the NG.

11.9 **We recommended and Management agreed to instruct:**

a. The Accounting Division to determine the years within which PCSO was not able to remit to PCIC its 10 per cent share in the net earnings from

lotto operation and communicate in writing to PCSO of its arrears supported with schedule; and

b. The Collecting Officer and Accountant to provide complete information in the Official Receipt (OR) and Journal Entry Voucher (JEV) as to the nature of collection as basis in recording in the Cash Receipts and Deposits Journal (CRDJ) and GJ, then to the GL, to facilitate monitoring of remittances made by PCSO.

12. In HO, the absence of monitoring taxes withheld and remittances to the Bureau of Internal Revenue (BIR) and review by the OIC - Accounting Division and non-maintenance of subsidiary records for taxes resulted in over remittance of P400,999.

12.1 Section 2.80 (c) of Revenue Regulations (RR) No. 2-98 dated April 17, 1998 provides:

Addition to tax –

(1) There shall be imposed, in addition to the tax required to be paid, a penalty equivalent to twenty-five (25%) of the amount due, in the following cases:

(a) Failure to file any return and pay the tax due thereon as required under the provisions of the Code or these regulations on the date prescribed; or

(2) Interest – There shall be assessed and collected on any unpaid amount of tax, an interest at the rate of twenty percent (20%) per annum, or such higher rate as may be prescribed for payment until the amount is fully paid.

(3) X x x

If the withholding agent is the government or any of its agencies, political subdivisions, or instrumentalities, or government-owned or controlled corporation, the employee thereof responsible for the withholding and remittance of tax shall be personally liable for the surcharge and interest imposed herein.

12.2 Section 272, Chapter III, Article X of RA No. 8424, otherwise known as the Tax Reform Act of 1997 provides that:

Violation of withholding Tax Provision. – Every officer or employee of the Government of the Republic of the Philippines or any of its agencies and instrumentalities, its political subdivisions, as well as government-owned or controlled corporations, including the Bangko Sentral ng Pilipinas (BSP), who, under the provisions of this Code or rules and regulations promulgated thereunder, is charged with the duty to deduct and withhold any internal revenue tax and to remit the same in accordance with the *provisions of this Code and other laws is guilty of any offense herein below specified shall, upon conviction for each act or omission be punished by a fine of not less than Five thousand pesos (P5,000) but not more than Fifty thousand pesos (P50,000) or suffer imprisonment of not less than six (6) months and one (1) day but not more than two (2) years, or both.*

(a) Failing or causing the failure to deduct and withhold any internal revenue tax under any of the withholding tax laws and implementing rules and regulations;

(b) Failing or causing the failure to remit taxes deducted and withheld within the time prescribed by law, and implementing rules and regulations; and

(c) Failing or causing the failure to file return or statement within the time prescribed, or rendering or furnishing a false or fraudulent return or statement required under the withholding tax laws and rules and regulations.

12.3 Audit of the Due to BIR account balance of P336,368 in HO as at December 31, 2017 disclosed the following observations.

The amount of taxes withheld was not remitted in full to the BIR due to absence of monitoring on taxes withheld and remitted by the personnel-in-charge which were not reviewed by the OIC-Accounting Division, resulting in net over remittance of P400,999 as at year-end.

12.4 Analysis and review of the taxes withheld [value added tax and other percentage taxes, expanded/creditable income taxes withheld and tax withheld on compensation] as shown in the GL maintained for Due to BIR account vis-à-vis taxes remitted to the BIR based on duly filled up and approved BIR Form Nos. 1600, 1601-E and 1601-C, revealed that the amount withheld in a particular month was not the amount remitted to the BIR, showing an over remittance of P400,999 as at December 31, 2017, as shown in Table 18.

12.5 In Table 18, remittance in January 2017 of P0.577 million was more than the beginning balance of P207,661 by P369,511. Ideally, the amount of taxes withheld during the month should be the amount remitted to the BIR on or before the 10th day of the ensuing month, net of adjustments, if any.

12.6 Inquiry with the Senior Investment Specialist (SIP), in-charge of withholding taxes disclosed that no monitoring was undertaken on taxes withheld showing the name of supplier/payee; date withheld; amount withheld, date remitted and amount remitted, to ensure the correctness and completeness of taxes withheld and remitted to the BIR.

Table 18 – Analysis of Taxes Withheld and Remittances

Month	Amount Withheld	Date Remitted	Amount Remitted	(Over) Under Remittance
Beginning Balance CY 2017	P 207,661	1/6/2017	P 577,172	P (369,511)
January	506,166	2/6/2017	507,740	(1,574)
February	558,602	3/7/2017	537,183	21,419
March	457,111	4/7/2017	464,309	(7,198)
April	426,396	5/5/2017	411,099	15,297
May	384,412	6/5/2017	409,711	(25,299)
June	355,755	7/4/2017	357,182	(1,427)
July	369,643	8/2/2017	386,355	(16,712)
August	379,093	9/6/2017	365,663	13,430
September	393,761	10/4/2017	431,647	(37,886)
October	1,470,479	11/8/2017	1,475,291	(4,812)
November	533,336	12/7/2017	527,114	6,222
December	744,419	1/6/2018	737,367	7,052
	P 6,786,834		**P 7,187,833**	**P (400,999)**

12.7 The SIP further added that the basis in preparing the Alphabetical List of Payees from whom taxes were withheld with information as to the name of supplier/payee, Tax Identification Number (TIN), nature of payment, amount of income payment, tax rate and amount withheld and attached to BIR Form Nos. 1600, 1601-E and 1601-C was the Daily Cash Position Report (DCPR) prepared by the Treasury Division.

12.8 Although the monthly schedules prepared by the SIP had the signatures of the OIC-Accounting Division in the "Reviewed By:" portion and Manager, Finance Department in the "Certified Correct by:" portion, the said schedule was not reviewed as evidenced by the errors noted.

12.9 The monitoring of taxes withheld on a monthly basis is important to ensure that the amounts withheld from clients tally with the amount remitted to the BIR to avoid incurrence of penalty charges in case of late payment or under remittance, where the Accountant is personally liable under Section 2.80 (c) of RR No. 2-98.

Non-maintenance of subsidiary records on taxes withheld on compensation, expanded withholding tax, withholding tax on Government Money Payments (GMP)-Percentage Taxes and withholding tax on GMP-Value Added Taxes (GVAT)

12.10 As discussed in Observation No. 1, SLs could not be generated from the PFMS for their GL accounts. Consequently, taxes withheld by the Corporation to include (i) withholding tax on compensation, (ii) expanded withholding tax, (iii) withholding tax on GMP and (iv) withholding tax on GMP – value added taxes have no SLs.

12.11 The GL maintained for the Due to BIR account contain entries pertaining to all taxes withheld enumerated in the preceding paragraph and remittances made during the month with check/JEV numbers as references. However, unremitted balance of each type of withholding tax could not be determined.

12.12 The SLs or equivalent subsidiary records serve as reference in preparing the monthly BIR remittances and monitoring of taxes withheld vis-à-vis remittances made, to ensure accurate, complete and timely remittance of withholding taxes. In the absence of these reconciliation of Alpha List for Taxes to be Remitted against taxes withheld could not be facilitated which may result in unreliable balances of taxes withheld for remittance to BIR.

12.13 **We recommended and Management agreed to:**

a. Instruct the personnel-in-charge of BIR remittances to reconcile the net over remittance of P400,999 with accounting records and prepare on a monthly basis, monitoring of all taxes withheld vis-à-vis tax remitted and date of remittance;

b. Meantime that SLs cannot be generated from PFMS, assign a personnel in the Accounting Division to prepare and maintain equivalent records for monitoring of all taxes withheld and instruct the same to reconcile on a monthly basis the taxes withheld with the taxes remitted to the BIR, so that the necessary adjustments, be made prior to remittance or in succeeding remittances; and

c. Require the OIC-Accounting Division to review the taxes for remittance to ensure the correctness and timeliness of monthly remittance to the BIR.

13. Physical assets in HO and seven ROs with carrying value of P20.911 million were not insured with the General Insurance Fund (GIF) of the Government Service Insurance System (GSIS) as required under Section 5 of RA No. 656 as amended by PD No. 245, thus exposing PCIC to risk of non-indemnification in case of natural or man-made calamity.

13.1 Section 5 of RA No. 656, otherwise known as the "Property Insurance Law" dated June 16, 1951, as amended by PD No. 245 dated July 13, 1973, states that:

> *Every government, except municipal government below first class, is hereby required to insure its properties, with the Fund against any insurable risk herein provided and pay the premiums thereon, which, however, shall not exceed the premiums charged by private insurance companies: Provided, however, That the system reserves the right to disapprove the whole or a portion of the amount of insurance applied for. Provided, further, That such property or part thereof as may not be insurable or acceptable for insurance may be insured with any private insurance company. Xxx.*

13.2 Verification of records and audit of PE account disclosed that physical assets with carrying value of P20.911 million were not insured with the GIF of the GSIS as at December 31, 2017. These physical assets are enumerated in Table 19.

Table 19 - Summary of PEs not Insured with GSIS General Insurance Fund

Office/RO Nos.	Leasehold Improve-ment	Office Equipment	IT equipment	Furniture and Fixtures	Other PPE	Total
HO	P 3,665,366	P 1,211,553	P 3,836,727	P 41,595	P -	P 8,755,241
RO III	199,416	153,716	602,889	168	-	956,189
RO IV	350,422	677,173	1,484,991	807,089	-	3,319,675
RO VI	242,553	415,331	1,306,300	5,210	9,364	1,978,758
RO VII	-	152,172	1,319,869	-	-	1,472,041
RO VIII	-	433,158	674,184	100,811	-	1,208,153
RO XI	250,800	-	700,276	-	-	951,076
RO XII	509,728	628,866	1,063,297	67,871	-	2,269,762
	P 5,218,285	**P 3,671,969**	**P 10,988,533**	**P 1,022,744**	**P 9,364**	**P 20,910,895**

13.3 However, it is worth mentioning that motor vehicles in the HO and ROs with carrying value totaling P38.179 million and the building in RO No. II with carrying value of P16.847 million were all insured yearly with the GIF. As confirmed with the Regional Auditors, other properties in RO Nos. I, II, IIIA, V, IX and X are also insured with the GIF.

13.4 The absence of insurance coverage for the assets in Table 19 exposed PCIC to risk of non-indemnification in case of natural or man-made calamity.

13.5 **We recommended and Management agreed to insure all its property and equipment with the GIF of the GSIS to protect the interest of PCIC.**

13.6 Officials in RO No. IV commented that they have already submitted application for insurance of their fixed assets to GSIS for CY 2018 and awaiting for the amount of insurance premium to be paid. In RO No. VI, copy of insurance policy for one-year period dated January 17, 2018 has been submitted to the Auditor’s Office last February 19, 2018.

14. Specific provisions in the Revised IRR of RA No. 9184 such as the requirement of bid security, invitation of at least two observers, and limitation on advance payment were not complied in procuring goods and services totaling P2.850 million in RO No. IV. Moreover, the said procurements were not supported with the documentary requirements in COA Circular No. 2012-001.

14.1 RA No. 9184 is an Act providing for the modernization, standardization and regulation of the procurement activities of the government and for other purposes. Its Revised IRR provides criteria which include, among others, compliance with bid security, invitation of at least two observers, one from a duly recognized private group in a sector or discipline relevant to the procurement at hand and the other one shall come from a non-government organization (NGO). Likewise, Item 4, Annex D of the Revised IRR prohibits the grant of advance payment unless approved by the President of the Philippines.

