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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**

***Qualified 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, 2020 and 2019, 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, except for the effects and possible 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 PCSO as at December 31, 2020 and 2019, and its financial performance and cash flows for the years then ended in accordance with Philippine Financial Reporting Standards (PFRSs).

***Bases for Qualified Opinion***

The inclusion of an accrual for the 2020 Performance-Based Bonus in the total amount of P24.504 million despite the absence of legal basis, hence not a valid obligation, resulted in the overstatement of the Financial Liabilities-Accounts Payable (FL-AP) and Other Bonuses and Allowances accounts by the same amount.

Also, the undercollection of the guaranteed shares of the PCSO from the sales of the Instant Sweepstakes tickets for CY 2020 amounting to P62.087 million was not recognized in the books resulting in the understatement of the Accounts Receivable (AR) and Income accounts by the same amount, contrary to Paragraphs 4.4 and 4.44 of the Conceptual Framework for General Purpose Financial Reporting (CFGPFR).

The faithful representation in the financial statements as of December 31, 2020 of the FL-AP account amounting to P8.488 billion could not be established due to the following, contrary to Qualitative Characteristic (QC)12, QC15 and QC26 of the CFGPFR and Paragraph 15 of the Philippine Accounting Standards (PAS) 1: (a) a discrepancy of P133.991 million existed between the balances of the Vouchers Payable – Charity Fund (VP-CF) account per General Ledger (GL) of P1,114.104 million and per supporting schedules of P980.113 million; (b) non-maintenance of Subsidiary Ledger (SL) for each creditor that would support the GL balances as of December 31, 2020 of the VP-CF account amounting to P1,114.104 million as well as the AP-Miscellaneous account in the amount of P6.976 billion; and (c) existence of P127.647 million and P2.195 billion liabilities under the VP-CF and AP-Miscellaneous accounts, respectively, that remained outstanding for more than two years, against which no actual claims had been filed.

Likewise, the faithful representation in the financial statements of the balance of the Receivables - AR account with carrying amount of P6.297 billion as of December 31, 2020 cannot be ascertained in view of: (a) four (4) AR sub-accounts for the National Capital Region had abnormal (credit) GL balances totaling P578.541 million; (b) balances between the GL and the submitted Aging of AR account had discrepancies of P97.285 million; and (c) four (4) AR sub-accounts totaling P47.467 million were not properly supported with complete SLs and schedules, contrary to Paragraph 15 of PAS 1 and QC26 of CFGPFR.

Moreover, the faithful representation in the financial statements of the balance of the Cash and Cash Equivalents account in the amount of P14.206 billion as of December 31, 2020 was not established due to the following, contrary to Paragraph 15 of PAS 1 and QC12 of the CFGPFR: (a) discrepancies of P23.778 million and P46.930 million between the results of confirmation of the active bank accounts maintained for the Operating Fund (OF) & Main Account (MA) and the Charity Fund (CF) & Prize Fund (PF), respectively, and the corresponding balances of the subject bank accounts per GL as of December 31, 2020; (b) Journal Entry Vouchers effecting the adjusting entries totaling P59.681 million representing prior years’ book reconciling items noted in the bank reconciliation statements had incomplete and/or no supporting documents, contrary to QC26 of the CFGPFR; and (c) three (3) bank accounts maintained with the different depository banks for the various PCSO Branches and Head Office, which were already closed per bank confirmation have remaining net abnormal or negative book balance of P20.418 million, which reduced the balance of the Cash in Bank account presented in the financial statements as of December 31, 2020 by the same amount.

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 Revised Code of Conduct and Ethical Standards for the Commission on Audit Officials and Employees (Code of Ethics) together 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 and the Code of Ethics. 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, 2020, the PCSO is still negotiating with the DOF if indeed the PCSO would be required to remit dividends to the National Government totaling P8.422 billion inclusive of the amounts due from Calendar Years (CYs) 1994 to 2011. Our opinion is not modified in respect of this matter.

***Other Matters***

In our report dated August 20, 2020, we expressed an adverse opinion on the 2019 and 2018 financial statements in view of: (a) the non-recognition of income and receivables from Guaranteed Minimum Monthly Retail Receipts (GMMRR) Shortfalls for CYs 2017-2019 resulted in the understatement of Receivables, Income from Gaming Operations, Expenses, Payables and Retained Earnings 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; (b) 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 that only 13 per cent of the ISAC’s retail receipts accrue to the PCSO as guaranteed share, resulted in the overstatement of the Income from Gaming Operations-National Instant Sweepstakes Program by P852.680 million and understatement of Retained Earnings by P16.599 million; (c) the reversion to cash account of reported unreleased checks which were already cleared by the bank and debited from PCSO’s bank accounts resulted in the overstatement of Cash and Cash Equivalents by P1.550 million; and (d) 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.

On the non-recognition of income and receivables from the GMMRR Shortfalls for CYs 2017-2019 that caused misstatements of various accounts in the financial statements, necessary adjusting entries were made to recognize the income and receivables as well as to various affected accounts, however, there were some accounts, which remained for reconciliation.

On the recognition of the full amount of CY 2019 retail receipts generated by the ISAC in the amount of P961.013 million despite that only 13 per cent of the ISAC’s retail receipts accrue to the PCSO as guaranteed share which resulted in the overstatement of the Income from Gaming Operations-NISP by P852.680 million and understatement of Retained Earnings by P16.599 million, a disclosure was made in the Notes to Financial Statements that PCSO has a guaranteed 13 per cent share from the sales of the instant sweepstakes tickets.

The checks in the total amount of P1.550 million that were presented to and cleared by bank but were erroneously included as unreleased checks were reverted to cash, and the necessary adjusting entries were effected.

Moreover, adjustments were made to correct the balances of the affected accounts in the misapplication of PFRS 16 – *Leases* on the measurement of right-of-use asset and lease liability.

Accordingly, our present opinion on the restated 2019 financial statements, as presented herein, is qualified concerning these matters.

***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:

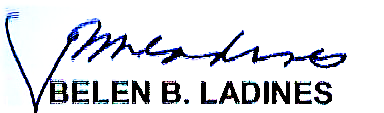
* Identify and assess the risks of material misstatements of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting 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.

***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, 2020, 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**

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Supervising Auditor

Audit Group A – Philippine Charity Sweepstakes Office

Cluster 6-Social, Cultural, Trading, Promotional and Other Services

Corporate Government Sector

July 2, 2021