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

INDEPENDENT AUDITOR'S REPORT

THE BOARD OF TRUSTEES
Development Academy of the Philippines
DAP Building, San Miguel Avenue,
Pasig City

Report on the Audit of the Financial Statements

Qualified Opinion

We have audited the accompanying financial statements of the **Development Academy of the Philippines (DAP)**, which comprise the statements of financial position as at December 31, 2018 and 2017, and the statements of financial performance, statements of changes in net assets/equity, and statements of cash flows for the years then ended, statement of comparison of budget and actual amounts for the year ended December 31, 2018, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, except for the effects of the matters described in the Bases for Qualified Opinion section of our report, the accompanying financial statements present fairly, in all material respects, the financial position of DAP as at December 31, 2018 and 2017 and of its financial performance and its cash flows for the years then ended in accordance with Philippine Public Sector Accounting Standards (PPSASs).

Bases for Qualified Opinion

The Cash In Bank account totalling P628.163 million was understated by P7.906 million due to non-recording of reconciling items representing unidentified deposits/collections from January 2017 to December 2018. Likewise, the year-end balance of the Due to Officers and Employees account amounting to P64.022 million as of December 31, 2018 was overstated by P55.589 million due to accruals made for Financial Performance Award and Performance Based Bonus amounting to P42.644 million and P12.945 million, respectively, which were not valid obligations. Moreover, the Unearned Revenue/Income account with total balance of P85.890 million as at December 31, 2018 still included already earned revenue/income from completed and terminated projects in the amounts of P18.000 million and P1.235 million, respectively, thus overstating the said account in the amount of P19.235 million and understatement of the Accumulated Surplus/(Deficit) by the same amount.

Also, the faithful representation of the balance of the Accounts Receivable account totalling P228.507 million as at December 31, 2018 was not established in view of the variance amounting to P46.299 million between the balance per books and the confirmed balances from various government agencies and private clients, contrary to the Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities. Had the variance been reconciled and adjusted, the balance of Accounts Receivable account could have been fairly presented in the financial statements

We conducted our audits 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 DAP 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 PPSASs, 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 DAP'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 DAP or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the DAP'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 ISSAIs 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 DAP's internal control.

- Evaluate the appropriateness of accounting policies used and 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 DAP'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 disclosures 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 DAP 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.

Other Matters

In our report dated June 13, 2018, we expressed a modified opinion on the 2017 financial statements because: (a) 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 non-provision of depreciation in the amount of P10.033 million and inclusion of unserviceable/obsolete/defective equipment with carrying amount of P0.905 million; (b) 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 variances in the results of confirmation totaling P7.934 million and inclusion of items which should not be part of A/P amounting to P75.240 million; (c) 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; and (d) 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.

Adjustments were made in the books to recognize depreciation of the PPE and the unserviceable/obsolete/defective pieces of equipment were derecognized in the books. Likewise, variances noted in the results of confirmation of the A/P were reconciled and items which should not be part of the A/P were already reclassified to their appropriate accounts. Further, the provision for output VAT was adjusted and the Accounting Division recognized revenue in the proper reporting period in which services were rendered or at the time the deliverables were accepted by the clients. Accordingly, our present opinion on the restated 2017 financial statements, as presented herein is no longer modified concerning those matters.

Report on Other Legal and Regulatory Requirements

Our audits were 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, 2018, required by the Bureau of Internal Revenue as disclosed in Note 35 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 PPSASs. Such supplementary information is the responsibility of management.

COMMISSION ON AUDIT

Rsarmiento

ROSALIE D. SARMIENTO
OIC - Supervising Auditor
Audit Group G – Development, Media and Other Agencies
Cluster 6-Social, Cultural, Trading, Promotional and Other Services
Corporate Government Sector

April 30, 2019

PART III - STATUS OF IMPLEMENTATION OF PRIOR YEAR'S AUDIT RECOMMENDATIONS

Of the 21 audit recommendations embodied in the prior year's Annual Audit Report (AAR), 14 were fully implemented, five were partially implemented and two were not implemented. Details are as follows:

Reference	Observations	Recommendations	Actions Taken/Comments
CY 2017 AAR Financial Audit			
Audit Observation (AO) No. 1 p. 27	The accuracy, reliability and validity of Accounts Receivable in the amount of P242.618 million as of December 31, 2017 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.	We recommended that Management require the Accounting Division to:	
		a. Reconcile the receivable accounts with the records of the clients and make the necessary adjustments if warranted; and	Fully Implemented. Reconciliation was made for CY 2017.
		b. 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; and to identify the agencies/offices or client names included in the lump amount of P79,880.44.	Fully Implemented. Proper adjustment was made for transactions with negative balances.
AO No. 2 p. 28	The Property, Plant and Equipment (PPE) account with a balance of P210.570 million as of December 31, 2017	We recommended that Management:	
		a. Recognize/ provide depreciation on	Fully Implemented.

