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Republic of the Philippines

**COMMISSION ON AUDIT**

Commonwealth Avenue, Quezon City, Philippines

# INDEPENDENT AUDITOR’S REPORT

## The Board of DIRECTORS

Philippine Charity Sweepstakes Office

Sun Plaza Building

1507 Shaw Boulevard

Mandaluyong City

**Report on the Audit of the Financial Statements**

***Adverse Opinion***

We have audited the financial statements of the **Philippine Charity Sweepstakes Office (PCSO)**,which comprise the statements of financial position as at December 31, 2019 and 2018, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and notes to financial statements, including a summary of significant accounting policies.

In our opinion, because of the significance of the matters discussed in the *Bases for Adverse Opinion* section of our report, the accompanying financial statements do not present fairly the financial position of PCSO as at December 31, 2019 and 2018, and its comprehensive income and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards (PFRSs).

***Bases for Adverse Opinion***

The Receivables, Income from Gaming Operations, Expenses, Payables and Retained Earnings were understated by P6.980 billion, P6.305 billion, P4.696 billion, P4.757 billion and P2.331 billion, respectively; while the Miscellaneous Income and Other Business Income were overstated by P663.001 million and P1.055 billion, respectively, due to the non-recognition of Guaranteed Minimum Monthly Retail Receipts (GMMRR) Shortfalls for CYs 2017-2019 in the total amount of P20.210 billion and the corresponding amount of Shortfalls due to PCSO totaling P8.698 billion despite being valid revenues and receivables from the Authorized Agent Corporations (AACs), as defined under the Philippine Accounting Standard (PAS) 1 and the Conceptual Framework for Financial Reporting (CFFR).

Likewise, the Income from Gaming Operations-National Instant Sweepstakes Program (NISP) was overstated by P852.680 million while the Retained Earnings was understated by P16.599 million due to the recognition of the full amount of CY 2019 retail receipts generated by the Instant Sweepstakes Authorized Corporation (ISAC) in the amount of P961.013 million despite the fact that only thirteen (13) per cent of the ISAC’s retail receipts accrue to the PCSO as guaranteed share, which was tantamount to misrepresentation of the actual revenues derived from the ISP, contrary to Section 4 (i) of the RIRR for the ISP, PAS 1 and Paragraph 4.47 of the CFFR.

Moreover, the faithful representation of the balance of the cash and cash equivalents account presented in the financial statements in the amount of P14.840 billion as at December 31, 2019, based on Paragraph 15 of PAS 1, was not established due to: (a) variances totaling P107.999 million between balances per books and confirmed bank balances, where some of the book reconciling items were already identified in prior years’ bank reconciliation statements but remained unadjusted in the books; (b) existence of outstanding book balances of closed bank accounts in the amount of P12.020 million and negative balance of P39.280 million; and (iii) the reversion to cash account of reported unreleased checks which were already cleared by the bank and debited from PCSO’s bank accounts which resulted in the overstatement of Cash and Cash Equivalents by P1.550 million.

Further, the misapplication of PFRS 16 – *Leases* on the measurement of right-of-use asset and lease liability resulted in the overstatement of the Finance Lease Payable, Prepaid Rent and Depreciation Expense accounts by P26.508 million, P24.631 million and P1.473 million, respectively, and the corresponding understatement of Leased Assets, Accumulated Depreciation, Interest Expense, Rent Expense and Retained Earnings accounts by P97.512 million, P98.985 million, P1.063 million, P0.874 million and P0.868 million, respectively.

In addition, the faithful representation of the Accounts Receivable (AR) account having a balance of P1.096 billion, net of Allowance for Impairment of P163.864 million, as of December 31, 2019 was not established due to: (a) existence of four AR sub-accounts having abnormal (credit) balances totaling P681.735 million; (b) variance of P466.230 million between the account balances per General Ledger (GL) and the Aging schedule for the same accounts resulting from prior period errors in posting of transactions; and (c) absence of subsidiary ledgers, schedules and aging schedules to support the balances of the 12 AR sub-accounts totaling P72.089 million.

We conducted our audits in accordance with the 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 PCSO in accordance with the ethical requirements that are relevant to our audit of the financial statements in the Philippine Public Sector, 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.

