



REPUBLIC OF THE PHILIPPINES  
COMMISSION ON AUDIT  
Commonwealth Avenue, Quezon City,

**CORPORATE GOVERNMENT SECTOR**  
**Cluster 6 – Social, Cultural, Trading, Promotional**  
**and Other Services**

June 28, 2018

**Ms. MAGDALENA L. MENDOZA**

Officer-in-Charge  
Development Academy of the Philippines  
San Miguel Ave., Quezon City

**Dear Ms. Mendoza**

We are pleased to transmit the Annual Audit Report on the results of the audit of the accounts and transactions of the Development Academy of the Philippines (DAP) for the year ended December 31, 2017, pursuant to Section 2, Article IX-D of the Philippine Constitution and Section 43 of Presidential Decree No. 1445, otherwise known as the Government Auditing Code of the Philippines.

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

We expressed a qualified opinion on the fairness of presentation of the financial statements due to the following:

- 1) Accuracy, reliability and validity of Accounts Receivable in the amount of P242.618 million could not be established due to: a) results of confirmation showed variances totaling P72.225 million; and b) inclusion of abnormal/negative balances amounting to P1.277 million.
- 2) The Property, Plant and Equipment (PPE) account with a balance of P210.570 million as of December 31, 2017 was overstated by P11.238 million due to: a) non-provision of depreciation in the amount of P10.033 million on various projects of the Academy at the time these were available for use or upon completion; and b) inclusion of unserviceable/obsolete/defective equipment with carrying amount of P0.905 million.
- 3) The accuracy, validity and reliability of the year-end balance of Accounts Payable (A/P) totaling P151.711 million, could not be determined due to: a) variances in the results of confirmation totaling P7.934 million; b) inadequate maintenance of subsidiary ledgers (SLs); and c) inclusion of items which should not be part of A/P amounting to P75.240 million.

- 4) Results of confirmation of the Due to National Government Agency (NGAs) accounts showed variances totaling P29.662 million that cast doubts on the accuracy, reliability and validity of the account balance presented in the financial statements.
- 5) The Provision for Output VAT Year 2003 Onwards account year-end balance in the amount of P26.169 million was overstated by P6.529 million representing Output VAT from collected receivables which were not debited to the said account. Likewise, the accuracy, reliability and validity of the account were doubtful due to: a) inclusion of accounts with negative/ abnormal balances amounting to P2.599 million; and b) non-maintenance of subsidiary ledgers.
- 6) The accuracy, validity and reliability of the accounts Deferred Credits to Income and Consultancy Fees – Management Training and Consultancy amounting to P162.936 million and P276.932 million, respectively, were doubtful due to improper recording of billings and recognition of revenue.

For the above observations, which caused the issuance of a qualified opinion, we recommended to Management the following:

- 1) *Require the Accounting Division to reconcile the receivable accounts with the records of the clients and make the necessary adjustments, if warranted and review and analyze the transactions of clients with unusual credit or negative balances and effect the necessary adjustments to correct the balances of their accounts.*
- 2) *Require the Accounting Division to recognize/provide depreciation on completed projects in order to present a reliable balances of the Buildings and Other Structures, Depreciation Expense and the corresponding Accumulated Depreciation accounts; derecognize items of PPE that are unserviceable and have no future economic benefits to the Academy; and prepare periodic reconciliation of the records of the PMSO.*
- 3) *Require the Accounting Division to reconcile the liability accounts with the records of the payee and prepare adjustments in the books if warranted; update the Subsidiary ledgers to present complete and accurate balances of the A/P; and determine the nature of each transaction and reclassify the items included in the A/P to their appropriate accounts.*
- 4) *Require the Accounting Division to analyze and reconcile the accounts and make adjustments in the books if necessary.*
- 5) *Require the Accounting Division to prepare the necessary adjusting entry to correct the Provision for Output VAT Year 2003 Onwards account amounting to P6.529 million; identify the deficiencies that gave rise to the abnormal balances of the account and prepare appropriate adjusting entries; and maintain subsidiary ledgers for the account Provision for Output VAT Year 2003 Onwards in accordance with Section 114 (2) of PD 1445.*
- 6) *Require the Accounting Division to recognize revenue in the reporting period in which services were rendered or at the time deliverables were delivered and accepted by the clients.*

In addition, below are other significant audit observations and recommendations, which are discussed in detail in Part II of the Report.