14.2 It was reported in the ML of RO No. IV that during the public biddings for goods and services procured in CY 2017 in the total amount of P2.850 million, there were no invitations to observers coming from a duly recognized private group such as member of the Philippine Chamber of Commerce and Industry (PCCI) for goods and from an NGO as required under *Section 13, RIRR of RA 9184.*

14.3 Likewise, the said procurements were not accompanied by bid security equivalent to either two per cent, five per cent or proportionate to share of form with respect to total amount of security *[Section 27.1 & 27.2, RIRR]* payable to PCIC RO No. IV as a guarantee that the successful bidder shall within 10 calendar days or less, as indicated in the Instruction to Bidders, from receipt of the notice of award, enter into contract with the procuring entity and furnish the performance security required in *Section 39 of the RIRR*, except when allowed in a longer period in *Section 37.1 of same Revised IRR*.

14.4 Moreover, advance payment of P0.633 million or 50 per cent of the total contract cost of P1.265 million was paid for the supply and delivery of six air conditioning units and delivery and installation of modular office partition which was contrary to Items 4.1 and 4.3 of Annex D – Contract Implementation Guidelines for the Procurement of Goods, Supplies and Materials of the RIRR, which states that:

> *4.1 In accordance with PD 1445, advance payment shall be made only after prior approval of the President and shall not exceed 15% of the contract amount unless, otherwise, directed by the President.*
>
> *4.3 A single advance payment not to exceed 50% of the contract amount shall be allowed for contracts entered into by a procuring entity for the following services where requirement of down payment is the standard industry practice:*
>
> a. *Hotel and restaurant services;*
> b. *Use of conference/seminar and exhibit areas; and*
> c. *Lease of office space*

14.5 Further verification disclosed that there were procurements not duly supported with the documentary requirements under COA Circular No. 2012-001 dated June 14, 2012, as enumerated in Table 20.

Table 20 - Summary of Procurements with Deficiencies

Date	Particulars	Amount	Lacking Documents
4.24.2017	Procurement of nine (9) units computer desktop	P 405,000	BIR/PhilGEPS/DTI Certificates of Registration, Mayor's Permit, printout copies of posting Notices of Award and to Proceed and Contract of Award on the PhilGEPS, Bidder's technical and financial proposals, Notice of post-qualification, BAC Resolution declaring the winning bidder, BAC Resolution recommending approval of the Head of the Procuring Entity (HPE) of the winning bidder and approval of the HPE for the contract.

Date	Particulars	Amount	Lacking Documents
8.10.2017	Supply, delivery and installation of six (6) airconditioning units	490,270	-do- Delivery Receipt, Sales Invoice and Inspection and Acceptance Report.
9.18.2017	Delivery and installation of modular office partition	774,780	Printout copies of posting Notices of Award and to Proceed and Contract of Award on the PhilGEPS, Bidder's technical and financial proposals, Notice of post-qualification and BAC Resolution declaring the winning bidder, Delivery Receipt, Sales Invoice and Inspection and Acceptance Report.
8.8.2017	Delivery and installation of open type steel shelving	184,400	DTI registration, printout copies of posting Notices of Award and to Proceed and Contract of Award on the PhilGEPS, Bidder's technical and financial proposals, Notice of post-qualification, BAC Resolution declaring the winning bidder, BAC Resolution recommending approval of the Head of the Procuring Entity (HPE) of the winning bidder and approval of the HPE for the contract.
9.20.2017	Procurement of eight (8) units desktop computer and four (4) printer/copier	433,972	-do- Evidence of invitation to three (3) observers in all stages of procurement, Notice of Award, Notice to Proceed, bid/performance security.
7.11.2017	Procurement of three (3) motorcycles	246,600	-do- Inspection and Acceptance Report, bid/performance security
10.20.2017	Procurement of office chairs	314,650	-do- Notice of Award, Notice to Proceed, PhilGEPS posting, bid/performance security, evidence of invitation to three (3) observers in all stages of procurement
		P 2,849,672	

14.6 The non-compliance with the above cited requirements of the Revised IRR of RA No. 9184 defeated the principles of transparency, accountability, efficiency and economy in the procurement activities of RO No. IV.

14.7 **We recommended and Management agreed to:**

a. Comply with the applicable provisions of RA No. 9184 and its Revised IRR in the procurement of goods; and

b. Direct the Bids and Awards Committee (BAC) to support the procurements with the lacking documentary requirements and submit to the Audit Team of COA RO No. IV to facilitate the audit of related payments.

15. The grant of multiple insurance coverage to farmer-beneficiaries in RO Nos. III and VII under the Registry System for Basic Sectors in Agriculture (RSBSA) and other insurance programs, was not compliant with Section 2.B.10, Part III of the Operations Manual for Rice and Corn Insurance and pertinent provisions of RA No. 10924 (GAA for FY 2017), due to absence of security features embedded in the PABS; thereby depriving other eligible farmers and fisherfolk to avail free insurance program of the government.

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

(a) Assured is the same;
(b) Subject matter/object of insurance is the same;
(c) Subject matter is separately insured two or more times;
(d) Interest of the assured is the same; and
(e) Risk or peril insured against is likewise the same.

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

15.3 Likewise, Special Provision of RA No. 10924, GAA for FY 2017 also provides, among others, that:

> *Xxx. The PCIC shall ensure that the beneficiaries identified are registered under the Registry System for Basic Sectors in Agriculture and are not insured for the same types of insurance, xxx.*

15.4 Analysis of the data extracted from PABS disclosed that in CY 2017, a total of 300 farmer-beneficiaries, 48 in RO No. III and 252 in RO No. VII were granted double insurance from different programs, such as RSBSA, DA-Sikat Saka, Cebu Provincial Government (CPG), Agrarian Production Credit Program (APCP) and Priority Province Program (PPP).

15.5 In RO No. III, the 48 farmers in the list of farmer beneficiaries were issued Certificates of Insurance Cover (CIC) under the different insurance programs where they were insured, covering the same cropping season and on the same farm in CY 2017, which is prohibited under the pertinent provisions of the PCIC Operations Manual.

15.6 Likewise, analysis of the data extracted from PABS and verification of underwriting and claims’ documents by the Audit Team in RO No. VII of 12,113 insured farmers, particularly for the rice and corn crops, disclosed that 252 farmers were found to be insured under the same type of insurance with full provision of premium out of the 222,347 farmers insured under RSBSA, DA-Sikat Saka, CPG and APCP insurance programs, presented in Table 21.

Table 21 – Farmers Insured in the Same Type of Insurance

Insurance Line	Period Covered	No. of Farmers Verified	RSBSA	No. of Farmers Insured in the Same Type of Insurance Program			
				DA-Sikat Saka	CPG	APCP	Total
Rice	Jan. 2, 2017 to Oct. 31, 2017	10,216	115	62	46	7	115
Corn	Jan. 2, 2017 to June 30, 2017	1,897	137	-	137	-	137
		12,113	**252**	**62**	**183**	**7**	**252**

15.7 These 252 beneficiaries were granted GPS of P1.584 million under the four insurance programs. Had double insurance been detected by the PABS, the GPS utilization would only be P0.574 million under the RSBSA program. Therefore, an over-utilization of GPS by P1.010 million under the DA-Sikat Saka, CPG and APCP was incurred, as shown in Table 22.

Table 22 - Over Utilization of GPS

Insurance Line	Insurance Program and No. of Farmers with Over-Utilization of GPS					
	RSBSA (1)	DA-Sikat Saka (2)	CPG (3)	APCP (4)	Total (2+3+4)	Total (1+2+3+4)
I. Rice						
GPS	P 370,881	P 595,300	P 101,160	P 43,700	P 740,160	P 1,111,041
No. of Farmers	115	62	46	7	115	-
II. Corn						
GPS	203,500	-	269,900	-	269,900	473,400
No. of Farmers	137	-	137	-	137	-
	P 574,381	**P 595,300**	**P 371,060**	**P 43,700**	**P 1,010,060**	**P 1,584,441**

15.8 As a result of the double insurance, other eligible farmers were deprived of the free insurance protection coverage program of PCIC. Although, the 12,113 verified farmers represent only 8.55 per cent of the 141,753 farmers insured under RSBSA, the possibility that the accounted over utilization may increase with the remaining unverified 129,640 beneficiaries.

15.9 The presence of double insurance was due to the absence of embedded security features in the PABS to detect Application for Crop Insurance (ACI) of farmers and fisherfolk which is being encoded manually by PCIC personnel. The audit queries issued by the Audit Team in RO No. VII on this regard disclosed the following information on the limitations of the PABS:

a. No embedded control to detect and identify if the same farmland is insured with the same type of insurance in the same cropping season with the same risk, but Management commented that it can be prevented by reviewing thoroughly the ACI prior to encoding the data although it is time consuming on the part of the encoder;

b. No security features to detect whether the farmers are claiming twice for their insured crops, livestock and non-crop assets as well as to detect the total area insured by a farmer in each type of insurance program;

c. In the Livestock and CLTI Modules, buttons at the lower portion like the “Edit” and “Print” buttons are not functional, as such, errors can only be corrected when done manually;

d. Also in the Livestock module, Farmer Ledger Card (FLC) does not have complete data like the animal identification - sex/age/color;

e. For Fisheries, NCI on Fishing Boat Module, the FLC does not have complete data like fishing boat identification, color/age of the unit/engine number; and

f. Farmer’s name could not be filtered to prevent from encoding twice.

15.10 **We recommended that Management require the PMIO to enhance the PABS-Underwriting and Marketing System (UMS) to provide security features in the system to detect ACI with the same: (a) name, (b) subject matter/object, (c) subject matter is separately insured two or more times, and (d) interest of the assured and risk or peril insured against, in order to prevent double insurance.**

15.11 The Management of RO No. III committed that the processors and encoders will be reminded to be careful in processing/encoding the applications to prevent double insurance.

15.12 On the other hand, Management of RO No. VII explained that double insurance were encountered due to the following reasons:

a. The assured-farmers have two categories, the Self-Financed Farmers (SFF) and the Borrowing Farmers (BF) in which the underwriting process flow is different, the time duration of processing the documents for SFF is shorter while the BF takes longer time and by the time the BF process is completed, double insurance may have already occurred under the SF category in which coverage cannot be deleted due to uneditable PABS program;

b. There were assured farmers who intentionally applied two or more programs; and

c. There are two standard cropping seasons for rice and corn every year however, there are some farmers in particular LGUs who applied thrice because they adopted three cropping seasons. There are farmers wherein planting schedules fall within the same phase, in the same area, in different planting dates in which case there is actually no double insurance/indemnity payment.

15.13 Furthermore, the Management of RO No. VII explained that double insurance is difficult to avoid due to so many subsidized programs and the volume of transactions being processed; and unless PCIC HO improves the PABS or make additional enhancement, they can only minimize but not totally eliminate double insurance.

15.14 As a rejoinder, **we further recommended that Management:**

a. Require the encoders in PABS to observe extra prudence to check the FLC containing complete data as to full name, middle initial and surname, to ensure that no application for double insurance is processed; and

b. Determine other causes of double insurance and come up with doable solutions to address the same.

16. In RO No. III, 671 farmers were granted advance free insurance premium covering the wet season of CY 2018, utilizing the GPS of P1.944 million under the 2017 RSBSA in violation of Part 1, Section 1.3 of PCIC Operations Manual on Rice and Corn Insurance, resulting in the over utilization of 2017 RSBSA Fund.

16.1 Part 1, Section 1.3 of the PCIC Operations Manual on Rice and Corn Insurance states that:

> ***TERM OF INSURANCE COVERAGE*** *– The insurance coverage shall be from direct seeding or upon transplanting up to harvesting, provided that insurance coverage shall commence from date of issuance of the CIC or, from the* ***emergence of seed growth (coleoptiles****), if direct seeded or upon transplanting for rice, and emergence of the first leaf of corn, whichever is later*.

