



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, 2022 and 2021, 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, 2022 and 2021, 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 Printing and Publication Expenses – Small Town Lottery (STL) account was understated by P568.561 million, consequently overstating the Retained Earnings account by the same amount due to the non-recognition of printing expense for STL tickets in the Calendar Year (CY) 2022, which is not accordance with Paragraph 4.50 of the Conceptual Framework for General Purpose Financial Reporting (CFGPFR) and Section 6 of Republic Act No. 1169, as amended.

Likewise, the correctness of the balance of P120.853 million of the Play/Bet Slips and Thermal Rolls Supplies Inventories account as of December 31, 2022, could not be ascertained contrary to Paragraph 15 of the Philippine Accounting Standard (PAS) 1 due to the: (a) unaccounted discrepancy of P45.418 million between the balances per General Ledger (GL) and the Report on the Physical Count of Inventories (RPCI) for Luzon; (b) absence of RPCI for the supplies inventories of Visayas and Mindanao and Printing Materials amounting to P29.362 million and P0.426 million, respectively; and (c) non-maintenance of Supplies Ledger Cards, Stock Cards, and other required inventory records and reports.

Moreover, the amount billed to and collected by PCSO from the Instant Sweepstakes Authorized Corporation pertaining to the PCSO guaranteed share, Documentary Stamp Tax (DST) and Prize Fund Tax (PFT) for the remaining six months of its operation was short by P76.661 million due to the understatement of the guaranteed sales by P276.804 million, contrary to Section 58 of the Implementing Rules and Regulations (IRR) for Instant Sweepstakes Program.

Also, the faithful representation in the financial statements of the balance of the Cash and Cash Equivalents account in the amount of P20.343 billion as of December 31, 2022, cannot be ascertained due to the : (a) Discrepancy of P50.304 million between the balances per books and the confirmed bank balances of the Main, Operating Fund (OF), Charity Fund (CF) and PF accounts and (b) Closed bank accounts with outstanding balances in the books totaling P3.612 million (negative) and P0.483 million, contrary to Paragraph 15 of the PAS 1 and QC12 of the Conceptual Framework for Financial Reporting.

Further, the faithful representation in the financial statements of the balance of the Accounts Receivable (AR) with a carrying amount of P5.064 billion as of December 31, 2022, cannot be ascertained in view of (a) discrepancies between the GL balances and the schedule of AR with Aging report totaling P558.437 million and P(13.133) million and (b) three (3) AR sub-accounts had abnormal (credit) balances totaling P6.531 million contrary to Paragraph 15 of the PASs No. 1 and QC26 of the CFGPFR.

Furthermore, the existence, completeness, validity and reliability of the Financial Liabilities totaling P9.169 billion could not be established due to (a) Discrepancy between the GL balances and the supporting schedules of the Financial Liabilities amounting to P466.566 million; (b) Existence of long outstanding payables amounting to P462.370 million, P3.889 billion and P745.232 million for PF, CF, and AP-Miscellaneous-OF, respectively; (c) Abnormal (debit) GL balances of AP-OF Head Office account, AP-Miscellaneous Branch account amounting to P45.762 million and P35.171 million, respectively; and abnormal balances presented in AP-CF Schedule and Aging of AP-Miscellaneous (OF) amounting to P0.845 million and P90.298 million, respectively; and (d) Understatement of AP-CF account in the amount of P12.140 million due to erroneous recording of a cancelled check as an issued check, contrary to PAS 1 and Sections 111 (1) and 114 (2) of Presidential Decree No. 1445.

Lastly, the faithful representation in the financial statements of the balance of the Property, Plant and Equipment (PPE) account with a carrying amount of P996.545 million as of December 31, 2022 could not be ascertained due to: (a) Variance of P276.970 million between the balance of the PPE account per books and the Report on the Physical Count of PPE (RPCPPE) of the Head Office and various Branch Offices; and (b) Variance of P265.787 million between the carrying amount of depreciable PPE per books and the corresponding Lapsing Schedules/PPE Ledger Cards (PPELCs), thus affecting the fair presentation of the balance of the account in the Financial Statements contrary to paragraph 15 of PAS 1.

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, 2022, 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 2016. 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, 2022, 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

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 22, 2023