***Emphasis of Matter***

We draw attention to Note 29 to financial statements disclosing that the Commission on Audit issued observations pertaining to PCSO’s non-payment of dividends. However, due to the provision in Republic Act (RA) No. 1169, otherwise known as the “PCSO Charter”, the PCSO is mandated that all balances of any funds shall regularly be reverted to and form part of the Charity Fund; thus, there is nothing left to be declared and remitted as dividend. The matter has been referred to the Department of Finance (DOF) and it confirmed that the PCSO is not exempt from RA No. 7656; however, the former recognized that the latter’s Charter mandates all balances of any funds to revert to and form part of the Charity Fund. As of December 31, 2019, the PCSO is still negotiating with the DOF if indeed the PCSO would be required to remit P8.422 billion inclusive of the amounts due from CYs 1994 to 2011. Our opinion is not modified in respect of this matter.

***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 PFRSs, 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 PCSO’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 PCSO or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the PCSO’s financial reporting process.

***Auditor’s Responsibility 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 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 misstatements 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 PCSO’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 PCSO’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 PCSO 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 others, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during the audit.

***Other Matters***

In our report dated June 14, 2019, we expressed an adverse opinion on the 2018 financial statements because: (a) the non-recognition of assets and liabilities from the P2.5 billion trust fund account with the Land Bank of the Philippines (LBP) resulted in the understatement of Cash and Cash Equivalents, Receivables, Prepayments and Liabilities accounts by P509.424 million, P16.801 million, P1.549 million and P3.438 million, respectively, while the Financial Assets account was overstated by P524.336 million; (b) the erroneous recording of certain transactions pertaining to the Charity Fund caused the overstatement of Accounts Payable–Miscellaneous and Other Charity Expenses accounts by P255.949 million and P23.348 million, respectively, and the understatement of Retained Earnings–Charity Fund account by P232.600 million; (c) the non-forfeiture of the cash bonds of six (6) terminated Authorized Agents Corporations/Authorized STL Agents totaling P497.183 million overstated the Performance Bonds Payable account by P497.183 million and misstated the other affected accounts; and (d) the reversion to cash account of reported unreleased checks which were already cleared by the bank and debited from PCSO’s bank accounts caused the overstatement of Cash and Cash Equivalents account by P8.631 million.

On the understatement of Cash and Cash Equivalents, Receivables, Prepayments and Liabilities accounts by P509.424 million, P16.801 million, P1.549 million and P3.438 million, respectively, and the overstatement of Financial Assets account by P524.336 million resulting from the non-recognition of assets and liabilities from the trust fund account with the LBP, the necessary adjusting entries have been effected to faithfully represent the effects of the transactions pursuant to paragraph 15 of PAS 1.

The overstatement of Accounts Payable – Miscellaneous and Other Charity Expenses accounts in the amounts of P255.949 million and P23.348 million, respectively, and the understatement of the Retained Earnings – Charity Fund account by P232.600 million were adjusted in the books of accounts.

Adjustments were also effected to correct the overstatement of the Performance Bonds Payable account amounting to P497.183 million, however, credits were made to improper accounts.

The checks in the total amount of P8.631 million that were presented to and cleared by bank but were erroneously included as unreleased checks that were reverted back to cash, the necessary adjusting entries were likewise effected.

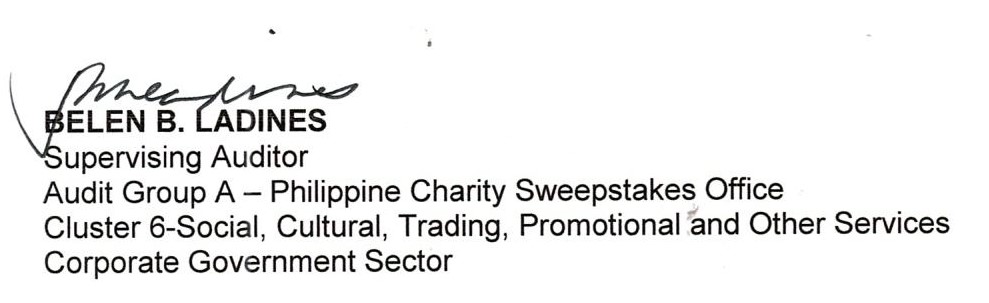
Accordingly, our present opinion on the restated 2018 financial statements, as presented herein, is qualified concerning these matters.

***Report on Supplementary Information Required Under***

***BIR Revenue Regulation 15-2010***

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, 2019, required by the Bureau of Internal Revenue as disclosed in Note 26 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 PFRSs. Such supplementary information is the responsibility of management.

**COMMISSION ON AUDIT**



August 20, 2020