16.2 Likewise, Part 1, Section 6.2 of the same Manual states that:

> *6.2 The policy in respect to a particular assured farmer, may be cancelled and voided if:*
>
> 6.2.1 Xxx to 6.2.1 Xxx
>
> 6.2.3 *The application, in case of self-financed farmer, was filed beyond the reglementary period prescribed in the Rules and Regulations on Insurance of Rice and Corn Crops.*

16.3 Moreover, Part 4, Section 11.02 of the same Manual, further states that:

> *Self-financed farmers seeking insurance cover, individually or as a group under the Group Crop Insurance Scheme (GCIS), shall file the prescribed Application for Insurance or List of Participants, accompanied by the applicable Farm Plan and Budget with the concerned PCIC Regional Office or any authorized PCIC Underwriting Agent not later than fifteen (15) calendar days after transplanting or direct seeding, provided that no risk insured against has occurred prior to CIC issuance xxx.*

16.4 For CY 2017, RO No. III was able to provide free insurance premium on rice crop under RSBSA to 41,357 farmers covering 43,808.45 hectares which is 179.65 per cent and 146.39 per cent, respectively, of the targeted 23,021 farmers and 29,926.80 hectares.

16.5 Verification of the utilization of the 2017 RSBSA fund revealed that the agency already issued free insurance coverage for Phase 91 of rice cropping pertaining to wet season of CY 2018. The wet season pertains to planting season from May to October of each year. As stated in the above provision of PCIC Operations Manual, farmers shall apply the prescribed application for insurance not later than 15 calendar days after transplanting or direct seeding.

16.6 Audit disclosed that 671 farmers with total covered area of 972.2 hectares were provided with free insurance in the CY 2017 fund utilization of RSBSA with amount of cover totaling P19.444 million and corresponding GPS of P1.944 million, intended for CY 2018. These farmers were issued CIC dated December 29, 2017. The inclusion of wet season for CY 2018 in the CY 2017 RSBSA budget violated the above provision of Operations Manual and resulted in the over utilization of CY 2017 RSBSA fund amounting to P1.944 million.

16.7 **We recommended that Management:**

> **a. Require the employees concerned who approved the issuance of the free insurance coverage pertaining to wet season of CY 2018 to submit to the Audit Team of RO No. III the justification for the granting in advance of free insurance coverage; and**
>
> **b. Comply strictly with the provisions of Operations Manual on Rice and Corn Insurance particularly on the term of insurance coverage and refrain from granting in advance free insurance coverage.**

16.8 Management commented that advance insurance coverage for wet cropping season applications were prepared to save time and effort for the farmers' attendance in applying insurance and that the recommendations will be taken into consideration and rules/regulations will be followed strictly.

17. The PCIC's GADs Plan and Budget (GPB) for CY 2017 reviewed by the Department of Agriculture (DA) was not approved and endorsed to the Department of Budget and Management (DBM) by the Philippine Commission on Women (PCW) as required under Joint Circular No. 2012-01 of the PCW, National Economic Development Authority (NEDA) and DBM; hence, the Corporation was not assured that the GAD projects/activities undertaken by the PCIC-HO and its Regional Offices (ROs) in the total amount of P9.046 million were really responsive to the gender sensitivity issues.

17.1 Pertinent provisions of PCW, NEDA and DBM Joint Circular No. 2012-01 dated September 30, 2012, on the *Guidelines for the Preparation of Annual GAD Plans and Budgets and Accomplishment Report (AR) to Implement the Magna Carta of Women,* state that:

> *7.v. Schedule to be observed in GAD Planning and Budgeting. January (1 year before budget year). Submission of reviewed GAD Plans and Budgets (GPBs) and Accomplishment Reports (ARs) to PCW.*

8.1.1. GOCCs [Government-Owned and Controlled Corporations] *attached to line departments shall prepare their GPBs in accordance with their budget cycle and shall submit the same to their central office for review;*

8.6. PCW shall endorse agency GPBs only under the following conditions:

8.6.1. If they are reviewed by the mother or central office;

8.6.2. If the requested revisions or additional information in answer to questions about the GPB are accepted by PCW within the prescribed deadlines; and

8.6.3. If they are accompanied by the GAD [Accomplishment Report] *AR.*

17.2 Review of the Annual GAD AR for CY 2017 revealed that a total of P9.046 million was utilized for GADs activities in PCIC HO and its ROs, details are shown in Table 23.

Table 23 - GAD Targets vis-à-vis GAD Accomplishment in CY 2017

GAD Activities	Approved GAD Budget	Actual Accomplishment	Actual Expenses
CLIENT FOCUSED			
Inconvenience experienced by walk in clients especially toddlers, senior citizens and persons with disabilities (PWDs) when transacting business at PCIC	P 200,000	• Provided express lanes, signages, chairs and water dispensers • Provided client lounge for breastfeeding • Installed GAD Bulletin Board at PCIC-10 office premises • Gave priority lanes for women especially with disabilities and senior citizens during filing applications for crop insurance for farmers with special needs	P 59,518
Low level of awareness on Gender related laws, issues and concerns among clients	1,000,000	• Distributed GAD information, reading materials/leaflets • Posted GAD updates and activities on the Bulletin Board • Conducted information campaigns/ marketing meetings with women farmers • Provided free Accidental Dismemberment Security Scheme (ADSS) Insurance for the first 20 women clients on March 27, 2017 • Conducted seminars and lectures for women farmers in observance of Women's Right and International Peace day and Agricultural Insurance	299,786

GAD Activities	Approved GAD Budget	Actual Accomplishment	Actual Expenses
		for Solicitors and Underwriters. (85 participants consisting of 38 females, 47 males)	
	1,200,000		359,304
ORGANIZATION FOCUSED			
Inadequate awareness on Gender issues and concerns among employees	4,000,000	• Conducted Seminar Workshop and Conference attended by representatives from ROs, among others, such as: ➢ Men and Women Empowerment Orientation and Re-orientation on Gender Equality. ➢ GAD Equality "Going Beyond Boundaries" ➢ GAD Mainstreaming Seminar ➢ Seminar on Good Housekeeping ➢ National Conference on Gender Equality ➢ Disaster Preparedness and Health and Wellness	3,440,882
Proclamation No. 224, s. 1988, declaring the First of March each year as Women's week and March 8 as Women's Rights and International Peace day Proclamation No. 227, s. 1988 providing for the observance of the month of March as women's role in history month	4,000,000	• Conducted National Women's Month Celebration activities attended/ participated by employees all Offices	2,546,408
Gender Issues and concerns are not integrated in PCIC programs (Conduct of Mainstreaming Activities)	3,500,000	• Conducted Capability Building Conference to Enhance and Refine Claims Adjustment and Settlement Procedures, Reorientation on PCIC Programs and Gender Equality Planning for Mainstreaming for GAD • Attended Seminar on GAD entitled "Operations Review and GAD Mainstreaming"	2,699,167
	11,500,000		8,686,457
	P 12,700,000		**P 9,045,761**

17.3 As required under Section 7.v. of Joint Circular No. 2012-01 of the PCW, NEDA and DBM, the GPB for CY 2017 together with the AR should be submitted to PCW on January 2016, which is one year before budget year, however, perusal of available records revealed that the PCIC's GPB for CY 2017, after review by the DA, was submitted to PCW only on July 21, 2016, for endorsement/approval. From July 26, 2016 and July 27, 2016, there were series of revisions and reviews made by the PCIC and the

PCW, respectively, but as at audit date, the said GPB has not been approved and endorsed by the PCW.

17.4 In Table 23, PCIC partially carried out its GAD activities in CY 2017 for both Client and Organization focused activities, incurring P9.046 million or 71.23 per cent of the total approved budget of P12.700 million, with emphasis on Client focused activities where PCIC incurred only P359,304 or 29.94 per cent out of the approved budget of P1.200 million.

17.5 In view of the absence of duly endorsed/approved GPB, the Corporation was not assured that the GAD projects/activities undertaken were really addressing the gender sensitivity issues that would result in gender equality and women empowerment. Likewise, due to partial utilization of approved GAD budget on some targeted GAD activities, the intended GAD beneficiaries were deprived of the opportunity to avail of the benefits that could be derived therefrom.

17.6 **We recommended that Management:**

a. Require the Chair of the PCIC GAD Focal Point and the Finance Manager to comply with the provisions of PCW-NEDA-DBM Joint Circular No. 2012-01 to ensure PCW's approval of GPB that is responsive to gender sensitivity issues; and

b. Ensure that the approved budget is maximized in undertaking the GAD activities.

COMPLIANCE WITH GOVERNMENT SERVICE INSURANCE SYSTEM (GSIS) LAW

18. Verification disclosed that the provisions of Section 6 of RA No. 8291 on the withholding of contributions and remittance of employees' and employer's share to the GSIS within the period prescribed under the said Act were duly complied with.

C. PERFORMANCE

19. The Revised Implementing Guidelines (RIG) on the utilization of the Government Premium Subsidy (GPS) of P2.500 billion received from the NG for Registry System for Basic Sectors in Agriculture (RSBSA) Program did not provide policy and procedures on how it will be prorated to targeted beneficiaries in each recipient municipality to ensure that control mechanism is in place so that farmers and fisherfolk who had already availed of the program in previous years' would not be entitled to another free insurance, until all the 6,845,747 farmers and fisherfolk included in the RSBSA list have been served to give equal opportunity to all eligible beneficiaries.

Sustainable Development Goal (SDG) Background

19.1 EO No. 5 dated October 11, 2016 was issued by the Office of the President (OP) of the Philippines, signed by the Executive Secretary, approving and adopting the Twenty-Five-Year Long Term Vision Entitled "*AMBISYON NATIN 2040*" as Guide for

Development Planning. Section 1, on the Adoption of Ambisyon Natin 2040 provides that:

> *By 2040, the Philippines shall be a prosperous, predominantly middle-class society where no one is poor; our peoples shall live long and healthy lives, be smart and innovative, and shall live in a high-trust society.*

19.2 In support of the EO, Memorandum Circular (MC) No. 12 dated October 24, 2016, was issued by the OP of the Philippines, signed by the Executive Secretary, directing the formulation of the Philippine Development Plan (PDP) and the Public Investment Program (PIP) for the period 2017-2022 jointly by the executive and legislative branches of the government, with the participation of other sectors, including the marginalized and private sectors. Likewise, Section 2 of the MC directed all departments, offices and instrumentalities of the government, including government-owned or controlled corporations (GOCCs) to formulate their respective medium-term development plans and action programs which shall have results-oriented focus on national development goals and shall be in line with *AMBISYON NATIN 2040*, the 2030 Agenda for Sustainable Development and the President's Socio-Economic Agenda.

19.3 For its implementation, the National Economic and Development Authority (NEDA) and the Philippine Statistics Authority (PSA) are the lead agency tasked in the policy making and monitoring using the SDG indicators in monitoring and developing socio-economic plans/programs for the country and to review mechanisms for developing National SDG Indicator Framework and to serve as the official repository of SDG indicators in the Philippines.

RSBSA Insurance Program

19.4 The PCIC is the lead agency to implement the grant of free insurance coverage or full GPS to subsistence farmers through the implementation of the RSBSA Program. PCIC identified Goal 2, to "*End hunger, achieve food security and improve nutrition and promote sustainable agriculture"* and Goal 13, to "*Take urgent action to combat climate change and its impacts"* as their participation in achieving the objectives of the SDG. These two goals are aligned with the metadata of the 17 SDGs reported in the PSA website.

19.5 The RSBSA was implemented by PCIC starting CY 2014. From CYs 2014 to 2017, PCIC received a total subsidy of P6.583 billion from the NG, presented in Table 24.

