



Republic of the Philippines
Commission on Audit
Commonwealth Avenue, Quezon City

Management Letter

on the

**Co-Financing for Kapit-bisig Laban sa
Kahirapan – Comprehensive and Integrated
Delivery of Social Services Project
(KALAHI-CIDSS)
Grant No.: TF011939**

Department of Social Welfare and Development

For the Year Ended December 31, 2014



Republic of the Philippines
COMMISSION ON AUDIT
Department of Social Welfare and Development
Office of the Secretary
Batasan Hills, Quezon City

CONFIDENTIAL

July 31, 2015

Honorable Corazon Juliano - Soliman
Secretary
Department of Social Welfare and Development
Batasan Hills, Quezon City

Madam:

**Management Letter on the Audit of the Grant No. TF011939:
Co-Financing for Kapitbisig Laban sa Kahirapan-Comprehensive and Integrated
Delivery of Social Services Project (KALAHI-CIDSS)
for the Calendar Year 2014**

1. Pursuant to the Grant Agreement No. TF011939 dated May 30, 2012 between the World Bank and the Republic of the Philippines, thru the Department of Social Welfare and Development, we have audited the accounts, transactions and operations of the *Co-Financing for Kapitbisig Laban sa Kahirapan-Comprehensive and Integrated Delivery of Social Services Project (KALAHI-CIDSS)* for the period ended December 31, 2014. The audit was conducted in accordance with Philippine Public Sector Standards in Auditing. Those standards require that we plan and perform the audit to obtain a reasonable basis for our conclusions.
2. The audit was conducted by the audit team led by Ms June L. Van Schoonneveldt, State Auditor IV, to (a) verify the level of assurance that may be placed on Management's assertions on the financial statements; (b) recommend agency improvement opportunities; and (c) determine the extent of implementation of prior years' audit recommendations.
3. The Independent Auditor's Report, Statement of Management Responsibility on the Financial Statements, the Project's statement of financial position, statement of financial performance, statement of cash flows and statement of changes in net assets/equity for the year then ended, and a summary of significant accounting policies and other explanatory information for calendar year 2014 are shown in **Annexes A-G**.

4. We wish to bring to your attention our audit observations and recommendations which were earlier communicated through Audit Observation Memoranda (AOMs) and discussed in an exit conference conducted on June 30, 2014 with concerned DSWD officials. The comments were incorporated in this report, where appropriate. The significant audit observations and recommendations shall be incorporated in the Consolidated Annual Audit Report (CAAR) of the Department of Social Welfare and Development for CY 2014.

A. SUMMARY OF RECOMMENDATIONS

5. For the significant deficiencies observed in the course of the audit, we recommended and Management agreed to:

Loan proceeds/grants directly refunded without DOF/BTr notification

- furnish the DOF and the BTr of the LBP bank debit memo pertaining to the return/refunds of loan/grant proceeds with the corresponding letters authorizing the withdrawal and deposit of the amount ₱6,953,796.22 and \$2,425,268.48 to Wachovia Bank N.A. New York, of the IBRD;
- stop the practice of direct refund return of loan/grant balances, for future transactions of the same nature, instead request for cancellation of the unwithdrawn amount of loan/grant through DOF/BTr;

Delayed/unimplemented/not functional KALAH-CIDSS sub-projects

- require the KALAH-CIDSS Regional Monitoring Management Unit in coordination with the field personnel to fast track the completion of SPs;
- adopt measures and institute feedback mechanism system to address the issues and concerns which hinder the timely completion of projects; and
- direct the ACT and BSPMC to immediately correct the defects/deficiencies noted and closely coordinate during planning and pre and post construction phases.

B. DETAILED OBSERVATIONS AND RECOMMENDATIONS

Loan proceeds/grants directly refunded without DOF/BTr notification

The Special Accounts of KALAH-CIDSS: Additional Financing (AF) and AUS AID Grant showed withdrawals amounting to *₱114.062 million* for the return of loan/grant proceeds by the DSWD-OSEC to the funding source banks, without notification to the BTr and the DOF, which may result in the non-adjustment of the National Government borrowings.