- 1) Hiring of personnel under a service agreement who were designated to hold managerial positions was not in accordance with CSC, DBM and COA Joint Circular No. 1 s. 2017 on the Rules and Regulation Governing Contract of Services and Job Order Workers in the Government and CSC Memorandum Circular No. 6, series of 2005 on the Guidelines on Designation.

*We recommended that Management comply strictly with the provisions of the CSC, DBM and COA Joint Circular No. 1 s. 2017 and CSC Memorandum Circular No. 6 series of 2005.*

- 2) Review of the contracts entered into by and between the DAP and canteen concessionaire included the following deficiencies: a) the monthly lease rental for the 430 square meter canteen at P100,000.00 was disadvantageous to DAP; b) the contract did not provide for the payment by the concessionaire of the equivalent advance rental and deposit to protect the interest of the DAP; c) there were two different contracts entered into by and between the DAP and the concessionaire and d) non-submission of documents to support the contract.

*We recommended that Management review the existing contract with the canteen concessionaire and consider rescinding the same if found onerous and disadvantageous to DAP.*

We respectfully request that the recommendations contained in Parts II and III of the report be implemented and this Office 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:

  
**WILFREDO A. AGITO**  
Director IV

**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 Governance Commission for Government – Owned or Controlled Corporations  
The Presidential Management Staff, Office of the President  
The National Library  
The UP Law Center  
The COA Commission Central Library

## STATUS OF IMPLEMENTATION OF PRIOR YEAR'S AUDIT RECOMMENDATIONS

Of the 16 audit recommendations embodied in previous year's Annual Audit Report, 10 were fully implemented, three were partially implemented and three were not implemented.

| REFERENCE                                               | OBSERVATION                                                                                                                                                                                                                                                                          | RECOMMENDATIONS                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  | STATUS OF IMPLEMENTATION                                                                                |
|---------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------|
| 1.AAR 2016<br>Audit<br>Observation<br>No. 1, Page<br>25 | Audit of Accounts Payable (A/P) account of ₱181.259 million disclosed a discrepancy of ₱324,334.23 in the outstanding payable to a creditor; erroneous subsidiary ledgers (SLs); erroneous aging schedules; and existence of dormant accounts.                                       | <p>We recommended that Management:</p> <p>a. Analyze the individual balances of the A/P and update their respective SLs;</p> <p>b. Evaluate the academy's accounting system to determine the cause of deficiencies and improve the recording system;</p> <p>c. Maintain a proper aging schedule of A/P which will show only the list of creditors with their respective total balances and the corresponding days they are outstanding; and</p> <p>d. Evaluate the dormant/long outstanding balances for possible reversion to Retained Earnings in accordance with the provisions of DBM and COA Joint Circular No. 99-6 and P.D. No. 1445.</p> | <p>Partially Implemented</p> <p>Fully Implemented</p> <p>Fully Implemented</p> <p>Fully Implemented</p> |
| 2.AAR 2016<br>Audit<br>Observation<br>No. 2, Page<br>28 | Accrued revenue in the total amount of ₱12.824 million is still lodged in the balance of Accounts Receivable of ₱212.972 million and abnormal balances of ₱2.039 million and ₱1.511 million in the Receivable Accounts – Government and Receivable Accounts – Private, respectively. | <p>We recommended that Management:</p> <p>a. Investigate/analyze the accounts receivable in relation to accrued income account and also accounts with abnormal balances and make the necessary adjustments to correct their balances; and</p>                                                                                                                                                                                                                                                                                                                                                                                                    | Partially Implemented                                                                                   |

