



Republic of the Philippines
COMMISSION ON AUDIT
Regional Office No. III
City of San Fernando, Pampanga

Christina M. ...

5-23-19
9:00 am

May 16, 2019

Dr. Arnel N. Del Barrio
Executive Director
Philippine Carabao Center

Dear **Director Del Barrio**:

We are pleased to transmit the Consolidated Annual Audit Report on the audit of the Philippine Carabao Center (PCC) for the Calendar Year 2018 in compliance with Section 43 of the Government Auditing Code of the Philippines (PD No.1445).

The audit was conducted to (a) ascertain the level of assurance that may be placed on management assertions on the financial statements; (b) recommend agency improvement opportunities; and (c) determine the extent of implementation of prior year's audit recommendations.

We conducted our audit in accordance with International Standards of Supreme Audit Institutions and we believe that it provided a reasonable basis for the audit results. We rendered a qualified opinion on the fairness of presentation of the financial statements of the Philippine Carabao Center in the Independent Auditor's Report in Part I of the report owing to the following deficiencies:

1. The accuracy, reliability and existence of the accounts Property, Plant and Equipment (PPE) of the Agency totaling ₱1,046,219,830.27 as of December 31, 2018 were doubtful due to (a) non-provision of depreciation for some PPE items; (b) unrecorded PPE; (c) overstatement of Other Structures account; (d) unserviceable properties not yet disposed of; (e) inclusion of semi-expendable items; and (f) non-preparation of property records and reports. Moreover, some properties were not insured with the Government Service Insurance System, thus, inconsistent with the provisions of the Government Accounting Manual for National Government Agencies (GAM for NGAs), Volume I. (***Audit Observation No. 1***)

We recommended that the Executive Director instruct the (a) Accountant of PCC at Central Luzon State University (CLSU) and Visayas State University (VSU) to provide an allowance for depreciation on subject PPE items and draw necessary adjusting entries; (b) Accountant of (i) PCC at VSU and Don Mariano Marcos Memorial State University (DMMMSU) to record all properties received; and (ii) PCC at Mindanao Livestock Production Center (MLPC) to book up the three structures based on the determined appraised value in compliance with PPE recognition principle; (c) Accountant of (i) PCC at CLSU to recognize the first partial billing to Construction in Progress – Buildings and

Other Structures account in relation to the construction of water system structure; and (ii) PCC at VSU and Cagayan State University (CSU) to prepare the necessary adjusting entries to reflect the proper recording of affected accounts; (d) Property Unit and Disposal Committee of identified regional centers to (i) include all unserviceable properties in the Inventory and Inspection Report of Unserviceable Property; and (ii) undertake appropriate disposal proceedings in accordance with existing rules and regulations; (e) Accountant of PCC at DMMMSU to reclassify semi-expendable items from PPE accounts; (f) Accounting and Property Offices of PCC at DMMMSU and Central Mindanao University (CMU) to establish and maintain the prescribed property records for enhanced control and accountability; and (g) Property and Accounting Units of PCC at MLPC and CMU to insure properties with insurable interest with the GSIS in consonance with the Property Insurance Law.

2. The Biological Assets account totaling ₱175,214,202.25 at year-end was unreliable due to (a) inconsistent application of policy in valuation of biological assets; (b) non-recognition of gain on initial recognition of biological asset and agricultural produce; (c) lapses in the acquisition of breeding stocks; (d) unaccounted animals during physical count; (e) unsubstantiated derecognition of sold and dead animals; (f) non-derecognition of dead and culled animals; and (g) non-preparation of Biological Assets Property Card and Quarterly Report of Biological Assets, thus, affecting its fair presentation in the financial statements. (*Audit Observation No. 2*)