6. Withdrawals totaling to ₱114,061,521.76 were made for the return of loan grant proceeds as evidenced by DSWD letters to the Assistant Vice President of the LBP accompanied by duly filled-up and certified Application to Purchase Foreign Exchange, instead of a request for cancellation of the unwithdrawn amount of loan through Department of Finance (DOF) as the loan borrower representative and the Bureau of Treasury (BTr) for the control and service of the public debt, both foreign and domestic. to wit:

Particulars	Amount	
	(S)	(P)
KC-AF-LP		
LBP Local Currency Current Account No. 3122-1010-60 peso fund withdrawals on September 22, 2014 and October 8, 2014 amounting to ₱5,918,769.35 and ₱142,943.98, respectively.		6,061,713.33
LBP Foreign Currency Current Account No. 3124-0029-14 dollar fund withdrawal on September 12, 2014	1,689,913.50	
Total KC-AF-LP in Peso	74,681,512.34	6,061,713.33
AUS AID GRANT – Co-financing for KC projects TF 11939		
LBP Foreign Currency Current Account No. 3124-0061-70 dollar fund withdrawal on September 8, 2014	735,354.98	
LBP Local Currency Current Account No. 3122-1022-45 peso withdrawal on September 15, 2014		892,082.89
Total AUS AID Grant in Peso	32,426,213.20	892,082.89
Grand Total in Peso	114,061,521.76	

7. The DOF and the BTr were not informed of the said transactions and this was confirmed on May 8, 2015 by the BTr Accounting Service Director III in his response to the confirmation letter of this office dated April 20, 2015. According to the KC-AF-LP personnel, the IBRD will automatically deduct the returned amount against the loan balance and after which a revised amortization shall be issued to the BTr as information to the government of the Philippines.

8. The non-cancellation of the unwithdrawn amount of loan through DOF and BTr without the covering request may result in the non-adjustment of the National Government borrowings.

9. We recommended and Management agreed to: (a) furnish the DOF and the BTr of the LBP bank debit memo pertaining to the return/refunds of loan/grant proceeds with the corresponding letters authorizing the withdrawal and deposit of the amount ₱6,953,796.22 and \$2,425,268.48 to Wachovia Bank NA, New York, of the IBRD; and (b) stop the practice of direct refund/return of loan/grant balances, for future transactions of the same nature, instead request for cancellation of the unwithdrawn amount of loan/grant through DOF/BTr.

10. Management furnished the team of the letter dated July 7, 2015 sent to the Secretary of Finance, in compliance with the recommendations for the return of the ₱1,825,834.03.

Delayed/unimplemented/not functional KALAHI-CIDSS sub-projects

Out of 1,404 prioritized SPs in FOs CAR, V and VI amounting to ₱1,319,726 million, only 470 or 33.47 percent were completed, with project costs of ₱353,693 million. Moreover, the completed 51 SPs amounting to ₱58.44 million were either not functional or with various deficiencies/defects, thus, limiting the access to basic social services, infrastructures as well as other benefits due the communities.

11. One of the objectives of the KALAHI-CIDSS is empowerment where the communities are given authority to plan, control, and make financial decisions during sub-project (SP) implementation. As such, they are primarily responsible in making sure that SPs are attained and that there is proper accountability.

12. The Regional Consolidated Physical and Financial Status of Approved Sub-Projects for the different funding sources/modalities, as of December 31, 2014 disclosed the following:

Status	Prioritized		Completed		On-going		Not yet Started		
	Funding Source/ FO	No. of SP	Project Cost	No. of SP	Project Cost	No. of SP	Project Cost	No. of SP	Project Cost
MMC									
CAR	114	128,801,893.55	37	36,063,943.16	63	88,820,529.15	14	8,927,420.99	
V	487	712,764,711.73	160	207,212,332.76	140	440,656,964.37	167	64,895,414.60	
VI	239	221,561,858.75	13	13,570,844.43	162	173,527,536.38	64	34,463,477.94	
Sub-total	820	1,063,126,463.78	210	256,837,120.35	365	696,005,329.90	245	108,286,313.53	
PAMANA									
V	555	207,725,355.10	260	96,856,078.12	88	97,639,276.98	207	13,230,000.00	
Aus-Aid									
V	29	48,871,876.45	0	0.00	11	25,195,984.94	18	23,674,893.51	
Total	1404	1,319,725,697.33	470	353,693,198.47	464	820,841,291.82	470	145,191,207.04	