| REFERENCE                                          | OBSERVATION                                                                                                                                                                                                                                                                                                                                                                                                                              | RECOMMENDATIONS                                                                                                                                                                                                                                                                                                                           | STATUS OF IMPLEMENTATION                      |
|----------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------|
|                                                    |                                                                                                                                                                                                                                                                                                                                                                                                                                          | <p>b. Prioritize collection of accounts that have material balances and dormant accounts which are long outstanding and if found uncollectible after exerting relentless effort, seek authority from the Commission on Audit for the write-off of these accounts in accordance with COA Circular No. 2016-05 dated December 19, 2016.</p> | Fully Implemented                             |
| <p>3.AAR 2016 Audit Observation No. 3, Page 29</p> | <p>Recording of cash received through fund transfers from other government agencies and its utilization for the implementation of projects/programs were not in accordance with the provision of 4.2 of COA Circular No. 94-013 dated December 13, 1994 and COA Circular No. 2015-010 dated December 1, 2015 resulting in the overstatement of income and expense in the amount of ₱27.744 million and ₱25.342 million respectively.</p> | <p>We recommended that Management adjust the books for the erroneous booking of income and expense and to comply strictly with the provisions of 4.2 of COA Circular No. 94-013 and COA Circular No. 2015-010 in recording cash received through fund transfer and its utilization.</p>                                                   | Fully Implemented                             |
| <p>4.AAR 2016 Audit Observation No. 4, Page 32</p> | <p>The Academy was unable to remit in full the cost of the audit services since 1990 to 2016 inconsistent with the provisions of the Commission on Audit (COA) and Department of Budget and Management (DBM) Joint Circular No. 88-1 dated July 29, 1988 and related issuances. The outstanding balance due to the Commission by the Academy amounted to ₱38.735 million as of CY</p>                                                    | <p>We recommended that Management undertake the following:</p> <ul style="list-style-type: none"> <li>a. Settle the latest assessment received;</li> <li>b. Reconcile the Summary of Assessments, Remittances and Balances transmitted by the Commission with the Academy's records for payments which are not taken up in the</li> </ul> | <p>Not Implemented</p> <p>Not Implemented</p> |



| REFERENCE                                   | OBSERVATION                                                                                                                                                                                                                                                                                                                                                                                                                                                            | RECOMMENDATIONS                                                                                                                                                                                                                                                                        | STATUS OF IMPLEMENTATION                                                                                                               |
|---------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------|
|                                             |                                                                                                                                                                                                                                                                                                                                                                                                                                                                        | executed and signed by the parties thereto stating the reasons therefore.                                                                                                                                                                                                              |                                                                                                                                        |
| 7.AAR 2016 Audit Observation No. 7, Page 37 | Perfected Contracts, Purchase Orders and their supporting documents were not submitted to COA for review within five days after execution contrary to COA Circular No. 2009-001 dated February 12, 2009.                                                                                                                                                                                                                                                               | We recommended that the Academy comply with the provisions of COA Circular No. 2009-001 dated February 12, 2009 on the submission of perfected contracts, Purchase Order and their supporting documents.                                                                               | Fully Implemented                                                                                                                      |
| 8.AAR 2016 Audit Observation No. 8, Page 38 | Journal Entry Vouchers (JEVs) containing receipts, disbursement vouchers and documents evidencing the transactions of the Academy were not turned over to the Office of the Auditor within the prescribed period pursuant to COA Circular No. 2009-006 dated September 15, 2009.                                                                                                                                                                                       | We recommended that Management comply strictly with the provisions of COA Circular No. 2009-006 dated September 15, 2009 on the timely turn-over of JEVs to the Office of the Auditor.                                                                                                 | Fully Implemented                                                                                                                      |
| 9.AAR 2016 Audit Observation No. 9 Page 38  | <p>Deficiencies noted relative to the 2016 Gender and Development (GAD) activities of the Development Academy of the Philippines (DAP):</p> <p>DAP was unable to formulate its GAD plans and budget (GPB) for calendar year (CY) 2016 contrary to Section 2.3 of the PCW-NEDA-DBM Joint Circular No. 2012-01.</p> <p>Expenses for GAD Programs/Activities/Projects (PAPs) amounting to ₱19.151 million were not GAD responsive activities contrary to COA Circular</p> | We recommended that Management strictly adhere with the provisions of the PCW-NEDA-DBM Joint Circular No. 2012-01 and COA Circular No. 2014-001 dated March 18, 2014 and ensure the timely submission of the GAD plans and budget to PCW for review and to monitor its implementation. | <p>Partially Implemented</p> <p>Reiterated under Audit Observations and Recommendations No. 15 of the CY 2017 Annual Audit Report.</p> |



| REFERENCE | OBSERVATION                                                                                                                                                                          | RECOMMENDATIONS | STATUS OF IMPLEMENTATION |
|-----------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------|--------------------------|
|           | <p>No. 2014-001 dated March 18, 2014.</p> <p>DAP failed to maintain GAD Database and perform gender analysis contrary to Section 3.4 of PCW-NEDA-DBM Joint Circular No. 2012-01.</p> |                 |                          |