We recommended that the Executive Director instruct the (a) Accountants of PCC National Headquarters and Gene Pool (NHGP), CLSU and DMMMSU to consistently apply the established pricing resolution on biological assets and check all valuation of every animal and draw appropriate adjusting entries for the over/undervalued animals; (b) Accounting Unit of (i) PCC at DMMMSU to record the amount of PCC shares in the calf drops; and (ii) PCC at CSU to recognize Gain on Initial Recognition of Agricultural Produce and the corresponding expenses for milk utilization; (c) PCC at DMMMSU Accountant to ensure that all payments are made only to the proper claimants to ensure validity of transactions and accuracy of records; (d) Center Director of (i) PCC at DMMMSU to instruct (1) the Property Unit to constitute a Committee who will conduct regular monitoring and investigation so as to address the high incidence of unaccounted buffaloes; and (2) the Accountant to cause the prompt recording of Receivables pertaining to unaccounted Breeding Stocks which were confirmed sold by farmer-trustees or impose applicable sanctions; and (ii) PCC at CMU to instruct the Accountant to recognize in the books of accounts the carrying value of training/research animals upon acquisition; (e) concerned Accountable Officers of PCC at VSU to submit the required supporting documents to justify the derecognition of the biological assets from the books of accounts; (f) PCC at CLSU Accounting Unit to derecognize from the books the cost of dead and culled animals and submit the documents related to the culled animal with Eartag Number IT20141305; and (g) Officers-in-charge of the biological assets of identified Regional Centers to maintain Biological Assets Property Card and prepare and submit to the Accounting Unit the Quarterly Report of Biological Assets to ensure proper recording and monitoring of animals.

3. The accuracy of the Other Receivables account balance of ₱122,672,948.13 at year-end was not ascertained due to (a) failure to setup receivables for dead animals pending approval of request for relief from property accountability; (b) erroneous accounting entry for animal dispersal; (c) non-recognition of payments received from farmer-trustees; and allowance for impairment for dormant accounts aged more than two years totaling ₱1,089,869.07 was not provided, contrary with the provisions of the GAM for NGAs and Section 73 of Presidential Decree No. 1445. (***Audit Observation No. 3***)

We recommended that the Executive Director instruct the (a) Accounting Unit of PCC at CMU to recognize in the books of accounts the liability of Accountable Officer equivalent to the value of two dead animals; and (b) Accounting Unit of PCC at MLPC to (i) effect an appropriate adjusting entry to correct overstatement of affected accounts; (ii) direct the concerned personnel to submit the required proof and certification of calf drops to warrant proper adjustments in the book; and (iii) assess the collectability of receivables based on the aging of accounts, collection experience of the agency and expected loss experiences and provide Allowance for Impairment Loss as warranted.

The other significant observations and the corresponding recommendations requiring immediate action are as follows:

4. Deficient inventory management created doubt on the accuracy and reliability of reported balances of the controlling accounts of Inventory totalling ₱33,400,995.61 at year-end, which was not harmonized with the provisions of Chapter 8, Volume I of the GAM for NGAs and Section 490 of Government Accounting and Auditing Manual. (***Audit Observation No. 5***)

We recommended that the Executive Director instruct the (a) Accounting Unit of PCC NHGP and identified Regional Centers to (i) observe the required perpetual inventory method in the recording of inventories at all times; and (ii) classify the purchases of supplies and materials to their appropriate Inventory accounts; (b) Accounting Unit of PCC at MLPC to prepare the necessary adjusting entries to reflect the unrecorded inventories which remained on-hand as at year-end; and (c) Property and Accounting Units of PCC at CMU to (i) reconcile their records and thereafter conduct periodic reconciliation to ensure completeness and accuracy of Inventory accounts balances; and (ii) adhere to the semi-annual conduct of physical count of inventory and submission of the Report on the Physical Count of Inventories.

