

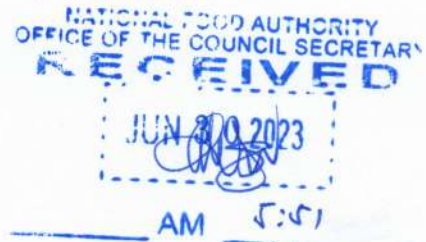


REPUBLIC OF THE PHILIPPINES
COMMISSION ON AUDIT
COMMONWEALTH AVENUE, QUEZON CITY

CORPORATE GOVERNMENT AUDIT SECTOR
Cluster 5 – Agriculture and Natural Resources

June 30, 2023

THE NATIONAL FOOD AUTHORITY COUNCIL
NFA Compound, Visayas Avenue
Barangay VASRA, Diliman
Quezon City



GENTLEMEN/MESDAMES:

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, 2022 and 2021.

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

1. The existence in the financial statements of the Intra-agency receivables account in the amount of P1.552 billion which did not meet the definition of an asset under Paragraph 7 of International Public Sector Accounting Standard (IPSAS) 1, in view of the non-elimination at year-end of the Intra-agency receivables and payables accounts in the amounts of P17.838 billion and P16.286 billion, respectively, resulted in the overstatement of the total assets of P18.759 billion by P1.552 billion and Accumulated surplus/(deficit) account by the same amount as at December 31, 2022.
2. The Receivables-Other receivables-Due from officers and employees account in the amount of P1.517 billion as at December 31, 2022 included stock shortages of Stock Accountable Officers (SAOs) with total carrying amount of P1.333 billion which were not presented at their fair values due to non-computation of the tolerable allowance (TOLA) to determine the final accountabilities of the SAOs, thus resulted in the overstatement of the said account and Accumulated surplus/(deficit) account by undetermined amount, contrary to Paragraph 48 of IPSAS 29.

3. The faithful representation in the financial statements and verifiability of the balances of the Receivables-Accounts receivable, Other receivables-Due from officers and employees, and Other receivables-other receivables accounts in the amounts of P36.950 million, P1.517 billion and P1.315 billion, respectively, as at December 31, 2022 were not established as these included accounts in the total amount of P454.096 million without supporting documents, contrary to Paragraphs 3.10 and 3.26 of the Conceptual Framework for General Purpose Financial Reporting.

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

- 1.1. Direct the Central Office (CO) Finance Department and the Regional Offices (ROs)/Branch Offices (BOs) Finance Sections to:
 - a. Exert all efforts to fully eliminate the reciprocal accounts, Intra-agency receivables and payables, by conducting a nationwide reconciliation of the discrepancies to come up with a reliable financial statements at year-end;
 - b. Ensure that all adjustments are duly supported with proper and complete documentations;
 - 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 (iv) confirmation advices, as applicable, and to consistently coordinate with other offices to reconcile the discrepancies;
 - d. Revisit and update, if necessary, the existing NFA SOP on intra-agency transactions for uniformity in the application of the policies/guidelines by the CO, ROs and BOs due to NFA's structural changes under Republic Act (RA) No. 11203 or the Rice Tariffication Law; and
- 1.2. Make necessary representation with the COA Government Accountancy Sector (GAS) on how to eliminate/close the long outstanding Intra-agency accounts balances in the books in the absence of documents.
- 2.1. Instruct the Regional/Branch Managers concerned to direct the:
 - a. BOs Stock Examination Group and the ROs Regional TOLA Working Group to expedite the conduct of stock examination and TOLA computation on the stock shortages of the SAOs with available warehouse documents, to determine the final accountabilities of the SAOs recorded under Receivables-Other receivables-Due from officers and employees account; and
 - b. BOs' Finance Section to make necessary adjustments to recognize the fair values of the stock shortages of the SAOs recorded under Receivables-Other receivables-Due from officers and employees account based on final TOLA computation;

- 2.2. Consider adopting a policy to address the perennial issue on the unavailability of relevant documents for the conduct of stock examination on the stock shortages of the SAOs by the BOs Stock Examination Group and TOLA computation by the ROs Regional TOLA Working Group; and
- 2.3. Coordinate with the COA GAS to seek guidance on whether former SAOs' final stock shortages can be impaired considering the issue on accountability.
- 3.1. Direct the Finance Department and the Regional/Branch Managers concerned to require the Accounting Division of the CO and Finance Sections of the ROs/BOs to:
 - a. Exert all efforts in locating relevant records and documents, such as, Memoranda of Agreement (MOAs), Statements of Accounts (SOAs) and Billing Statements, Demand Letters, Warehouse Stock Issues (WSIs), and Subsidiary Ledgers (SLs), to substantiate the balances of the Receivables-Accounts receivable, Other receivables-Due from officers and employees and Other receivables-other receivables accounts;
 - b. Fast track the reconciliation of the receivables accounts of the ROs/BOs against the records of the NFA CO;
 - c. Assess the collectability of the dormant receivables, if collection is determined to be no longer feasible, provide Allowance for impairment; and
 - d. Coordinate closely with the government offices concerned for possible reconciliation and/or collection of the outstanding receivables accounts.