Table 24 – Summary of GPS received from the NG from CYs 2014 – 2017

Year	Amount
2014	P 1,183,000,000
2015	1,300,000,000
2016	1,600,000,000
2017	2,500,000,000
	P 6,583,000,000

19.6 The GPS was incorporated in the annual Corporate Operating Budget (COB) of PCIC duly approved by the DBM.

19.7 PCIC set yearly production targets for GPS under the RSBSA based on the annual budget allocation received from the NG. As at December 31, 2016, the DBM provided RSBSA list of 13,516,337 farmers and fisherfolk to PCIC. The list was filtered by the PMIO-IT of PCIC by deleting the names that were listed twice in the Registry, causing the reduction of the number of farmers and fisherfolk in the RSBSA list from 13,516,337 to 10,915,180 consisting of 5,481,428 farmers; 1,364,319 fisherfolk and 4,069,433 laborers.

19.8 Among the salient provisions in the Revised Implementing Guidelines (RIG) on the Utilization of GPS, are as follows:

1. The PCIC shall ensure that the beneficiaries identified are registered under the RSBSA and are not insured for the same type of insurance, with priority given to those in localities declared as critical geo-hazard areas or no build zones identified by the Mines and Geo-Sciences Bureau.

2. Release of funds shall be subject to the submission of the list of subsistence farmers and fisher folk duly endorsed by the Department of Agriculture (DA).

3. The P2.5 billion GPS shall be utilized in accordance with the approved Regional Production Targets for FY 2017.

4. The types of insurance lines eligible for GPS are as follows: (a) Rice Crop; (b) Corn Crop; (c) High-Value Crop; (d) Livestock; (e) Fisheries; and (f) Non-Crop Agricultural Asset, indicating therein the premium rates for each insurance line and amount of cover.

5. The percentage of the GPS in the premium cost is 100 per cent (full premium subsidy).

6. Priority shall be given to the RSBSA farmers under the following conditions:

   a. The order of prioritization shall be based on the farmer's landholdings size as follows: 1st - Farmers tilling an area of 1.50 hectares and below; 2nd Farmers tilling an area of more than 1.50 hectares up to 2.00 hectares; 3rd Farmers tilling an area of more than 2.00 hectares up to 3.00 hectares; and 4th Farmers tilling an area of more than 3.00 hectares, subject to the limitation that only 3.00 hectares shall be entitled to full (100 per cent) premium subsidy. The areas in excess of 3.00 hectares may be insured at the option of the farmer, provided, that he/she shall pay the full cost of insurance premiums.

   b. Coverage must be intensive in the following provinces/areas listed under the DA's Special Area for Agricultural Development (SAAD) Program:

      - Apayao
      - Western Samar
      - Eastern Samar
      - Northern Samar
      - Zamboanga del Norte
      - North Cotabato
      - Sarangani
      - Lanao del Sur
      - Maguindanao
      - Negros Oriental

c. Insurance covers/policies for RSBSA Program are subject to certain limitations for crops (rice, corn, high-value crop), livestock, fisheries and non-crop agricultural assets as enumerated in the Revised Implementing Guidelines.

d. Underwriting procedures were also indicated and corresponding service fee of the underwriters and solicitors.

e. The GPS shall be applied on insurance policies incepting from January 1, 2017 to December 31, 2017.

19.9 Review of the RIG on the utilization of the GPS received from the NG for the RSBSA Program showed that it provides criteria on the order of prioritization as to landholdings and coverage area for farmers and fisherfolk availees; however, it did not include policy and procedures on the yearly pro-rata allocation of the fund for targeted beneficiaries in each recipient municipality to ensure that control mechanism is in place so that farmers and fisherfolk who had already availed of the program would not be entitled to another availment until all the 6,845,747 farmers and fisherfolk listed in the RSBSA had been served to give equal opportunity to all eligible beneficiaries.

19.10 Based on the report from the Actuarial Research and Product Valuation Department (ARPVD), it is worth mentioning that PCIC was able to utilize the P2.5 billion fund for its production output in CY 2017, which even exceeded production output of P2.535 billion by P35.066 million as shown in Table 25.

Table 25 - Comparison of RSBSA Insurance Production Target vis-à-vis Production Output

RO Nos.	Production Target		Actual Production		Difference	
	No. of Farmers and Fisherfolk	GPS	No. of Farmers	GPS	No. of Farmers and Fisherfolk	GPS
I	86,884	P 174,183	87,212	P 185,054	(328)	P (10,871)
II	100,716	201,888	91,248	233,293	9,468	(31,405)
III	58,812	122,575	46,292	93,882	12,520	28,693
III-A	54,074	104,765	43,555	134,639	10,519	(29,874)
IV	155,271	280,178	106,838	314,290	48,433	(34,112)
V	119,990	220,494	74,342	155,035	45,648	65,459
VI	145,185	267,533	134,331	267,984	10,854	(451)
VII	130,816	240,284	141,731	251,054	(10,915)	(10,770)
VIII	88,558	179,444	72,081	155,714	16,477	23,730
IX	77,638	148,588	54,442	158,171	23,196	(9,583)
X	103,365	208,717	75,018	209,988	28,347	(1,271)
XI	105,538	204,148	48,579	204,807	56,959	(659)
XII	73,153	147,203	54,051	171,155	19,102	(23,952)
	1,300,000	**P 2,500,000**	**1,029,720**	**P 2,535,066**	**270,280**	**P (35,066)**

19.11 On the contrary, the targeted number of insured farmers and fisherfolk of 1.300 million compared with the actual production of 1.030 farmers and fisherfolk fell short by 270,280 farmers and fisherfolk.

19.12 According to Management, the production target on GPS prevail over targeted number of farmers and fisherfolk. Thus, the focus of PCIC is the utilization of the P2.500

billion by way of full or 100 per cent insurance premium of farmers and fisherfolk listed in the RSBSA.

19.13 During the exit conference held last May 21, 2018, the Senior Vice President for Regional Management Group (RMG) informed that utilization of GPS is based on the production target received from the PCIC Regional Offices (ROs). He also informed that the PABS is not capable of detecting farmers and fisherfolk already granted with full or 100 per cent GPS.

19.14 Likewise, the PCIC President added that of the 10,915,180 farmers and fisherfolk listed in the RSBSA, 4,069,433 laborers were not qualified to the program since they do not have farmlands or landholdings. Hence, only the 5,481,428 farmers and 1,364,319 fisherfolk or a total of 6,845,747 should be entitled to free or 100 per cent GPS.

19.15 The GPS is projected to increase by P1 billion every year, with P7.5 billion in CY 2022, hence this matter should be given utmost attention by the key officials of PCIC.

19.16 In the absence of policy and procedures which include control mechanisms on how the GPS received from the NG be pro-rated to targeted beneficiaries in each recipient municipality, we could not determine whether the 6,845,747 farmers and fisherfolk included in the RSBSA list will be granted free insurance. Moreover, it may affect PCIC in attaining its commitment in the objective of SDG Goal 2 which is to end hunger.

19.17 We recommended that Management consider the inclusion of policy and procedures in the RIG on the utilization of GPS received from the NG on how it will be pro-rated to targeted beneficiaries in each recipient municipality to ensure that control mechanism is in place, such as but not limited to, list of targeted farmers/fisherfolk and their addresses so that all eligible farmers be given equal opportunity to avail of the free insurance program of the government.

Implementation of RSBSA in PCIC ROs

20. In RO Nos. I, IV, VIII and XI, the payment of indemnity claims totaling P39.788 million to 11,049 farmers registered under various insurance programs/lines was delayed ranging from 1 to 312 days from the prescribed period set in PCIC's Operations Manual; thereby defeating the purpose of providing speedy assistance to farmers in the restoration of their farm land which is the source of livelihood.

20.1 The Operations Manual on Rice and Corn Insurance, HVC Insurance, Fisheries Insurance, Livestock Insurance, Non-Crop Agricultural Asset Insurance and Term Insurance Packages provide the period for settlement of insurance claims. The policies are enumerated in Table 26.

Table 26 - Policies on Settlement of Insurance Claims

Insurance Line	Reference	Settlement Policy
Rice and Corn	*Section 10.7, Part I-Statement of Policy and Administrative Provisions*	*A claim shall be settled expeditiously, but not later than sixty (60) calendar days from submission by the insured of complete claims documents to the Corporation.*
High Value Commercial Crops	*Section 20.1, Part 2-Rules and Regulations*	*A claim shall be settled expeditiously, but not later than sixty (60) calendar days from submission by the insured of complete claims documents to the Corporation.*
Fisheries	*Section 21.1, Part 2-Implementing Rules and Regulations*	*A claim shall be settled expeditiously, but not later than sixty (60) calendar days from submission by the insured of complete claims documents to the Corporation.*
Livestock	*Section 24.1, Part 2-Rules and Regulations on Livestock Insurance*	*A claim shall be settled in the following manner:* *24.1 A claim shall be approved/disapproved within forty (45) calendar days from the submission of complete set of claims documents by the assured to the concerned PCIC RO.*
Non-Crop Agricultural Asset Insurance	*Section 13.03, Part I-Statement of Policy and Administrative Provisions*	*An approved claim shall be settled not later than forty (40) days from date of approval of the claim or as specified under Section 11.4 of the R.A. 8175.*
Term Insurance Packages	*Section 11.1, Part 2-Master Policy Contract*	*A claim shall be settled not later than 30 calendar days from the submission by the beneficiary or his/her representative of complete documents to the PCIC RO or its underwriting agency. Any deficiencies noted on the documents shall suspend the processing of claim until such deficiencies are submitted/complied with.*

20.2 In addition, Section 10.7, Part I - Statement of Policy and Administrative Provisions of the Operations Manual on Rice and Corn Insurance provides that:

> *Any claim not acted upon sixty (60) calendar days from submission by the affected farmer of complete claims documents to the concerned PCIC Regional Office shall be considered approved, provided that such documents are not questionable. Deficiencies attributable to the claimant or any party other than PCIC may lead to deferment of action or suspension of processing until such deficiencies are completed/complied with. The time period which PCIC's action is under suspension shall be excluded in counting the 60-day period.*

20.3 The last two sentence of the above provision was also included under Section 20.1, Part 2-Rules and Regulations on the Operations Manual for HVC Insurance.

20.4 Reports lifted from the MLs of RO Nos. I, IV, VIII and XI disclosed that settlement of 11,049 insurance claims of farmers under various insurance programs totaling P39.788 million were delayed ranging from 1 to 312 days as shown in Table 27.

Table 27 – No. of Days Delayed in Settlements of Insurance Claims

	1-60 days		61-120 days		121-180 days		More than 180 days – 312 days		Total	
RO Nos.	**No. of Farmers**	**Amount**	**No. of Farmers**	**Amount**	**No. of Farmers**	**Amount**	**No. of Farmers**	**Amount**	**No. of Farmers**	**Amount**
I	8,459	P 29,674,586	2,200	P 7,511,419	29	P 165,289	-	P -	10,688	P 37,351,294
IV	100	634,925	24	169,016	8	48,656	7	110,227	139	962,824
VIII	30	157,951	114	559,922	9	49,808	12	77,878	165	845,559
XI	57	628,072	-	-	-	-	-	-	57	628,072
	8,646	**P 31,095,534**	**2,338**	**P 8,240,357**	**46**	**P 263,753**	**19**	**P 188,105**	**11,049**	**P 39,787,749**

20.5 Enumerated hereunder are the causes of the delay in the settlement of claims based on information provided by concerned ROs:

RO Nos.	**Reason/s for Delayed Settlement of Claims**
I	Most of the claims were filed in September 2016 up to November 2016, which was the time when typhoons hit the region consecutively leaving majority of the farmlands devastated, hence PCIC was piled up with numerous claims for processing. In times like this, even most employees go on over time, still they could not cope up with the demands during the period.
IV	The settlement was delayed due to lack of manpower complement. Interview with farmer beneficiaries disclosed that delay in the payment of their insurance claims was due to the late inspection made by the PCIC Claims Adjuster. Oftentimes, it took several weeks or even months before their farms were visited/inspected. Also, there were instances when crops have already been harvested when the Claims Adjuster arrived. Thus, the basis of claims adjustment was the produce declared by the farmer which is oftentimes not beneficial on their part.
VIII	The delay was caused by the bug down of computer server sometime in September 2017 and has to be sent to the Head Office for repair/replacement. Since then, their processing was done manually. The server was brought back to the office in December 2017 only. It was only after this period that operation was back to normal.
XI	The delay was primarily due to the increased in volume of claims processed without corresponding increase in manpower complement.