13. Details of implementation and status of the projects are presented below:

Office	Remarks
CAR	The 14 SPs of the FO CAR in Barangays of Besao, Mt. Province were not yet implemented as of December 31, 2014 due to the delay in the transfers of community grants balances. Further, there were 25 completed SPs out of 37 that were actually one hundred percent completed as of December 31, 2014 out of the advanced funds or construction materials credited by the communities but whose funds were still not fully transferred to the communities with an aggregate total of ₱3,327,202.23, as follows:

Office	Remarks	
	Modality/Municipality, Province Barangay	Balance of Funding still for release
	Guaranteed Area	
	Conner, Apayao	524,286.26
	Pasil, Kalinga	1,329,415.14
	Modality/Municipality, Province Barangay	Balance of Funding still for release
	Guaranteed Area	
	Tinglayan, Kalinga	202,567.84
	Randomly Selected Area	
	Bucay, Abra	615,141.55
	Bucloc, Abra	84,228.22
	Sallapadan, Abra	78,620.24
	Replacement Area	
	Malibcong, Abra	492,942.98
	Total	3,327,202.23

The delay was caused by the following factors:

- Unsubmitted required documents by the local communities;
- For the unimplemented SP, the concerned barangay communities have not completed their liquidation documents;
- For SPs already 100% completed, the concerned communities did not submit all the documents required for the last tranche of funds;

Thus, the delay was indicative of negligence on the part of the project monitoring team in the field who are to closely monitor and assist the completion of documentation.

FO V There was an average delay of 86.25 days of the 420 completed SPs from the actual completion to the planned/targeted dates. Likewise, an average delay of 317.74 days elapsed of on-going SPs from the target dates of completion up to December 31, 2014, was noted consequently delaying the immediate access and benefits that could have been derived by the beneficiaries and communities from these projects.

On the 239 SPs still on-going as of Dec. 31, 2014, Management commented that there is an additional 130 SPs completed as of March 1, 2015 and another 69 expected to be completed this April and the rest by May 2015. Actual project implementations of 392 SPs with total project cost of ₱395,168,338.11 has not started yet despite download of funds amounting to ₱101,800,308.11 to the respective BSPMC accounts, however, Management commented that all of them are already on-going as of this time with expected completion dates not later than October 2015.

The delays were caused by the following factors:

- Inadequate monitoring and supervision of the project implementations by both the Teams and BSPMCs;
- Delayed release of Local Contribution Counterparts;
- Weather condition;
- Delayed download/release of funds because of inadequate and improper

Office	Remarks
	documentation reports submitted, and <ul style="list-style-type: none"> Insufficient supply of labor and materials.

FO VI The status of implementation of the 239 SPs at FO VI were further explained as follows:

Year	Status	No. of Prioritized Project	Grant Downloaded
2013	Not Completed	69	83,158,424.24
	Subtotal	69	83,158,424.24
2014	Completed	13	13,570,844.43
	Not Completed	93	90,369,112.14
	Not Yet Started	64	34,463,477.94
	Subtotal	170	138,403,434.51
Total		239	221,561,858.75

The causes of the delay were due to the following:

- Responsiveness of contractors and suppliers to engage in community subprojects in geographically isolated barangays.
- Some SPs are affected by Typhoon Ruby in the last quarter of CY 2014
- Delays in the preparation and request of funds of community

As of March 30, 2015 the regional accomplishment is 52.54% which shows an improvement from 42.07% as of December 31, 2014.