5. Unexpended balance of completed projects totaling ₱5,745,592.07 was not returned to the Source Agencies (SAs) or remitted to the National Treasury which was not in line with Section 63 (f) to (g) of GAM for NGAs, Volume I and the related Memorandum of Agreement entered into between the SAs and PCC. (***Audit Observation No. 6***)

We recommended that the Executive Director instruct the (a) Accounting Unit to strictly comply with Section 63 (f) to (g) of GAM for NGAs, Volume I and the related provision of project duration in the Memorandum of Agreement (MOA) to be able to liquidate unexpended balances of completed projects; and (b) project implementers to

observe and strictly observe the Work and Financial Plan to ensure timely implementation of the project pursuant to MOA.

6. Eighty-nine (89) buffaloes with an aggregate value of ₱3,082,951.80 or 50.08 percent of the total Loss of Assets of ₱6,060,076.15 were reported dead by PCC NHGP, CLSU and La Carlota Stock Farm (LCSF) under its institutional herd due to various diseases and untoward incidents generally considered as preventable had there been regular monitoring of the animal's health, thereby resulting in losses which affected the financial condition of the agency and the farmer-beneficiaries. (***Audit Observation No. 8***)

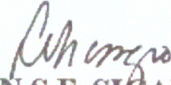
We recommended that the Executive Director instruct the identified Regional Centers to institute additional preventive measures and regular monitoring of animals to minimize government losses brought about by mortality due to diseases which could have otherwise been prevented, and undue culling of the same.

The other audit observations, together with the recommended courses of action, are discussed in detail in Part II of the report. These along with the prior year's findings not yet or partially acted upon and included in Part III of the report, were discussed with the officials and staff of the PCC.

We request that the recommended measures be implemented and we would appreciate receiving an action plan and status report, thru accomplishing the attached **Agency Action Plan and Status of Implementation (AAPSI)** form, to be submitted to the Audit Team within 60 days from receipt of this report, pursuant to Section 93 of the General Provisions of the General Appropriations Act for Fiscal Year 2018.

We appreciate the invaluable support and cooperation extended to our Audit Team by the officials and staff of the Philippine Carabao Center.

Very truly yours,


LYNN S.F. SICANGCO
Regional Director

cc: *President of the Republic of the Philippines*
Vice President of the Republic of the Philippines
President of the Senate
Speaker of the House of the Representatives
Chairperson – Senate Finance Committee
Chairperson - Appropriations Committee
Secretary of the Department of Budget and Management
Presidential Management Staff, Office of the President
The Assistant Commissioner, NGS, COA, Quezon City
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Republic of the Philippines
COMMISSION ON AUDIT
Commonwealth Ave., Quezon City

CONSOLIDATED ANNUAL AUDIT REPORT

on the

PHILIPPINE CARABAO CENTER

For the Year Ended December 31, 2018

Executive Summary

A. Introduction

The Philippine Carabao Center (PCC) is one of the Department of Agriculture's attached agencies, created by virtue of Republic Act No. 7307, otherwise known as the Philippine Carabao Act of 1992, to institutionalize the Carabao Development Program of the government. Specifically, PCC was operationalized on April 1, 1993 to conserve, propagate, and promote the carabao as a source of draft animal power, meat, milk, and hide for the benefit of rural farmers particularly smallholder-farmers and Comprehensive Agrarian Reform Program (CARP) beneficiaries through carabao genetic improvement, technology development and dissemination, and establishment of carabao-based enterprises, thus ensuring higher income and better nutrition of rural farming communities. It has a network of 12 centers strategically situated in Luzon, Visayas, and Mindanao.

The PCC likewise is the national lead agency for livestock biotechnology research and development in the Department of Agriculture per Administrative Order No. 9, series of 2008.

The PCC is headed by Executive Director Arnel N. Del Barrio. He is being supported by Deputy Executive Director Caro B. Salces, 12 Center Directors, and 198 rank and file employees.

