



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, 2021 and 2020, 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, 2021 and 2020, 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 accounts Charity Expenses - Other Health and Welfare Related Program in Calendar Year 2021 and Accounts Payable – Charity Fund were both overstated by P200 million and the Retained Earnings was understated by the same amount, thus affecting the fair presentation of these accounts in the Financial Statements, contrary to Paragraph 15 of the Philippine Accounting Standard (PAS) No. 1, due to the recorded transfer of fund to the Office of the President that did not push through amounting to P200 million for the procurement of Coronavirus Disease-2019 vaccines, for being not authorized nor fully documented, contrary to Section 4, Item Nos. 5 and 6 of Presidential Decree No. 1445, Section 3.1.1 of COA Circular No. 2012-001 dated June 14, 2012 and Section 3 of Republic Act No. 115251 dated July 27, 2020.

Likewise, the approved financial assistance under the Integrated Health for Over-All Productivity and Empowerment program in Calendar Year (CY) 2019 amounting to P110.349 million remained as outstanding payable as of December 31, 2021 despite the revocation of its approval in February 2020, thereby overstating the Accounts Payable – Miscellaneous-Charity Fund and understating the Retained Earnings by the same amount, contrary to Paragraph 15 of the PAS No.1.

Moreover, the recognition of the liability for the 2021 Performance-Based Bonus (PBB) in the amount of P31.353 million pending receipt of the overall and favorable assessment of the Governance Commission for Government-Owned or Controlled Corporations (GCG) and the non-reversal of the accrual for the CY 2020 PBB with unfavorable results of assessment of the GCG in the amount of P14.748 million, resulted in the overstatement of the Due to Officers and Employee, and the Other Bonuses and Allowances and understatement of Retained Earnings accounts of P46.101 million, P31.353 million and P14.748 million, respectively.

Further, the faithful representation in the financial statements of the balance of the Cash and Cash Equivalents account in the amount of P16.130 billion as of December 31, 2021 cannot be ascertained due to: (a) variance between the balances per books and the confirmed bank balances of the Main and Operating Fund (OF) accounts in the total amount of P14.851 million; (b) variance of P36.780 million between the balances per books and the confirmed bank balances of the Charity Fund (CF) and Prize Fund (PF) accounts; (c) stale checks and spoiled checks for OF, CF and PF were reported as Outstanding Checks in the Bank Reconciliation Statement (BRS); and (d) closed accounts still having outstanding balances in the books amounting to P3.088 million and P0.689 million, contrary to Paragraph 15 of PAS No. 1. Moreover, the late submission of the BRS precluded the timely verification of the transactions affecting the cash account, and is not in accordance with Section 7, Chapter 21 of the Government Accounting Manual, Volume I.

Also, the faithful representation in the financial statements of the balances of the Leased Assets, Buildings and Other Structures, Interest Expense, Depreciation Expense, Accumulated Depreciation and Lease Liability accounts in the amounts of P316.184 million, P9.089 million, P177.711 million, P445.779 million, and P285.121 million, respectively, cannot be ascertained due to: (a) misapplication of PFRS No. 16; (b) non-recognition of Depreciation Expense and (c) no proper classification of finance lease payable, contrary to Paragraphs 22, 23, 26 and 32 of PFRS No. 16 and Paragraphs 60 and 69 of PAS No. 1.

In addition, the excess prize fund for Small Town Lottery (STL) held in trust by the Authorized Agent Corporations (AACs) amounting to P4.248 million in CY 2021 was not remitted to PCSO at year-end, contrary to Section 18 (d) of the 2020 Revised Implementing Rules and Regulations for STL. Moreover, the Accounting and Budget Department (ABD) failed to record the said excess prize fund, resulting in the overstatement of expenses for prize pay-outs and understatement of the receivable account from the AACs as of December 31, 2021, 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 of the 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, 2021, 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 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.

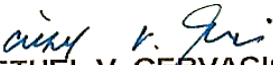
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the PCSO's internal control.
- Evaluate the appropriateness of accounting policies 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.

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, 2021, 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


ETHEL V. GERVACIO

Supervising Auditor

Audit Group A – Philippine Charity Sweepstakes Office

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

Corporate Government Sector

June 8, 2022