On some of the delays, the RPMO are making strategies to hasten the completion of on-going sub-projects and will continue to strictly monitor and provide technical assistance to community and LGU to ensure completion of their request of fund release.

14. Based on the foregoing, there is a delay in the completion of the 69 sub-projects started in CY 2013 and the 157 prioritized projects in CY 2014 or a total of 226 SPs were not completed/not started, thus, the intended beneficiaries were not able to access timely the basic social and infrastructure services which they need.

15. Moreover, validation and inspection of 31 of the 80 SPs in FO V reported as 100 percent completed for the two (2) funding sources/modalities with total project costs of ₱34,056,676.20 disclosed that they were either non-functional/operational or with defects/deficiencies, as follows:

Location at Camarines Sur Province	Sub-Project	Project Cost	Deficiencies
Tabgon, Caramoan	Construction of Water System	1,250,392.00	No potable water; chlorinator non-functional due to no electric connection; and no water during summer season
Gujjal, Caramoan		1,333,360.00	Not potable water during rainy season &

Location at Camarines Sur Province	Sub-Project	Project Cost	Deficiencies
			no water during dry season
San Roque, Caramoan		855,320.00	Non-functional chlorinator due to defective wiring
Bikal, Caramoan	Construction/Extension of wharf	1,727,400.00	Construction is still on-going; cost underestimation
Mambulo Viejo, Libamanan	Mechanical Dryer	1,557,284.50	Not functional; palay not well dried
Biong, Cabusao	Improvement of Water System	916,426.45	Not functional; no flowing water;
Sta. Lutgarda, Cabusao	Construction of Patahian Bldg. w/ sewing machines	875,199.00	Not functional; community organization not yet established
Total		8,515,381.95	

16. Validation of KC projects also showed that 20 KC deficient SPs implemented at FOs V and IVB amounting to P24,394,640.80. The deficiencies noted were as follows:

- Pathways with scoured shoulder, thickness only measure 0.15 m and constructed along the municipal road, shorter construction; concreting of pathway of various streets including two stations in a private property;
- Shorter re-graveled roads;
- Comfort Rooms inside the classrooms - main door with mirror cracks, no doorknobs, lavatory detached; toilet bowl not flushing;
- Classrooms with not functioning outlet, unpainted roof and KALAH I marking-not included in the Program of Work, chairs damaged by mites "bokbok";
- Both ends of rip-rap are open, water flows to the residential area during raining season; and
- The street lights' distance between posts is only 12 meters, not in accordance with standard distance of 20 meters.

17. The defects/deficiencies have been caused by inadequate planning, monitoring and supervision by the Team assigned in the area, thus, endangers the non-attainment of major component of the program which is the project development and provision of assistance to community projects which further limit the access to basic social services, infrastructures as well as other benefits due them.

18. **We recommended and Management agreed to:**

- a) **require the KALAH I-CIDSS Regional Monitoring Management Unit in coordination with the field personnel, to fast track the completion of SPs;**
- b) **adopt measures and institute feedback mechanism system to address the issues and concerns which hinder the timely completion of projects; and**

- c) **direct the ACT and BSPMC to immediately correct the defects/deficiencies noted and closely coordinate during planning and pre and post construction phases.**

19. Management commented that the total number of completed SPs increased by 473 making the total to 962 from the 489 as of December 2014. The 454 SPs that have not yet started have been substantially decreased to 139. Of the 139 SPs, 51 are PAMANA which implementation is temporarily suspended. The remaining 88 are SPs under MCC which procurement processes and other pre-implementation activities have just been completed and implementation will commence by June 2015. Referring to the 31 SPs, the following comments are as follows:

- The 7 SPs observed to be non-functional/non-operational, some were actually functional but on a limited capacity to on-going minor works being done under defects liability clause of the contract. Others have been applied with mitigating controls.
- The 14 SPs observed to be defects and deficiencies, those with minor defects have been referred to the operations and maintenance groups and have been acted upon. This is the object of the close monitoring included in the workloads of the field staffs. While some were not actually defects and/or deficiencies but mere modifications from the original physical targets due to various reasons.
- The 9 SPs with incomplete documentation for reporting and monitoring, 5 have already submitted the Sub-Project Completion Reports; are still for completion due to ongoing closing of accounts and/or completion of additional works while 1 is for reconstruction because it was inadvertently misplaced.
- The SP with excessive materials was actually due to the variance of the survey output as against the actual construction site. Some sections in the plan were relocated due to social safeguards issues.

