

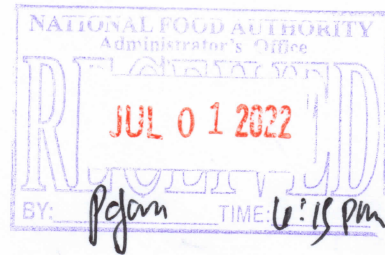


Republic of the Philippines
COMMISSION ON AUDIT
Commonwealth Avenue, Quezon City

CORPORATE GOVERNMENT AUDIT SECTOR
Cluster 5 – Agriculture and Natural Resources

June 30, 2022

Ms. JUDY CAROL L. DANSAL
Administrator
National Food Authority
Visayas Avenue, Brgy. Vasra
Quezon City



Dear Administrator DANSAL:

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 **National Food Authority (NFA)** for the years ended December 31, 2021 and 2020.

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.

The Auditor rendered an adverse opinion on the fairness of the presentation of the financial statements (FSs) in view of the following:

1. The non-elimination of Intra-Agency Receivables and Payables accounts as at December 31, 2021 in the amounts of P22.348 billion or 53.53 per cent of the total Assets of P41.744 billion and P20.384 billion or 12.28 per cent of the total Liabilities of P165.919 billion, respectively, which could not be considered as assets and liabilities as defined under Paragraph 7 of International Public Sector Accounting Standard (IPSAS) 1, adversely affected the relevance and faithful representation of the NFA's FSs.
2. The faithful representation in the FSs and the verifiability of the balance of Accumulated Surplus/(Deficit) account amounting to P(129.175) billion could not be established in view of the net adjustments amounting to P2.873 billion recognized in Calendar Year (CY) 2021 Statement of Changes in Net Assets/Equity (SCNAE) which could not be substantiated due to non-submission of Journal Entry Vouchers (JEVs) and other pertinent documents, contrary to Paragraphs 3.26 and 3.27 of Chapter 3: Qualitative Characteristics of the Conceptual Framework for General Purpose Financial Reporting by Public Sector

Entities, and casts doubt on the propriety and validity of adjustments made in the Accumulated Surplus/(Deficit) account and other affected accounts.

For the observations, which caused the issuance of an adverse opinion, we recommended that Management:

- 1.1. Require the Finance Department and the Regional Offices (ROs)/Branch Offices (BOs) Finance Sections to:
 - a. Continuously prioritize the elimination of the reciprocal accounts by conducting a nationwide reconciliation of the discrepancies to have reliable FSs balances at year-end;
 - b. Ensure that all adjustments are duly supported with proper and complete documentation; and
 - c. Strictly adhere to NFA Standard Operating Procedure (SOP) No. FS-GP13, especially on the regular preparation and submission of: (i) Schedule of interbranch transactions, (ii) Reconciliation Statements, (iii) elimination and reconciling entries, and (iii) confirmation advices, as applicable, and to consistently coordinate with other offices to reconcile the discrepancies.
- 1.2. Revisit and update the existing NFA SOP on intra-agency transactions for uniform policies/guidelines to be followed by the Central Office (CO), ROs and BOs due to NFA's structural changes pursuant to Republic Act (RA) No. 11203.
- 1.3. Strictly implement the administrative sanctions provided in NFA SOP No. FS-GP13 to compel personnel concerned to address the significant variances noted in the intra-agency accounts and to avoid further accumulation thereof.
- 2.1. Require the Accounting Division of Finance Department to:
 - a. Submit all JEVs as well as the corresponding supporting documents related to the adjustments made in CYs 2020 and 2021 on the Accumulated Surplus/(Deficit) account; otherwise, reverse the entries made;
 - b. Stop making adjustments in the Accumulated Surplus/(Deficit) account if not duly supported with pertinent documents; and
 - c. Effect in the SCNAE the restatements in the prior year FSs to reflect prior period errors pertaining to income and expense accounts pursuant to Paragraph 47 of IPSAS 3.

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

3. The NFA was not able to obtain the most advantageous price in the procurement of 15 units of 4x2 Pick-up Truck in view of some of the factors provided in the Government Procurement Policy Board (GPPB) Manual of Procedures (MOP) for the Procurement of Goods and Services were not considered and/or judiciously evaluated by the Bids and Awards Committee (BAC) Technical Working Group

(TWG) in the determination of the Approved Budget for the Contract (ABC) of P21.890 million, thus resulted in higher contract cost by P72,400 per unit, or a total of P1.086 million for said procurement, than the Suggested Retail Price (SRP) for the same vehicle model published in the manufacturers' official website and dealers' advertisements. Further, the provisional safeguard duty of P123,200 per unit or the total amount of P1.848 million which was included in the contract price was not returned by the Supplier to the NFA, contrary to Custom Memorandum Order (CMO) No. 28-2021.