Reference	Observations	Recommendations	Actions Taken/Comments
	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. The non-recognition of depreciation also resulted in the understatement of depreciation expense and accumulated depreciation accounts and overstatement of Retained Earnings/Net income for CY 2017 by P10.033 million.	completed projects in accordance with Item No. 71 of the Philippine Public Sector Accounting Standards 17 in order to present a reliable balance of the Buildings and Other Structures, Depreciation Expense and the corresponding Accumulated Depreciation accounts in the financial statements;	Adjustment was made per JEV No. 18-05-0515.
		b. Derecognize items of PPE that are unserviceable and have no future economic benefits to the Academy pursuant to the provisions of paragraph 82 of the PPSAS 17; and	Fully Implemented. Adjusted per JEV Nos. 18-07-1817 and 18-07-1818.
	Also, the existence, completeness and accuracy of the PPE year-end account balance could not be ascertained due to the discrepancy in the amount of P0.549 million between the balance per books and the balance per PMSO Inventory Report.	c. Prepare periodic reconciliation of the records of the PMSO and the accounting division to detect any inconsistency and prepare the necessary adjusting entries if warranted.	Partially Implemented. The PMSO and the accounting division is still reconciling the records.
AO No. 3 p. 32	The accuracy, validity and reliability of the year-end balance of Accounts Payable (A/P) totaling P151.711 million could not be	We recommended that Management require the Accounting Division to: a. Reconcile the	Fully

Reference	Observations	Recommendations	Actions Taken/Comments
	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.	liability accounts with the records of the payee and prepare adjustments in the books if warranted;	Implemented. Reconciliation was made with the clients.
		b. Update the subsidiary ledgers to present complete and accurate balances of the A/P; and	Fully Implemented. Subsidiary ledgers were already updated per validation.
		c. Determine the nature of each transaction and reclassify the items included in the A/P to their appropriate accounts.	Fully Implemented. Items referred to were already reclassified to specific accounts.
AO No. 4 p. 34	Cost of audit services from 1990 to 2017 recognized in the books was understated by P3.809 million when compared with the billing statement sent by COA, resulting in the understatement of year-end Account Payable balance by the same amount.	We recommended that Management require the Accounting Division to reconcile the Summary of Assessments, Remittances and Balances transmitted by the Commission with the Academy's records and make the necessary adjustment if warranted.	Partially Implemented. Management is awaiting reply from the COA on the reconciliation made.
AO No. 5 p. 35	The accuracy, validity and reliability of the year-end account balances of Deferred Credits to Income and Consultancy Fees – Management Training and Consultancy amounting to P162.936 million and P276.932	We recommended that Management require the Accounting Division to recognize revenue in the reporting period in which services were rendered or at the time the deliverables were accepted by the clients in compliance with	Fully Implemented. The accounts were analyzed and validated and adjustments were made accordingly.

Reference	Observations	Recommendations	Actions Taken/Comments
	million, respectively, were doubtful due to improper recording of billings and recognition of revenue contrary to Sections 19 and 20 of the Philippine Public Sector Accounting Standard (PPSAS) 9.	Sections 19 and 20 of PPSAS No. 9.	
AO No. 6 p. 37	Results of confirmation of the Due to National Government Agencies (NGAs) account showed variances amounting to P29.662 million that cast doubts on the accuracy, reliability and validity of the account balance presented in the financial statements.	We recommended that Management require the Accounting Division to analyze and reconcile the accounts and make adjustments in the books if necessary.	Partially Implemented. Results of the confirmation made in CY 2018 still showed variances between the records of the concerned NGAs and DAP.
AO No. 7 p. 37	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.	We recommended that Management require the Accounting Division to:	
		a. Prepare the necessary adjusting entry to correct the Provision for Output VAT Year 2003 Onwards account amounting to P6.529 million;	Fully Implemented. Adjustments were already made in the books.
		b. Identify the deficiencies that gave rise to the abnormal balances of the account and prepare appropriate adjusting entries; and	Fully Implemented.
		c. Maintain subsidiary ledgers for the	Fully Implemented.