C. STATUS OF IMPLEMENTATION OF PRIOR YEARS' AUDIT RECOMMENDATIONS

20. We made a follow-up on the action taken by management to implement recommendations of prior years and noted the following:

Status of Implementation	No. of Recommendations
Fully Implemented	
Partially Implemented	3
Not Implemented	
Total	3


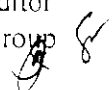
21. The results of the validation of implementation of prior year's audit recommendations are presented in **Annex H**.

D. ACKNOWLEDGEMENT

22. We wish to express our appreciation to the Management and staff of Department of Social Welfare and Development for the cooperation and assistance extended to our audit team during the audit.

23. We request a status report (in hard and soft copy) on the action taken on the audit recommendations within 60 days from the date of receipt hereof pursuant to Section 88, General Provisions of the General Appropriations Act FY 2014 using the attached Agency Action Plan and Status of Implementation (**Annex I**).

Very truly yours,


MARIBETH F DE JESUS
Supervising Auditor
DSWD Audit Group 

Cc Cluster 6- Health & Science Director
National Government Sector
Department of Social Welfare and Development
Batasan Hill, Q.C.

Annexes:

- A – Independent Auditor's Report
- B – Statement of Management Responsibility on the Financial Statements
- C – Statement of Financial Position
- D – Statement of Financial Performance
- E – Statement of Cash Flows
- F – Statement of Changes in Net Assets Equity
- G - Notes to Financial Statements
- H– Results of the Validation of Implementation of Prior Years' Audit Recommendations
- I - Agency Action Plan and Status of Implementation

Annexes



Republic of the Philippines
Commission on Audit
Commonwealth Avenue, Quezon City

Annex A

INDEPENDENT AUDITOR'S REPORT

The Department Secretary
Department of Social Welfare and Development
Batasan Hills, Quezon City

We have audited the accompanying financial statements of **Co-financing for Kapitbisig Laban sa Kahirapan-Comprehensive (KALAHI) and Integrated Delivery of Social Services Project** which comprise the statement of financial position as at December 31, 2014, and the statement of financial performance, statement of cash flows and statement of changes in net assets equity for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Philippine Public Sector Accounting Standards, 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Philippine Public Sector Standards in Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.



An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

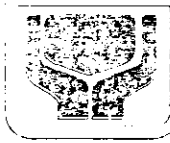
Opinion

In our opinion, the financial statements present fairly, in all material respects the financial position of the **Co-financing for Kapitbisig Laban sa Kahirapan-Comprehensive (KALAH) and Integrated Delivery of Social Services Project** and of its financial performance, statement of cash flows, statement of net assets/equity for the year then ended in accordance with Philippine Public Sector Accounting Standards.

COMMISSION ON AUDIT


MARIBETH F. DE JESUS
State Auditor V
Supervising Auditor 

July 31, 2015




Annex B

**STATEMENT OF MANAGEMENT'S RESPONSIBILITY
FOR FINANCIAL STATEMENTS**
AusAID NCDDP Grant No. TF011939

The management of **Department of Social Welfare and Development** is responsible for all information and representations contained in the accompanying Statement of Financial Position as of **December 31, 2014** and the related Statement of Financial Performance, Statement of Cash Flows, Statement of Comparison of Budget and Actual Amounts, Statement of Changes in Net Assets/Equity and the Notes to Financial Statements for the year then ended. The financial statements have been prepared in conformity with the Philippine Public Sector Accounting Standards and generally accepted state accounting principles, and reflect amounts that are based on the best estimates and informed judgment of management with an appropriate consideration to materiality.