B. Financial Highlights

The agency's financial condition, results of operations and sources and application of funds of the PCC are as follows:

Particulars	2018	2017	Increase/ (Decrease)
Financial Condition			
Assets	₱1,852,727,172.16	₱1,910,873,967.93	(₱58,146,795.77)
Liabilities	241,680,645.66	232,145,788.91	9,534,856.75
Net Assets/Equity	1,611,046,526.50	1,678,728,179.02	(67,681,652.52)
Results of Operations			
Income	637,580,136.05	557,995,560.47	79,584,575.58
Expenses	673,951,685.77	1,067,546,625.83	(393,594,940.06)
Surplus (Deficit)	(36,371,549.72)	(509,551,065.36)	473,179,515.64
Comparison of Budget and Actual Amount – For the year ended December 31, 2018			
Particulars	Final	Actual	Difference
Total Receipts	2,697,000.00	3,728,666.24	1,031,666.24
Total Payments	506,532,660.00	445,792,120.05	60,740,539.95
Net Receipts (Payments)	(503,835,660.00)	(442,063,453.81)	(61,772,206.19)

C. Scope of Audit

The audit covered the financial transactions and operations of PCC for the year ended December 31, 2018. We conducted our audit in accordance with International Standards of Supreme Audit Institution and we believe that it provided a reasonable basis for the audit results. The objectives of the audit were to (a) ascertain the level of assurance that may be placed on management's assertions on the financial statements; (b) recommend agency improvement opportunities; and (c) determine the extent of implementation of prior year's audit recommendations. The thrust areas identified in compliance with Unnumbered Memorandum dated September 22, 2017 by the Commission on Audit Assistant Commissioner Winnie Rose H. Encallado and in pursuance of COA Memorandum No. 2016-023 dated November 14, 2016 were audited on sampling basis and the findings are incorporated in Part II of the report, as follows:

1. Financial Audit

- a. Cash and Cash Equivalents
- b. Inter-Agency Receivables
- c. Inventories
- d. Property, Plant and Equipment
- e. Biological Assets
- f. Other Non-Current Assets
- g. Payables
- h. Inter-Agency Payables
- i. Revenues and Expenses

2. Compliance Audit

- a. Compliance with R.A. 9184
- b. Compliance with BIR Rules and Regulations
- c. Compliance with R.A. 8291 (GSIS)
- d. Compliance with R.A. 9679 (Pag-IBIG Fund Law)
- e. Gender and Development (GAD)

D. Independent Auditor's Report

The Auditor rendered a qualified opinion on the fairness of presentation of the financial statements for the year ended December 31, 2018 because significant errors were noted in the audit of accounts, among which are:

1. Doubtful accuracy, reliability and existence of PPE accounts totaling ₱1,046,219,830.27 due to (i) non-provision of depreciation for some PPE items; (ii) unrecorded PPE; (iii) overstatement of Other Structures account; (iv) unserviceable properties not yet disposed of; (v) inclusion of semi-expendable items; and (vi) non-preparation of property records and reports. Moreover, some properties were not insured with the Government Service Insurance System, thus, inconsistent with the provisions of

the Government Accounting Manual for National Government Agencies, Volume I. (*Audit Observation No. 1*)

2. Unreliable balance of Biological Assets account totaling ₱175,214,202.25 due to (i) inconsistent application of policy in valuation of biological assets; (ii) non-recognition of gain on initial recognition of biological asset and agricultural produce; (iii) lapses in the acquisition of breeding stocks; (iv) unaccounted animals during physical count; (v) unsubstantiated derecognition of sold and dead animals; (vi) non-derecognition of dead and culled animals; and (vii) non-preparation of Biological Assets Property Card and Quarterly Report of Biological Assets, thus, affecting its fair presentation in the financial statements. (*Audit Observation No. 2*)