20.6 It is apparent that the causes of delay in settlement of claims were the lack of manpower except for RO No. XI which was attributed to the bug down of the computer server.

20.7 The Senior Vice President for RMG is hopeful in his justification during the exit conference held last May 21, 2018 that this problem will be addressed once the reorganization of PCIC is finalized and approved by the DBM.

20.8 In effect, the delay in the settlement of indemnity claims hinders insured beneficiaries the opportunity to immediately restore their farms and to pay their financial obligations to lending institutions on time to avoid incurring additional interest, thereby defeating the purpose of providing speedy assistance to farmers and fisherfolk in times of calamity.

20.9 **We recommended that Management:**

a. Consider the designation of personnel from different departments of PCIC during time of pay out of indemnity claims to facilitate review of completeness of documents, encoding as well as check processing in order to expeditiously release payment to claimants for them to be able to immediately restore their farmlands in the meantime that PCIC lack the necessary manpower for the purpose; and

b. Study the possibility of having a stand by computer server which can be immediately used as replacement in case of bug down to avoid delay in claims processing and other transactions encoded and processed by the PABS.

20.10 During the exit conference on May 21, 2018, Management informed that the delays may have occurred, however, these are extreme and exceptional cases, such as when the claims were denied previously and later reconsidered upon appeal of the claimants. In 2017, PCIC implemented the Claims Adjustment Smart-Phone Application (Tablet Technology) to fast-track the Claims Settlement Response Time (CSRT), which resulted in a much shorter claims response time.

20.11 As a rejoinder, we further recommend that Management extensively implement the Claims Adjustment Smart-Phone Application (Tablet Technology) in all its ROs and Provincial Extension Offices (PEOs) to avoid delay in settlement of claims.

21. The RSBSA was not effectively and efficiently implemented due to inadequate information dissemination campaign in RO Nos. III and VII and low satisfaction of farmers-beneficiaries in RO Nos. III and III-A as the pay-outs or indemnity received were not sufficient to restore their farm needs, affecting their ability to immediately recover their losses which might also affect the attainment of the goals and objectives of the program.

21.1 The Audit Team in RO No. III reported that it conducted interview of 200 farmer-beneficiaries who availed of free Rice Insurance and who were actually paid indemnity claims on losses/damages. A total of 50 farmer-beneficiaries were randomly selected from each barangay/area from the provinces of Bulacan, Pampanga, Tarlac and Zambales, which had the highest number of claimants of indemnity payments. Summarized below are the results of the interview and survey conducted lifted from the Audit Team's Survey Questionnaires.

a. The free insurance program was learned through the MAO who assists them in filling up the application forms for free insurance; and

b. Majority replied that they are not aware of other insurance lines offered by PCIC, which showed inadequacy in the information dissemination on the different insurance lines granted by PCIC specifically those covered by RSBSA.

21.2 In RO No. VII, it was also reported in its ML that information education campaign and dissemination of insurance protection packages was not intensified, hence, other subsistence farmers and fisherfolk included in the RSBSA list and entitled to avail free GPS were not aware of the program, thus the intention of the government to provide the latter's protection against losses was not implemented effectively.

21.3 In the validation conducted by the Audit Team in Catigbian and Sagbayan, Bohol in December 2017 on the insurance production and payment of indemnity claims, 103 farmers from eight remote barangays were able to accomplish the survey questionnaires. Information gathered from the questionnaires and interviews with them revealed that there were farmers in their localities who were not aware of types of insurance lines and programs particularly the full provision of insurance premium catered by the PCIC due to limited information campaign conducted through information caravan, PCIC underwriters and the MAO.

21.4 We were also informed that when the PCIC's personnel conducted information caravans in certain localities, many farmers were not aware of the event, some who were invited did not attend the event due to lack of funds for transportation expense in going to and from the venue, and even to the office of MAO. Furthermore, they also added that farmers were coming one after the other but some left the venue before the session started or the session is over to give care to their animals and to attend to other personal matters.

21.5 As a result, the Agency was not able to bring the program within the reach of the intended farmers and fisherfolk who are entitled to free insurance program.

Low satisfaction of farmers-beneficiaries as the pay-outs or indemnity received were not sufficient in RO Nos. III and III-A

21.6 In RO No. III, the Audit Team observed that all indemnity claims regardless of amount were paid through check. The amount of insurance cover for rice per hectare is P20,000 as provided in the RSBSA guidelines. At the time of adjustment, the PCIC Adjusters will determine the percentage of losses which will be the basis in the computation of indemnity payments.

21.7 It is worthy to note that the 200 farmers interviewed appreciated the free insurance granted by PCIC including the payment of their claims. However, they were dissatisfied with the amounts paid for their losses which ranged from P603 to P10,060 because they were expecting a higher pay-out or at least equivalent to the amount of actual loss incurred considering that the average production cost they incurred per hectare is P15,000 to P20,000. The farmers claimed that the indemnity was insufficient to cover the losses incurred. They added that the computation of indemnity was likewise not clearly explained to them at the time of adjustment; hence, they were expecting a bigger pay-out.

21.8 In RO No. III-A, covering the province of Nueva Ecija, the Audit Team also conducted interview of 75 recipient beneficiaries and similarly they were not satisfied with the indemnity received as it was not sufficient enough to recover their losses.

21.9 Based on these comments and the results of the survey questionnaires, the farmer-beneficiaries under RSBSA seek or expect a higher degree of satisfaction from the service provided by PCIC on the implementation of insurance program, specifically on claims settlement, although the insurance premiums were free. Therefore, the purpose of the program to help the subsistence farmers and fisherfolk by providing full insurance premium on their crops was not fully achieved.

21.10 **We recommended that Management:**

a. Intensify the information dissemination regarding the insurance programs of the PCIC, particularly RSBSA to increase awareness of intended farmers and fisherfolk including those in the rural areas to ensure wide reach availment of the program;

b. Request the assistance of the Head of DA-LGU (HDL) to coordinate with barangay chairpersons in servicing the constituent-farmers within their area of jurisdiction such as providing, assisting and receiving insurance application forms and distribution of brochures or pamphlets about the different insurance programs of PCIC by the HDLs;

c. Revisit the Operations Manual of insurance lines and conduct research/study on the possibility of increasing indemnity claims of beneficiaries;

d. Conduct extensive training of Insurance Adjusters on the proper assessment of loss and determining of the negligence on the part of the farmer/owner; and

e. Formulate strategies or plans on how the program can be successfully implemented to enable proper utilization of the appropriated fund in providing full insurance premium to bonafide beneficiaries.

21.11 In RO No. VII, Management explained that the schedules of farmers' orientation and information caravans including tri-media coverage were already programmed/planned. It also added that in order to enormously improve their visibility and accessibility to the farmer-clients, four PEOs in Tagbilaran Ubay in Bohol and Dumaguete and Bayawan in Negros Oriental have been fully-operational in March 2018, while Siquijor PEO will follow soonest. Moreover, it committed to have a regular weekly radio program in a government radio station starting CY 2018 to inform and educate farmers/fisherfolk especially those in remote areas in coordination with PCIC HO for the funding. Further, it shall improve the presentation of the brochures as part of information disseminations campaign to attract the attention of farmers/fisherfolk.

21.12 During the exit conference on May 21, 2018, Management explained that PCIC may not have reached all farmers and fisherfolk, but all ROs were enjoined to conduct massive and intensified information dissemination of PCIC programs through its Regional Information Marketing and Education (PRIME) Team created under PCIC

Memorandum Circular No. 2015-001 dated February 9, 2015. They also mentioned that the indemnity computation is ruled by loss prediction models and matrices, thus, there is no other way but to observe it.

21.13 As a rejoinder, **we further recommended that Management:**

a. Direct the Regional Managers to instruct the MSD, underwriters, MAO, Adjusters and all other PCIC officers and employees concerned to fully explain and orient the farmers and fisherfolk on the insurance program availed, with emphasis on claims settlement and computation of indemnity claims; and

b. Consider incorporating in the brochures or pamphlets the computation of indemnity claims per insurance line and factors considered thereof for information.

UNSETTLED AUDIT SUSPENSIONS, DISALLOWANCES AND CHARGES

22. As of December 31, 2017, the unsettled audit disallowances and suspensions amounted to P17.496 million and P9,613, respectively, details and status are shown in Annex A, Part-IV of this Report. There were no unsettled audit charges at year-end.

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

Out of 54 recommendations contained in the prior years' Annual Audit Reports (AARs), 26 were fully implemented, 18 were partially implemented and 10 were not implemented. Details are as follows:

Observations and Recommendations	Actions Taken/Comments
CY 2016 AAR	
1. The correctness and completeness of the Property, Plant and Equipment (PPE) account with carrying value of P66.107 million as at December 31, 2016 could not be relied upon due to significant variance of P20.092 million between the accounting records and the Report on the Physical Count of PPE (RPCPPE) in Head Office (HO) and Region V, which could be attributed to, among others, the non-maintenance of PPE Ledger Cards (PPELCs) and Property Cards (PCs), misclassification of accounts worth P394,990, and unaccounted cost of unserviceable properties in the absence of Inventory and Inspection Report for Unserviceable Property (IIRUP) as basis to record dropping of these unserviceable PPE items from the books as provided in Section 64 of the Manual on the New Government Accounting System (MNGAS), Volume II. Moreover, unserviceable properties found at the storeroom of HO and Region XII were not disposed of contrary to Section 79 of Presidential Decree (PD) No. 1445.	The observation was updated and reiterated in Part II, Observation and Recommendation No. 4 of this report.
We recommended and Management agreed to direct:	
a. The concerned Accountants and Property Officers to:	
a.1 Reconcile accounting records and RPCPPE and effect adjustments accordingly to reflect the correct balance of the PPE	Not Implemented. The Accountant and Property Officer are currently undergoing retrieval of property

Observations and Recommendations	Actions Taken/Comments
account; and	and accounting records; however, reconciliation had not been undertaken.
a.2 Maintain PPELC and PC for every item of property;	Partially Implemented. The Property Officer maintained PC for properties acquired during the year only, however no PPELC had been maintained by the Accountant for property and equipment.
b. The HO Accountant to reclassify the entry on Leasehold Improvements to Office Equipment for the five air-conditioning units to correct the over/understatement of the accounts;	Fully Implemented. Journal Entry Voucher (JEV) Nos. 04-114 and 07-045 were drawn on July 31, 2017 to reclassify transactions recorded to Leasehold Improvements to Office Equipment account.
c. The Property Officers in HO and Region XII to prepare the IIRUP so that disposal of the unserviceable properties be facilitated in accordance with Section 79 of PD No. 1445, and the cost of disposed PPE be dropped from the books; and	Partially Implemented. In HO, IIRUP for unserviceable properties was prepared which was the basis for disposal of items worth P47,446.63 in January to March 2018. The mode of disposal resorted to Negotiated Sale due to failed bidding.
d. The HO Property Officer to address the lapses in property management by: (i) updating the RPCPPE as to location and names of persons accountable for each PPE item; (ii) renewing Acknowledgement Receipt of Equipment (ARE) every three years and updating the same once the property is transferred from one accountable personnel to another; and (iii) correcting the property tags of those PPE items with similar property number and effect corresponding corrections in the RPCPPE.	Partially Implemented. The location and names of persons accountable are provided for each PPE item in the RPCPPE. However, AREs were not renewed and updated. Moreover, new format of property sticker are adopted for new purchases only with information as to acquisition cost, date acquired, designation of accountable officer and location, but the name of the accountable officer was not indicated in the property sticker.
2. The collectability and recovery of Receivables-Non-Current accounts of P430.011 million or 99.10 per cent of the total book balance of P433.905 million as at December 31, 2016 are doubtful since these accounts have	The observation was updated and reiterated in Part II, Observation and Recommendation No. 3 of this report.