3.1. We recommended that Management instruct:

- a. The BAC and its TWG to exercise due prudence in determining the ABC by comprehensively considering all the necessary factors provided in GPPB MOP so as to obtain the most advantageous price for the government, moving forward; and
- b. The Finance Department, in coordination with the BAC to collect the safeguard duty in the total amount of P1.848 million from the supplier pursuant to BOC CMO No. 28. 2021; otherwise, appropriate audit action shall be issued to persons determined liable for the transaction.

4. Provision for profit margin in addition to Administrative Cost in the computation of the ABC for the "Procurement of Handling (and Allied) Services for Calendar Years 2020-2021" of NFA Cagayan Valley Region (CVR) is not in conformance with the Standard Computation prescribed in the Department of Labor and Employment (DOLE) Department Order (DO) No. 174, Series of 2017; thus, resulting in excessive contract price amounting to P34.866 million. Moreover, specific work to be undertaken by the Job Order (JO) workers for allied services was not expressly stated in the bidding documents and contract, instead, this was presented as per "move" same with the handling services; thus, the absence of reference to evaluate the actual accomplishments versus targets could be attributed to poor procurement planning.

4.1. We recommended that Management direct the NFA CVR BAC to:

- a. Provide the legal basis in providing profit margin in addition to the administrative cost, and explain the sudden increase in the profit margin in CY 2021 to 15 per cent from prior year's rate of 10 per cent; and
- b. Review and revise the computation of the ABC for Allied Services taking into consideration the factors laid down in Section 2 of the MOP for the Procurement for Goods and Services and GPPB Resolution No. 07-2005.

4.2. We further recommended that the Corporate Planning Division revisit NFA SOP Nos. GM-G025 and GM-G026, and assess the need for revision, where necessary, in adherence with applicable laws, rules and regulations issued by oversight government agencies.

The observations together with the recommended courses of action which were discussed by the Audit Team with Management officials and staff concerned during the exit conference conducted on May 20, 2022 are discussed in detail in Part II of the Report. We also invite your attention to the prior years' partially and unimplemented audit recommendations embodied in Part III of the Report.

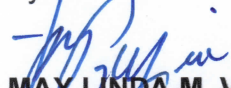
We respectfully request that the recommendations contained in Part II and Part III of the Report be implemented and that this Commission be informed of the actions taken thereon by accomplishing the Agency Action Plan and Status of Implementation Form (copy attached) and returning the same to us within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



MAY LINDA M. VEGAFRIA

Director III

OIC-Cluster Director

Copy furnished:

The President of the Republic of the Philippines

The Vice President

The President of the Senate

The Speaker of the House of Representatives

The Chairperson-Senate Finance Committee

The Chairperson-Appropriations Committee

The Secretary of the Department of Budget and Management

The Bureau of the Treasury

The Governance Commission for Government Owned or Controlled Corporations

The Presidential Commission on Good Government

The National Library

The UP Law Center

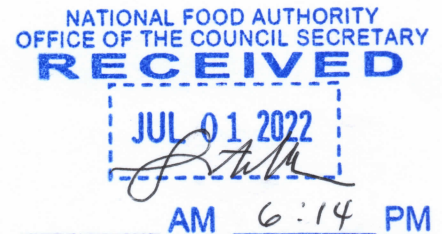


REPUBLIC OF THE PHILIPPINES
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THE NATIONAL FOOD AUTHORITY COUNCIL
National Food Authority
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Quezon City



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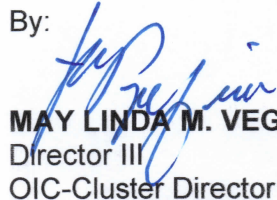
In our transmittal letter of even date, we request the Administrator of NFA to implement the recommendations contained in the Report and to inform this Commission of the actions taken thereon within 60 days from receipt of the Report.

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:



MAY LINDA M. VEGAFRIA
Director III
OIC-Cluster Director

Copy furnished:

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The President of the Senate
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