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

4. In calendar year (CY) 2022, the NFA did not meet the optimum level of national rice buffer stocking requirement of 300,000 metric tons (MT) at any given time pursuant to NFA Council Resolution No. 999-2021-B dated February 16, 2021 issued in compliance with the Implementing Rules and Regulations (IRR) of RA No. 11203, despite the full receipt of the P7.000 billion government subsidy from the National Government, in view of, among others: (a) shortfall of 177,349 MT or 36.95 per cent of the targeted palay procurement of 480,000 MT; (b) inadequate information dissemination of the NFA's palay procurement program; (c) low number of palay buying stations and limited number of deployed mobile procurement teams to surplus producing areas during harvest seasons; and (d) revocation of various incentives to farmers, such as, the Cooperative Development Incentive Fund (CDIF), delivery fee, drying fee, and Buffer Stocking Incentive (BSI). The inability to maintain the required optimum level of national rice buffer stocking at any given time poses risk that NFA might not be able to effectively and immediately respond and provide the needs of the beneficiaries all over the country in times of emergency situations, and non-sustenance of the disaster relief programs of the government during natural or man-made calamities.

- 4.1. We recommended that top Management direct the officials concerned to ensure that the optimum level of national rice buffer stocking requirement of 300,000 MT is maintained at any given time by:
 - a. Intensifying the information dissemination on NFA palay procurement activities in the producing regions at the start of cropping season;
 - b. Strengthening the NFA's campaign on Palay Marketing Assistance Program for Legislators and Local Government Units (PALLGU) through meetings with the legislators and local chief executives to discuss the benefits thereof to their farmer-constituents to encourage them to participate in the program;
 - c. Coordinating with the Department of Agriculture (DA) and its affiliated agencies in-charge of administering the Rice Competitiveness Enhancement Fund (RCEF) and National Rice Program (NRP) on the feasibility of crafting a policy that would require the farmers to sell a certain volume of palay to the NFA, in conformity with the implementation of RA No. 11203;
 - d. Increasing the number of mobile procurement teams deployed in areas where harvesting is in progress;
 - e. Evaluating the performance of the ROs and BOs with low palay procurement accomplishments to determine the necessary assistance and measures needed so that they can meet their targets on palay procurement; and
 - f. Providing assistance and additional incentives to farmers to encourage them to sell their produce to the NFA.

5. Several provisions of the NFA's warehousing policies and procedures on warehouse custody, piling system, storage structure and specification and good warehouse-keeping were still not observed at various NFA warehouses, which could result in environmental and health hazards and losses due to grain damage/deterioration in quality and value as well as theft/pilferage of stocks, considering the following deficiencies noted during the ocular inspection of NFA warehouses in Regions I, II, III, VI, VIII and XIII:
 - a. The floors with visible cracks were not filled with sealing compound or asphalt to prevent the accumulation of moist, dust, dirt, residue, and possible breeding area of insects, thus exposed the stored rice stocks to ground moisture and possible damage.
 - b. Doors or openings/vents of the warehouses were not installed with mesh wire and/or secondary screen doors or have damaged screen wires that rodents and birds could freely enter the warehouses, causing spillage, infestation and contamination of rice/palay stocks.
 - c. The roofs of several warehouses have leaks and holes, but in spite thereof, the areas are still being utilized.
 - d. Fire extinguishers inside the warehouses were already expired or lacking in some warehouses.

- e. Closed-circuit televisions (CCTVs) were not installed in some warehouses and other structures such, as watch towers, bridges and safety nets/screens were not properly utilized to monitor activities inside the warehouses.

5.1. We recommended that top Management direct the:

a. Branch Managers concerned to:

- a. 1 Address the deficiencies noted on warehouse custody, piling system, storage structure and specifications and good warehouse-keeping, and henceforth, require all concerned to comply strictly with the provisions of NFA SOP No. GM-WH07;
- a. 2 Instruct all Warehouse Supervisors (WSs) to immediately report in writing the defects on flooring, doors, windows, roofing and other parts of the warehouse;
- a. 3 Facilitate the immediate repair of the warehouse defects particularly the cracks on the floors, leaks and holes on the roofs, to prevent further warehouse deterioration and damage to the stocks, which could result in losses to NFA; and
- a. 4 Conduct regular inspection of warehouses to determine whether the warehouse personnel are complying with the good warehouse-keeping standards to avoid health hazards and losses due to deterioration of stocks and pilferages; and

b. Regional Managers concerned to:

- b. 1 Ensure that the NFA's engineering team are regularly fielded to conduct inspection of all facilities for early detection of physical defects/damages so that appropriate measures can be undertaken; and
- b. 2 Consider installing CCTVs and the immediate repair or replacement of damaged ones to monitor activities inside the NFA warehouses.

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 30, 2023 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.

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 IV
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*



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CORPORATE GOVERNMENT AUDIT SECTOR
Cluster 5 – Agriculture and Natural Resources

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Mr. RODERICO R. BISCO
Administrator
National Food Authority
NFA Compound, Visayas Avenue
Barangay VASRA, Diliman
Quezon City



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