3. Inaccurate balance of Other Receivables account totaling ₱122,672,948.13 due to (i) failure to setup receivables for dead animals pending approval of request for relief from property accountability; (ii) erroneous accounting entry for animal dispersal; (iii) non-recognition of payments received from farmer-trustees; and (iv) allowance for impairment for dormant accounts aged more than two years totaling ₱1,089,869.07 was not provided, contrary with the provisions of the GAM for NGAs and Section 73 of PD No. 1445. (*Audit Observation No. 3*)

For the above noted observations, we recommended that the Executive Director:

1. For the doubtful accuracy, reliability and existence of PPE accounts, instruct the (a) Accountant of PCC at CLSU and VSU to provide an allowance for depreciation on subject PPE items and draw necessary adjusting entries; (b) Accountant of (i) PCC at VSU and DMMMSU to record all properties received; and (ii) PCC at MLPC to book up the three structures based on the determined appraised value in compliance with PPE recognition principle; (c) Accountant of (i) PCC at CLSU to recognize the first partial billing to Construction in Progress – Buildings and Other Structures account in relation to the construction of water system structure; and (ii) PCC at VSU and CSU to prepare the necessary adjusting entries to reflect the proper recording of affected accounts; (d) Property Unit and Disposal Committee of identified regional centers to (i) include all unserviceable properties in the IIRUP; and (ii) undertake appropriate disposal proceedings in accordance with existing rules and regulations; (e) Accountant of PCC at DMMMSU to reclassify semi-expendable items from PPE accounts; (f) Accounting and Property Offices of PCC at DMMMSU and CMU to establish and maintain the prescribed property records for enhanced control and accountability; and (g) Property and Accounting Units of PCC at MLPC and CMU to insure properties with insurable interest with the GSIS in consonance with the Property Insurance Law.

2. For the unreliable balance of Biological Assets account, instruct the (a) Accountants of PCC NHGP, CLSU and DMMMSU to consistently apply the established pricing resolution on biological assets and check all valuation of every animal and draw appropriate adjusting entries for the over/undervalued animals; (b) Accounting Unit of (i) PCC at DMMMSU to record the amount of PCC shares in the calf drops; and (ii) PCC at CSU to recognize Gain on Initial Recognition of Agricultural Produce and the corresponding expenses for milk utilization; (c) PCC at DMMMSU Accountant to ensure

that all payments are made only to the proper claimants to ensure validity of transactions and accuracy of records; (d) Center Director of (i) PCC at DMMMSU to instruct (1) the Property Unit to constitute a Committee who will conduct regular monitoring and investigation so as to address the high incidence of unaccounted buffaloes; and (2) the Accountant to cause the prompt recording of Receivables pertaining to unaccounted Breeding Stocks which were confirmed sold by farmer-trustees or impose applicable sanctions; and (ii) PCC at CMU to instruct the Accountant to recognize in the books of accounts the carrying value of training/research animals upon acquisition; (e) concerned Accountable Officers of PCC at VSU to submit the required supporting documents to justify the derecognition of the biological assets from the books of accounts; (f) PCC at CLSU Accounting Unit to derecognize from the books the cost of dead and culled animals and submit the documents related to the culled animal with Eartag Number IT20141305; and (g) Officers-in-charge of the biological assets of identified Regional Centers to maintain BAPC and prepare and submit to the Accounting Unit the QRBA to ensure proper recording and monitoring of animals.

3. For the inaccurate balance of Other Receivables account, instruct the (a) Accounting Unit of PCC at CMU to recognize in the books of accounts the liability of Accountable Officer equivalent to the value of two dead animals; and (b) Accounting Unit of PCC at MLPC to (i) effect an appropriate adjusting entry to correct overstatement of affected accounts; (ii) direct the concerned personnel to submit the required proof and certification of calf drops to warrant proper adjustments in the book; and (iii) assess the collectability of receivables based on the aging of accounts, collection experience of the agency and expected loss experiences and provide Allowance for Impairment Loss as warranted.