Observations and Recommendations	Actions Taken/Comments
been dormant for more than 21 to 36 years, due to inability to collect from the National Government (NG) of the premium subsidy, absence of supporting documents of several accounts and laxity by the Regional Offices (ROs) to enforce collections from farmer-borrowers, among others.	
We recommended that Management:	
a. Determine the likelihood/probability of collecting the Premium Receivable arrearages from the NG totaling P315.665 million and provide Allowance to present fairly the account Receivables-Non-Current in the financial statements;	Partially Implemented. Management informed that the receivable from the NG had always been included in the PCIC annual budget proposal. It added that collectability of the said premium share may not be remote, considering that their annual budget has been programmed to increase yearly to cover the grant of GPS to subsistence farmers.
b. Exert all efforts to collect receivables from defaulting borrowers. When all collection measures proved futile, instruct the Regional Accountants to set time frame in complying with the documentation requirements in filing the request for authority to write-off of dormant accounts pursuant to COA Circular No. 2016-005 dated December 19, 2016; and	Partially Implemented.
c. We further recommended that the Premium Receivable from the NG be presented as a disclosure in the Notes to Financial Statements, since this has been dormant for more than 20 years.	Fully Implemented.
3. The validity and correctness of the balance of Accounts Payable-Non-Business Lines-Accrued Expenses of P11.565 million as at December 31, 2016 are doubtful due to adjustment made without source documents of prior years' accrued expenses totaling P4.518 million and erroneous recording of prior year's expenses totaling	

Observations and Recommendations	Actions Taken/Comments
P98,212 which were not accrued in CY 2015, thereby affected the fair presentation of the Accounts Payable-Non-Business Lines-Accrued Expenses account and other related accounts in the financial statements.	
We recommended and Management agreed to instruct the HO Accountant to:	
a. Submit the source documents to support the adjusting entry totaling P4.518 million under Journal Entry Voucher (JEV) No. 2015-12-174; otherwise non-submission thereof will cause the reversion of the entry made;	Not Implemented. The source document to support the adjusting entry was not submitted to the Audit Team as at audit date.
b. Accrue all expenses at year-end in compliance with Paragraphs 27 and 28 of Philippine Accounting Standards (PAS) 1, on the accrual basis of accounting to ensure recognition of expenses in the proper period to which they relate; and	Fully Implemented. CY 2016 expenses paid in CY 2017 had been accrued.
c. Review all the journal entries made to record expenses amounting to P98,212 and adjust accordingly the affected accounts to correct their balances, for proper financial statements presentation.	Not Implemented.
4. Office supplies procured worth P2.555 million were recorded in the books as outright expense and the Inventory account for supplies on hand was only set up at the end of accounting period; thereby, showing lack of control over receipt and issuance of supplies as it could not be readily determined if these were completely delivered, and issuances were properly accounted for. Likewise, the accounting and valuation policies for Inventories were not disclosed in the Notes to Financial Statements contrary to Paragraphs 6 and 36 of PAS 2, on Presentation of Financial Statement and PAS 1 on	

Observations and Recommendations	Actions Taken/Comments
Inventories, respectively.	
We recommended and Management agreed to:	
a. Require the Accountant to: (i) adopt the Perpetual Inventory System in accounting for supplies and materials and the Weighted Average Method in costing inventory on hand, and (ii) provide adequate disclosure on inventory account in compliance with Paragraph 36 of PAS 1; and	Partially Implemented. Perpetual Inventory System is being adopted in accounting for supplies and materials and, disclosure on inventory account has been provided in compliance with PAS 1.
b. Require the Property Officer to: (i) update the stock cards (SCs) with complete data as to unit cost of each item to facilitate reconciliation with the Supply Ledger Cards, and (ii) prepare the Report of Supplies and Materials Issued (RSMI) to be used by the Accounting Unit as basis in preparing the JEV to record issuances of supplies and materials.	Fully Implemented. RSMIs are being prepared starting February 2018.
5. In HO, outstanding checks totaling P0.755 million which included stale and cancelled checks were not adjusted/reverted back to cash in bank and corresponding liability accounts; thus, understating their balances by the same amount at year-end. In Regions VII and X, negative balances in the amounts of P401,858 and P0.577 million, respectively, exist in their cash-in bank accounts. Moreover, in Regions VI and VII, Bank Reconciliation Statements (BRSs) covering CYs 2015 and 2016 were not prepared and submitted to COA, contrary to Section 52 of MNGAS, Volume I and Section 74 of PD No. 1445.	
We recommended that Management instruct:	
a. The HO Accountant to make necessary adjustments on the stale and cancelled checks in compliance with	Fully Implemented. The outstanding checks totaling

Observations and Recommendations	Actions Taken/Comments
Section 52 of MNGAS, Volume II, and to restore the cash equivalent to the unreleased checks to the Cash-in-Bank and corresponding liability accounts at year-end for proper financial statements presentation;	P305,814 were cleared by the bank in January and February 2017 while the remaining balance of P448,821 were reverted back to cash account under JEV Nos. 04-012 and 04-016.
b. The Regional Manager (RM) of Region VII to require the concerned Insurance Underwriters (IUs) and Provincial Extension Personnel (PEPs) to set time frame to submit complete supporting documents corresponding to the unrecorded deposits covering CYs 2012 to 2016 as basis for issuance of the Official Receipt (OR) to support recording of the transactions in the books by the Accountant;	Partially Implemented. CY 2018 transactions are now supported with complete documentation. However, there was no compliance yet for the unidentified deposits.
c. The RM of Region X to direct the personnel in-charge in the encoding of collections in the Administrative and Finance Management System (AFMS) to submit the transaction documents for the months of January and February 2016 to the Accountant so that necessary correcting entry can be effected in the books of accounts; and	Fully Implemented.
d. The RMs of Regions VI and VII to require the concerned Accountants to prepare and submit to COA the BRSs in compliance with Section 74 of PD No. 1445.	Partially Implemented. In Region VII, BRSs for the four bank accounts had been updated. In Region VI, BRS for GAF Fund was updated, however the latest BRSs for CF-Iloilo and CF-Bacolod were June 2017 and May 2017, respectively.
6. In Region IV, expenses for trainings, seminars, conferences, and workshops totalling P2.542 million were paid without complete documentary requirements contrary to Section 4(6) of PD No. 1445, thus, validity of the transactions is doubtful.	
We recommended and Management agreed to instruct the OIC-Manager in Region IV to submit the lacking	Fully Implemented. All the documentary requirements were

Observations and Recommendations	Actions Taken/Comments
documents, and henceforth, to ensure that all payments made are supported with complete documentary requirements to prevent suspension or disallowance of the transactions in audit.	submitted to the Audit Team of Region IV, with necessary justifications.
7. Replenishments of the P50,000 Petty Cash Fund (PCF) were made when total disbursements reached between P20,201 to P25,213 or 40.40 per cent to 50.43 per cent only of the PCF, contrary to Item 4.3.1 of COA Circular No. 97-002, thus exposing the cash in the hands of the Custodian to risk of possible misuse. Moreover, supplies and materials purchased involving P1,000 and above paid out of the PCF in the total amount of P86,995 were not supported with canvass or price quotations from at least three suppliers and summary or abstract of canvass or quotations, in violation of Item 1.2.2 of COA Circular No. 2012-001, thus validity of the transactions is doubtful.	
We recommended and Management agreed to:	
a. Revisit PCIC Memorandum Circular (MC) No. 09-001 relative to the provision on Petty Cash Replenishment, and align the same to Item 4.3.1 of COA Circular No. 97-002 dated February 10, 1997;	Fully Implemented. This recommendation has been implemented starting May 2017.
b. Instruct the Custodian to replenish the PCF when disbursements reached 75 per cent or as the need arises to prevent exposure of cash to risk of possible misuse; and	Fully Implemented. PCF were replenished in accordance with the aforementioned regulation starting May 2017.
c. Instruct the Supply Officer to support purchases of supplies and materials involving P1,000 and above out of the PCF with canvass or price quotations from at least three suppliers and the summary/abstract thereof, to avoid suspension or disallowance in audit.	Fully Implemented. This recommendation has been implemented starting May 2017.

Observations and Recommendations	Actions Taken/Comments
8. Government Premium Subsidy (GPS) discounts of P1.346 million were granted in full to 41 farmers who are not eligible under the Department of Agriculture-Land Bank of the Philippines (DA-LBP) Sikat Saka Program (SSP) and the National Irrigation Administration's (NIA) Early Cropping Program, as the areas of farmlands of the covered farmers were more than the required five hectares and some of the beneficiaries were from the Province of Biliran, which is not among those provinces identified to be covered by the Programs. Moreover, in Region VII, there was an over provision of GPS totaling P1.196 million due to incorrect computation of premium rates. Consequently, other qualified/eligible subsistence farmers were deprived of availing full GPS under these Programs.	
We recommended that Management instruct the RMs to conduct thorough review/assessment, verification and evaluation of data contained in the insurance application of participating farmers to ensure that GPS be granted only to qualified beneficiaries in accordance with the Implementing Guidelines of the Programs.	Partially Implemented. In Region VI, verification is still on-going whether or not the GPS was granted only to qualified beneficiaries. Region VIII informed that it already communicated with the Agricultural Training Institute (ATI) regarding the inclusion of farmers from the Province of Biliran. It also acknowledged that LBP erred in issuing Certificates of Insurance Cover (CICs) for free insurance to the farmers and committed to comply with the audit recommendation.
9. The underwriting policies and procedures on the Agrarian Production Credit Program (APCP) and the Credit Assistance Program-Program Beneficiaries Development (CAP-PBD) were not strictly complied with in granting insurance subsidy to Region III beneficiaries due to lack of copy of Masterlist of Agrarian Reform Beneficiaries (ARBs) and the CICs were not supported with Deeds of Assignment	

Observations and Recommendations	Actions Taken/Comments
(DOAs), thereby, exposing Region III to risk of extending insurance coverage as well as paying indemnity claims to non-eligible farmers.	
We recommended that Management direct the RM of PCIC Region III to:	
a. Strictly comply with the underwriting policies and guidelines in implementing the APCP and CAP-PBD to ensure that the Programs are carried out efficiently; and	Fully Implemented.
b. Instruct the Chief of Marketing and Sales Division (MSD) to submit to the Audit Team copy of the Masterlist of ARBs and the DOAs for the CICs issued, for validation purposes; otherwise, non-submission thereof will result in the issuance of Notice of Suspension.	Fully Implemented. A copy of the Masterlist of ARBs and the Deeds of Assignments for CICs issued were provided to the Audit Team.
10. Absence of security features in the PCIC Automated Business System (PABS) of Regions III, III-A and VII to serve as control for insurance application of farmers resulted in the granting of double insurance coverage to 267 farmer-beneficiaries who were given GPS totaling P3.880 million under the Registry System for Basic Sectors in Agriculture (RSBSA) and other insurance programs, contrary to the provisions of the Operations Manual for Rice and Corn Insurance; thus, defeating the purpose of the automated system to detect errors which affect the efficient delivery of services.	The observation was updated and reiterated in Part II, Observation and Recommendation No. 15 of this report.
We recommended and Management agreed to enhance the PABS of the Regional Offices to ensure that no double insurance and double payment of GPS exist that may also result in payment of double indemnity claims.	Partially Implemented. Double insurance still exist in Regions III and VII. Management informed that the PABS is undergoing enhancement.