Reference	Observations	Recommendations	Actions Taken/Comments
		account Provision for Output VAT Year 2003 Onwards in accordance with Section 114 (2) of PD No. 1445.	Subsidiary Ledger for this account was already provided in the system.
AO No. 8 p. 39	The accounting records for the Provision of Output VAT year 2002 and Below account in the amount of P2.349 million were inadequate contrary to Section 111 of Presidential Decree (P.D.) No. 1445.	We recommended that Management exert extra efforts to locate the accounting records and documents and perform review or evaluation thereof to be able to establish the accuracy, reliability, and validity of the account balances. Based on the evaluation, prepare appropriate adjusting entries if necessary.	Fully Implemented. The account was adjusted per JEV 18-11-1827.
AO No. 9 p. 40	Properties held to earn rentals were still included in the PPE account of the Academy contrary to PPSAS 16.	We recommended that Management reclassify the properties that fall under the category of Investment Property in compliance with PPSAS 16.	Not Implemented. Management has still to determine the properties that will be classified as Investment Property and will refer the matter to the Government Accountancy Sector (GAS) of the COA.
Compliance Audit			
AO No. 10 p. 41	The cost of audit services from 1990 to 2017 amounting to P42.345 million was not remitted to the Bureau of Treasury (BTr), contrary to the provisions of the	We reiterated our recommendations that Management settle the latest assessment received and develop a payment scheme to settle the unpaid balance in compliance	Not Implemented. Reiterated in Part II-B, Observation and Recommendation No. 10 of this Report.

Reference	Observations	Recommendations	Actions Taken/Comments
	Commission on Audit (COA) and Department of Budget and Management (DBM) Joint Circular No. 88-1 dated July 29, 1988 and related issuances.	with 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.	
AO No. 11 p. 43	Hiring of personnel under a service agreement in which they 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 Regulations 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.	Fully Implemented.
AO No. 12 p. 44	Property Cards (PCs) and Property, Plant and Equipment Ledger Cards (PPELCs) were not maintained by the Property Management Services (PMS) and the Accounting Division, respectively, contrary to Section 42, Chapter 10 of the Government Accounting Manual, Volume I.	We recommended that Management require the maintenance of complete and accurate Properly Cards by the Property Management Services Office and Property, Plant and Equipment Ledger Cards by the Accounting Division to facilitate the reconciliation of said records with the result of the RPCPPE pursuant to Section 42, Chapter 10 of the Government Accounting Manual.	Partially Implemented. The PCs are being maintained by the PMS, while the Accounting Division maintains the PPE JEV Monitoring System (PJMS) in lieu of the PPELCs.

Reference	Observations	Recommendations	Actions Taken/Comments
AO No. 13 p. 45	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.	Fully Implemented. The contract with the concessionaire was discontinued.
AO No. 14 p. 46	The DAP's GAD Plans and Budget (GPB) and GAD Accomplishment Report (AR) for the FY 2017 were not submitted to Philippine Commission on Women (PCW) for endorsement to the Department of Budget and Management (DBM) as required under Section 8.2 of the PCW, National Economic and Development (NEDA) and DBM Joint Circular No. 2012-01 due to non-registration to the Gender Mainstreaming	We recommended that Management facilitate the Academy's registration to the PCW Gender Mainstreaming Monitoring System (GMMS) as required in PCW Memorandum Circular No. 2015-04 dated September 30, 2015; and adhere strictly with the provisions of Section 3.4 of the General Guidelines in GAD Planning and Budgeting by allocating five (5) per cent of the total COB to GAD related activities.	Partially Implemented. The Academy has already registered to the PCW Gender Mainstreaming Monitoring System (GMMS) last October 12, 2018. Updated in Part II-B, Observation and Recommendation No. 13 of this Report.

Reference	Observations	Recommendations	Actions Taken/Comments
	Monitoring System (GMMS). Also, cost of GAD related activities for the year amounted only to P4.145 million or 0.3486 per cent of the Corporate Operating Budget (COB) which was not in accordance with Section 3.4 of the General Guidelines in GAD Planning and Budgeting.		