E. Summary of Other Significant Audit Observations and Recommendations

Summarized below are the other significant audit observations with their recommendations, the details of which are presented in Part II of this report. Management views and comments were incorporated in the report, where appropriate.

4. Deficient inventory management created doubt on the accuracy and reliability of reported balances of the controlling accounts of Inventory totalling ₱33,400,995.61 at year-end, which was not harmonized with the provisions of Chapter 8, Volume I of the GAM for NGAs and Section 490 of GAAM. (*Audit Observation No. 5*)

We recommended and the Executive Director agreed to instruct the (a) Accounting Unit of PCC NHGP and identified Regional Centers to (i) observe the required perpetual inventory method in the recording of inventories at all times; and (ii) classify the purchases of supplies and materials to their appropriate Inventory accounts; (b) Accounting Unit of PCC at MLPC to prepare the necessary adjusting entries to reflect the unrecorded inventories which remained on-hand as at year-end; and (c) Property and Accounting Units of PCC at CMU to (i) reconcile their records and thereafter conduct periodic reconciliation to ensure completeness and accuracy of Inventory accounts balances; and (ii) adhere to the semi-annual conduct of physical count of inventory and submission of the Report on the Physical Count of Inventories.

5. Unexpended balance of completed projects totaling ₱5,745,592.07 was not returned to the Source Agencies (SAs) or remitted to the National Treasury which was not in line with Section 63 (f) to (g) of GAM for NGAs, Volume I and the related Memorandum of Agreement entered into between the SAs and PCC. **(Audit Observation No. 6)**

We recommended and the Executive Director agreed to instruct the (a) Accounting Unit to strictly comply with Section 63 (f) to (g) of GAM for NGAs, Volume I and the related provision of project duration in the Memorandum of Agreement (MOA) to be able to liquidate unexpended balances of completed projects; and (b) project implementers to observe and strictly observe the Work and Financial Plan to ensure timely implementation of the project pursuant to MOA.

6. Eighty-nine (89) buffaloes with an aggregate value of ₱3,082,951.80 or 50.08 percent of the total Loss of Assets of ₱6,060,076.15 were reported dead by PCC NHGP, CLSU and LCSF under its institutional herd due to various diseases and untoward incidents generally considered as preventable had there been regular monitoring of the animal's health, thereby resulting in losses which affected the financial condition of the agency and the farmer-beneficiaries. **(Audit Observation No. 8)**

We recommended and the Executive Director agreed to instruct the identified Regional Centers to institute additional preventive measures and regular monitoring of animals to minimize government losses brought about by mortality due to diseases which could have otherwise been prevented, and undue culling of the same.

The other audit observations, together with the recommended courses of action, are discussed in detail in Part II of the report. These, along with the prior year's recommendations not yet or partially acted upon and included in Part III of the report, were discussed with the officials and staff of the PCC.

F. Status of Suspensions, Disallowances and Charges and Settlements

The PCC NHGP has no outstanding balance of Suspensions, Disallowances and Charges as of December 31, 2018. Meanwhile, total outstanding balance of Suspensions and Disallowances of PCC at MLPC amounted to ₱37,515.21 and ₱37,080.00, respectively, as presented below:

	Suspensions	Disallowances	Total
Beginning Balance, 1/1/2018	₱ 421,889.33	₱ 52,080.00	₱ 473,969.33
Add: Issuances during the year	11,755.21	2,424.62	14,179.83
Total	433,644.54	54,504.62	488,149.16
Less: Settlements during the year	396,129.33	17,424.62	413,553.95
Ending Balance, 12/31/2018	₱ 37,515.21	₱ 37,080.00	₱ 74,595.21

G. Status of Implementation of Prior Year's Unimplemented Audit Recommendations

Monitoring and evaluation of Management action on the 56 audit recommendations contained in the CY 2017 Consolidated Annual Audit Report showed that 30 were fully implemented, 24 were partially implemented and two were not implemented, as briefly discussed in Part III of the report.