Observations and Recommendations	Actions Taken/Comments
11. The PCIC's production accomplishment of 651,132 or 93.60 per cent compared with the production target of 695,673 farmer-beneficiaries under the RSBSA could be considered significant. However, this production target set by PCIC of 695,673 was only 7.19 per cent of the 9,670,900 farmer-beneficiaries endorsed by DA due to lack of sufficient budgetary support from the NG, thus the objective of the Program to provide full insurance premium to substantial number if not all of the farmer-beneficiaries identified in the RSBSA was not achieved. We recommended and Management agreed to:	
a. Conduct information dissemination of the RSBSA Program in the Regions which were not able to meet their targets;	Partially Implemented. RO VI continues to conduct information dissemination of the RSBSA Program.
b. Prepare budget plan for the 9.671 million farmer-beneficiaries submitted by the DA under the RSBSA Program for inclusion in the PCIC's future Corporate Operating Budget (COB) to support request for augmentation of the National Government budgetary support in order to attain the Program's objective; and	Partially Implemented. For CY 2017, Region VI had an accomplishment of 134,227 subsistence farmer/fisherfolk beneficiaries or 96.48 per cent of its production target. PCIC targets for the RSBSA Program are dependent on the yearly allocation received from the National Government.
c. Propose for augmentation of plantilla position of personnel in the ROs affected in the implementation of the Program. Pending approval of the plantilla position, hire competent insurance underwriters as well as personnel in the Accounting Division in order to carry out the Program efficiently.	Partially Implemented. Management is awaiting for the reorganization of PCIC which is currently being evaluated through the assistance of the Development Academy of the Philippines (DAP), in order to identify the required manpower complement of the Corporation, taking into consideration the yearly increase of GPS from the National Government.

Observations and Recommendations	Actions Taken/Comments
12. The PCIC had partially carried out its Gender and Development (GAD) programs, projects and activities utilizing a total of P5.663 million or 52.44 per cent only of P10.800 million budget allocation for CY 2016, thereby depriving its employees and clients of the benefits that could have been derived from the activities that were not fully or carried out at all. Moreover, the budget allocation of P10.800 million was lower by P8.011 million than the required of at least five per cent of its total appropriations of P376.223 million, contrary to the pertinent provision of the General Appropriations Act (GAA) for FY 2016.	The observation was updated and reiterated in Part II, Observation and Recommendation No. 17 of this report.
We recommended and Management agreed to implement GAD activities in accordance with the approved plan and budget to ensure that all programmed activities during the year are carried out efficiently.	Not Implemented.
13. The JEVs drawn by the PCIC-HO to record expenses of P0.721 million incurred by the ROs which were charged from the Special Revolving Trust Fund (SRTF) were not supported with any document, thus casting doubt on the validity of the expenses and contrary to Section 4(6) of PD No. 1445.	
We recommended and Management agreed to require the Finance Manager to ensure completeness of supporting documents prior to signing the JEVs and recording the transactions in the books of accounts.	Not Implemented. In CY 2017, the JEVs for expenses incurred in Regional Offices were only supported with Trial Balance or Statement of Expenses. Only Region VIII has provided copies of debit memos corresponding to the expenses incurred.
<u>CY 2015 AAR</u>	
14. Certificates of Insurance Cover (CIC) issued in Region I with a total face amount of P1.122 billion for various GPS programs, Region III with face	

Observations and Recommendations	Actions Taken/Comments
amount of P9.656 million for APCP, and Region IV with face amount of P91.912 million under the DA-SSP were not fully supported with the required documents contrary to the provisions of Section 4(6) of PD No. 1445; hence, CICs might not have been granted to the rightful beneficiaries.	
We recommended and Management agreed to require the concerned RMs to complete the required documentation and see to it that documents are duly/fully accomplished and free from any inconsistencies in areas, names and other pertinent data to ensure that insurance coverages are given to the rightful farmer-beneficiaries of the various PCIC programs.	Fully Implemented. The required documentations are being verified as to completeness and pertinent data are being fully and duly accomplished/provided prior to processing of application.
15. Reimbursement of medical expenses of the top officials of PCIC HO and Region VII in the total amount of P387,182 was not supported with budget approved by the DBM in violation of Section 4(1) of PD No. 1445, thus, considered irregular expenses.	
We recommended that Management require the concerned officials to refund the amount reimbursed totaling P387,182 in CY 2015.	Not Implemented. CGS Cluster V Decision No. 2017-048 dated November 22, 2017 affirmed Notice of Disallowance No. 16-001-738 (15) dated May 23, 2016. As at audit date, the concerned officials/persons liable have not settled their respective disallowances.
16. The existence, accuracy, and validity of the PPE account cannot be established due to unreconciled book balance and inventory reports in Regions VIII and IX aggregating P0.533 million and non-reclassification of unserviceable properties in Regions IV, VI and XI totaling P0.550 million from PPE to Other Assets account. Meanwhile, the regularity of the procurement of vehicles in CYs 2014 and 2015 by the Head	

Observations and Recommendations	Actions Taken/Comments
Office (HO) totaling P19.367 million is questionable in view of the absence of complete and appropriate documents as well as non-compliance with the pertinent provisions of Republic Act (RA) No. 9184. We recommended that Management:	
a. Instruct the RMs of Regions IV, VI, VIII, IX and XI to: (i) require the Property Officer to prepare the Inventory and Inspection Report of Unserviceable Property and undertake steps toward the disposal of all unserviceable and idle properties to generate income from sale thereof, as required by Section 79 of PD No. 1445; (ii) direct the Accountant to prepare necessary journal entries to reclassify unserviceable properties to Other Assets account and (iii) require the concerned Regional Accounting and Supply Officers to reconcile the PPE account balances and issue AREs to the persons having custody and control of the property.	Partially Implemented. Regions IV, VIII, IX and XI had fully implemented the recommendations. However in Region VI, unserviceable assets were reclassified to "Other Assets" account, but these items have not been disposed of, as of this writing.
b. Direct the Head of Finance Department to submit the original copies of the supporting documents, i.e., Certificates of Acceptance, Vehicle Sales Invoice and Inspection Reports, etc. that were not submitted as well as documents submitted in Xerox/Photo copies;	Partially Implemented. As at audit date, the vehicle's sales invoice remained unsubmitted. The submission of the Vehicle Sales Invoice (VSI) and Vehicle Delivery Receipt (VDR) issued by the winning bidder has not been complied with as of this writing. Management commented that Hallasan and Matterhorn Inc. are both under the ownership of ANC Group of Companies, and it is the practice for Matterhorn to represent the company in public bidding with government agencies and Hallasan to issue VSI and VDR as their internal arrangement.
c. Require the person responsible for the conduct of inspection of deliveries to indicate the condition of items delivered as well as compliance with the specifications stated in the Supply	Fully Implemented.

Observations and Recommendations	Actions Taken/Comments
Contract or Purchase Order; and	
d. Submit a written explanation on the disparity in the number of bidders indicated in Bids and Awards Committee (BAC) Resolution No. 2014-017 dated April 28, 2014 and the Attendance Sheet on the opening of bids dated April 25, 2014 relative to the purchase of Hyundai Starex and on the inconsistencies on the VSI and VDR which were issued by non-winning bidder.	Not Implemented. Management has not yet submitted to the Audit Team the written explanation on the disparity of documents relative to the procurement of Hyundai Starex. The Audit Team retained this recommendation in the CY 2015 AAR. The Auditor stated in its rejoinder that the attendees of the BAC Meeting on April 24, 2014 did not come from the same company, contrary to Management allegation.
17. The Bank Reconciliation Statements (BRSs) of Region XI for cash in bank account amounting to P31.969 million were not submitted to the Auditor contrary to Section 74 of PD No. 1445, while in Region I, paid disbursement vouchers (DVs) totaling P16.852 million from Claims Fund and their corresponding supporting documents were not submitted on time for audit contrary to Section 7.2.1 of COA Circular No. 2009-006 dated September 15, 2009.	
We recommended that Management instruct the RM of Region I to require the personnel concerned to submit the DVs for Claims Fund as soon as possible to enable the Auditor to conduct necessary audit, and henceforth, to ensure that DVs for Claims Fund are submitted to the Auditor within 10 days of the succeeding month pursuant to COA Circular No. 2009-006.	Fully Implemented. The DVs were submitted to the Audit Team.
18. The propriety and validity of 121 Purchase Orders (POs) for procurement of supplies in the total amount of P5.740 million for CY 2015 could not be ascertained due to absence of necessary information, i.e. date, delivery	

Observations and Recommendations	Actions Taken/Comments
terms, payment terms, date of receipt by the supplier, among others. Likewise, the POs were not submitted to COA within the prescribed period as required under COA Circular No. 2009-001 dated February 12, 2009.	
We recommended and Management agreed to require the Property Management and General Services Division (PMGSD) to:	
a. Ensure that all the necessary information are provided/indicated in the POs; and	Partially Implemented. Some of the information required in the PO remained not complied, i.e. delivery term and payment term, and date of signed conforme.
b. Strictly comply with the provisions of COA Circular No. 2009-001 on the submission of POs to the Office of the Auditor.	Partially Implemented. In CY 2018, 30 out of 50 POs were not submitted to the Audit Team within five days from the date of PO.
19. Disbursement Vouchers (DVs) for the grant and liquidation of cash advances for local and foreign travels of PCIC officers and employees in Head Office (HO) and Region VII amounting to P1.759 million and P0.273 million respectively, were not duly supported with approved Office Orders/Travel Orders and authority to travel signed by the Secretary of the Department of Agriculture (DA), in case of foreign travel, contrary with Items 1.1.4.1 and 1.1.4.2 of COA Circular No. 2012-001 dated June 14, 2012; hence, the propriety of transactions cannot be determined.	
We recommended that Management require the Regional Officer of Region VII to submit Certification approved/noted by the Head of the Agency that the travelling expenses for actual meals and accommodation are necessary.	Fully Implemented.

Observations and Recommendations	Actions Taken/Comments
20. In Region XII, Job Order (JO)/Contractual personnel were allowed to travel and claim per diems amounting to P141,135 in CY 2015 and performed other duties like collections of insurance premiums, claims adjustments and follow up of insurance programs, contrary to existing Civil Service Commission (CSC) Regulations.	
We recommended that Management require the RM of Region XII to:	
a. Discontinue the practice of allowing JOs to perform the functions of the regular insurance underwriters/ adjusters and that of a collecting officer to protect the interest of the PCIC; and	Fully Implemented.
b. Strictly adhere to the provisions of Section 1, Rule XI of CSC MC No. 40, Series of 1998 as amended by CSC MC No. 15, Series of 1999, and stop the practice of allowing the JOs/ contractual personnel to claim transportation/travelling allowance and per diems.	Fully Implemented.
21. The amount allocated of P4.100 million for PCIC GAD programs, projects and activities as required under Section 34 of the GAA for Fiscal Year (FY) 2015 and Joint Circular No. 2004-1 of the Department of Budget and Management (DBM), National Economic and Development Authority (NEDA) and National Commission on the Role of Filipino Women (NCRFW) was not equivalent to or at least five per cent of the total COB of P1.504 billion or P75.200 million. Likewise, actual expenses for two GAD activities exceeded their budgets while one activity was not implemented; thus, the GAD Plan and Budget (GPB) for CY 2015 was not efficiently carried out.	

Observations and Recommendations	Actions Taken/Comments
We recommended and Management agreed to:	
a. Strictly follow the provision of Section 28 of the GAA and ensure that the budget for GAD is equivalent to five per cent of the COB; and	Fully Implemented.
b. See to it that all activities in the GPB are implemented and actual expense per activity does not exceed the budget allotted.	Fully Implemented.
22. There are no more claimants as well as developments related to the primary purpose for which the SRTF was created; thus, its existence is not any longer essential and the remaining cash of P301.717 million as at December 31, 2015 could already be considered unnecessary special and trust fund as defined under Section 3.4 of the Department of Finance (DOF), Department of Budget and Management (DBM) and Commission on Audit (COA) Permanent Committee Joint Circular No. 4-2012 dated September 11, 2012.	
We recommended that Management:	
a. Review and evaluate whether the purpose for which the SRTF has been established is already accomplished and if the Fund is no longer needed, return the remaining cash to the NG pursuant to Executive Order (EO) No. 431;	Not Implemented.
b. Require the Finance Department to make the necessary reconciliation, consolidation, adjustment, and closing of the books of accounts of SRTF when the same is no longer needed; and	Not Implemented.
c. Coordinate with the Bureau of Treasury (BTr) on the requirements and procedures of returning the Fund to the National Government.	Not Implemented.

Observations and Recommendations	Actions Taken/Comments
<u>CY 2014 AAR</u>	
23. 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 totaling P17.776 million were processed and paid despite deficient/lacking supporting documents, contrary to Section 6, PD No. 1445, thus the validity and propriety of such disbursements could not be thoroughly established.	
We recommended that Management instruct the Chief, Claims and Adjustment Division and the Chief, Administrative and Finance Division of Region IV to:	
a. Stop processing and paying claims with deficient documentations/lacking supporting documents;	Fully Implemented. All the required supporting documents were submitted before processing payments for insurance claims.
b. Submit for audit purposes all lacking documents and correct all noted deficiencies in the attachments supporting the claims totaling P17.776 million and all unsubmitted disbursement vouchers, supporting documents and other mandatory reports for CY 2014; and	Fully Implemented. The required documents and DVs were submitted to the Audit Team. In CY 2017, mandatory reports have been submitted in accordance with existing regulations.
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 (CAVR) and the printing of their names thereat for proper identification; and (ii) submission of monthly reports of their transactions not later than the fifth	Fully Implemented. The RM ensured that all documentary requirements were submitted especially the presence of two adjusters in the assessment of loss or damages in the CAVR and submission of mandatory reports were met as required by regulations.

Observations and Recommendations	Actions Taken/Comments
day of the ensuing month.	
24. There is no assurance that the farmer-beneficiaries insured under the Weather Adverse Rice Areas (WARA) Insurance Program in two regions with insurance premium totaling P5.775 million were all eligible due to incomplete list of farmer-beneficiaries provided by the DA, incomplete documents supporting the Certificates of Insurance Cover (CICs), and supporting documents were not properly accomplished by the insured farmer-beneficiaries.	
We recommended that Management give instructions to the concerned regional MSD to require the Insurance Processor in Region IV to make the necessary steps to have all the documents supporting the 312 CICs be properly accomplished and to secure the lacking documents from the insured farmers, instruct the insurance underwriters to stop processing and approving applications for insurance coverage with incomplete/deficient documentations, and henceforth, comply strictly with the provision set forth in the Memorandum of Agreement (MOA).	Fully Implemented. The supporting documents attached to insurance claims submitted by the Regional MSD were properly accomplished.
CY 2013 AAR	
25. 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 SCs, and non-conduct of physical inventory.	
We recommended that Management require:	
a. The HO Accountant and the Supplies Custodian to determine the	Fully Implemented.

Observations and Recommendations	Actions Taken/Comments
value of office supplies on hand as basis for the preparation of stock ledger cards and SCs;	SCs are now being maintained and updated by the Supplies Custodian which reconcile with the stock ledger cards of the Accounting Division.
b. The HO 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;	Fully Implemented. Purchases of supplies are now initially recognized as Office Supplies Inventory and Office Supplies Expense upon issuance of items to end-users.
<u>CY AAR 2012</u>	
26. 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. Balance per books as of December 31, 2017 was P12.238 million.

Philippine Crop Insurance Corporation
Details and Status of Unsettled Audit Disallowances and Suspensions
As of December 31, 2017

I. Notices of Disallowance (NDs)

ND No./ Date	Persons Liable	Nature/Reason(s) for Disallowance		Amount	Status
Head Office					
CSB 93-014-003/ July 3, 1989	Retired PCIC employees	Purchases	P	21,170.22	Final and executory
Various CSB/ 1989 - 1991	Retired PCIC employees	Purchases		829,200.98	Final and executory
Various CSBs in 1989 to 1991	Deceased PCIC officers	Property		60,265.50	Final and executory
Various CSBs/ 1989 - 1993	Retired PCIC employees	Repairs and maintenance		169,072.67	Final and executory
Various CSBs/ 1990	Retired PCIC employees	Overpayment of traveling expenses		84,691.80	Final and executory
Various CSBs/ 1990 to 1991	Deceased PCIC officers	Communication expenses		53,093.65	Final and executory
Various CSBs/ 1990 to 1991	Deceased PCIC officers	Membership Dues		24,995.36	Final and executory
Various CSBs/ 1990 to 1991	Deceased PCIC officers	Overpayment of representation expenses		3,956.17	Final and executory
Various CSBs/ 1992 to 1993	Retired PCIC officers	Gasoline and oil		76,626.98	Final and executory
CSB 92-002-003/ 1992	Retired PCIC employees	Overpayment of retirement benefit		305,586.07	Final and executory
Various NDs/ 1998	Retired PCIC officers	Nine percent interest on car plan		7,044,358.41	With SC Decision in G.R. No. 134740 dated October 23, 2001, affirming the COA Decision No. 98-072 dated February 3, 1998
Various NDs/ 1998	Retired PCIC officers	Unpaid employee’s share on insurance, registration/chattel mortgage – relative to car plan		610,248.67	Final and executory
Various NDs	Retired PCIC employee	Miscellaneous – overpayment		40,438.50	Final and executory
Various NDs	PCIC employee	Miscellaneous – overpayment		1,134.22	Final and executory
Various NDs and CSBs/ 2003	Retired PCIC employees and officers	Fringe benefits allowances		794,649.94	Final and executory
09-002-111/ Sept. 23, 2009	PCIC officer	Erroneous credits to payroll ATM account		13,300.00	For issuance of NFD

ND No./ Date	Persons Liable	Nature/Reason(s) for Disallowance	Amount	Status
014-004-751(13)/ April 25, 2014	PCIC officers and employees	Travel - overpayment	4,400.00	With COA CGS-5 Decision No. 2017-017 dated March 14, 2017; out of the disallowance of P8,400 in 2014, partial settlement of P4,000 was made in 2017.
014-003-889(10)/ Feb. 25, 2014	PCIC officers and employees	Anniversary bonus – overpayment	540,000.00	With COA CGS-5 Decision No. 2016-019 dated August 11, 2016; out of the disallowance of P580,000 in 2014, partial settlement was made in 2014, 2016 and 2017, with petition for review filed before the COA Commission Proper (CP).
16-001-738d(15)/ May 23, 2016	PCIC officials	Medical – no appropriation	387,182.22	With CGS Cluster V Decision No. 2017-048 dated Nov. 22, 2017; with petition for review filed before the COA CP.
16-003-721/ July 15, 2016	PCIC officer	Overpayment of Loyalty Pay	2,500.00	Issued Notice of Finality of Decision (NFD) dated July 7, 2017; For issuance of COA Order of Execution (COE).
16-004-721/ July 29, 2016	PCIC employees	Overpayment of Loyalty Pay	2,000.00	Issued NFD dated July 7, 2017; For issuance of COE.
16-005-721/ July 29, 2016	PCIC employees	Overpayment of Loyalty Pay	7,500.00	Issued NFD dated July 7, 2017; For issuance of COE.
16-007-889(2015)/ Sept. 30, 2016	PCIC officers and employees	Grant of Gift Check without basis	3,150,000.00	With Appeal Memorandum dated February 13, 2017; out of the P3,185,000 disallowance in CY 2016, P35,000 was partially settled in CY 2017
16-008-889(2015)/ Sept. 30, 2016	PCIC officers and employees	Grant of Gift Check without basis	2,565,000.00	With Appeal Memorandum dated February 27, 2017; out of the P2,600,000 disallowance in CY 2016, P35,000 was partially settled in CY 2017
16-009-889(2015)/ Oct. 25, 2016	PCIC officer	Overpayment of Loyalty Pay	2,500.00	Issued NFD dated July 7, 2017
16-010-766/ Nov. 4, 2016	PCIC officers and employees	Overpayment of PBB	83,824.71	For issuance of NFD; out of P113,229.60 disallowance in CY 2016, P29,404.89 was partially settled in CY 2017.

ND No./ Date	Persons Liable	Nature/Reason(s) for Disallowance	Amount	Status
17-001-713/714/ Nov. 27, 2017	PCIC officers and employees	Overpayment of RATA	4,250.00	Within the reglementary period to appeal.
17-002-713/714/ Nov. 27, 2017	PCIC officers and employees	Overpayment of RATA	250.00	Within the reglementary period to appeal; out of the P12,750 disallowance, partial settlement of P12,500 was made in CY 2017.
Region II				
2014-001 (2010)/ Feb. 27, 2014	PCIC officers and employees	Payment of Anniversary Bonus	31,500.00	Appeal was denied per CGS-5 Decision No. 2016-022 dated Aug. 30, 2016; out of the P140,000 disallowance in CY 2014, partial settlement of P108,500 was made in CY 2017.
Region III				
	PCIC officers and employees	Anniversary bonus – overpayment	130,000.00	With COA CGS-5 Decision No. 2016-023 dated August 28, 2016.
Region III-A				
01	PCIC officers and employees	Anniversary bonus – overpayment	120,000.00	With COA CGS-5 Decision No. 2016-021 dated August 26, 2016; out of the P130,000 disallowance in CY 2014, partial settlement of P10,000 was made in CY 2017.
Region VI				
2014-001 (2010)/ Jan. 21, 2014	Retired PCIC employee	Anniversary incentive (not milestone year)	10,000.00	Final and executory
Region VIII				
2014-001 (2010) GAF/ Feb. 25, 2015	PCIC Region VIII officers and employees	Anniversary incentives	140,000.00	For issuance of NFD
2015-001-CF/ Jan. 7, 2015	PCIC Region VIII officers and employees	Indemnity Claims	125,123.11	For issuance of NFD
2015-002-GAF/ Oct. 21, 2015	PCIC Region VIII officers and employees	Salary Differential	13,386.68	For issuance of NFD
Region X				
17-001-CF-13	PCIC Region X officers and employees	Claims Fund	3,482.64	Within the reglementary period to appeal
17-002-CF-13	PCIC Region X officers and employees	Claims Fund	1,012.50	Within the reglementary period to appeal
17-003-CF-13	PCIC Region X officers and employees	Claims Fund	16,515.00	Within the reglementary period to appeal
17-004-CF-13	PCIC Region X officers and employees	Claims Fund	22,382.27	Within the reglementary period to appeal
			P 17,495,598.27	

II. Notices of Suspension (NS)

NS No. /Date	Person(s) Responsible	Nature/Reason(s) for Suspension	Amount	Status
Region VIII				
NS No. 2015-002-GAF (2015)	PCIC region VII officers and employees	GAF-Lack of supporting documents	P 9,612.94	For issuance of ND
			P 9,612.94	