In this regard, management maintains a system of accounting and reporting which provides for the necessary internal controls to ensure that transactions are properly authorized and recorded, assets are safeguarded against unauthorized use or disposition and liabilities are recognized.


DESEREE D. FAJARDO
Director, Financial Management Service

APR 29 2014
Date Signed


MATEO G. MONTAÑO
Undersecretary, GASSG

APR 29 2014
Date Signed



DEPARTMENT OF SOCIAL WELFARE AND DEVELOPMENT
 Detailed Statement of Financial Position
 Consolidated Central and Regional Offices
 AusAID NCDDP Grant No. TF011939
 For the Period Ending December 31, 2014

	<u>NOTE</u>	<u>2014</u>
ASSETS		
Current Assets		
Cash and Cash Equivalents	4	813,724.14
Receivables	5	2,365.76
Inventories	6	60,438.76
Total Current Assets		<u>876,528.66</u>
Non - Current Assets		
Property, Plant and Equipment	7	1,685,615.52
Total Non-Current Assets		<u>1,685,615.52</u>
Total Assets		<u><u>2,562,144.18</u></u>
LIABILITIES		
Current Liabilities		
Financial Liabilities	8	41,018.57
Inter-Agency Payables	9	(11,398.33)
Total Current Liabilities		<u>29,620.24</u>
Total Liabilities		<u>29,620.24</u>
NET ASSETS/EQUITY		
Accumulated Surplus/(Deficit)	10	2,532,523.94
Total Net Assets/Equity		<u>2,532,523.94</u>
Total Liabilities and Net Assets/Equity		<u><u>2,562,144.18</u></u>



DEPARTMENT OF SOCIAL WELFARE AND DEVELOPMENT
 Detailed Statement of Financial Performance
 Consolidated Central and Regional Offices
 AusAID NCDDP Grant No. TF011939
 For the Year Ended December 31, 2014

	<u>Note</u>	<u>2014</u>
Revenue		
Service and Business Income	11	106,632.46
Total Revenue		<u>106,632.46</u>
Less: Current Operating Expenses		
Maintenance and Other Operating Expenses	12	9,095,555.82
Financial Expenses	13	1,840.58
Non-Cash Expenses	14	321,515.50
Total Current Operating Expenses		<u>9,418,911.90</u>
Surplus/(Deficit) from Current Operations		<u>(9,312,279.44)</u>
Net Financial Assistance/Subsidy	15	(18,049,810.34)
Gains	16	2,098.77
Surplus/(Deficit) for the period		<u>(27,359,991.01)</u>



DEPARTMENT OF SOCIAL WELFARE AND DEVELOPMENT
Statement of Cash Flows
Consolidated Central and Regional Offices
AusAID NCDDP Grant No. TF011939
For the Year Ended December 31, 2014

	<u>NOTE</u>	<u>2014</u>
Cash Flows From Operating Activities		
Cash Inflows		
Receipt of Notice of Cash Allocation	17	40,883,687.55
Collection of Income/Revenues		1,378.51
Collection of Receivables		8,347.00
Receipt of Intra-Agency Fund Transfers		8,850,257.21
Other Receipts		50,491.45
Adjustments		114,056.74
Total Cash Inflows		<u>49,908,218.46</u>
Cash Outflows		
Remittance to National Treasury	18	(61,335.34)
Payment of Expenses	19	(10,286,062.29)
Purchase of Inventories		(56,763.05)
Grant of Cash Advances		(18,795.00)
Payment of Accounts Payable		(322,981.49)
Remittance of Personnel Benefit Contributions and Mandatory Deductions		(658,002.95)
Grant of Financial Assistance/Subsidy	20	(25,615,201.80)
Release of Intra-Agency Fund Transfers	21	(8,850,257.21)
Adjustments		(33,502,197.58)
Total Cash Outflows		<u>(79,371,596.71)</u>
Cash Provided by (Used in) Operating Activities		(29,463,378.25)
Cash Flows from Investing Activities		
Cash Outflows		
Purchase/Construction of Property, Plant and Equipment		(377,169.34)
Total Cash Outflows		<u>(377,169.34)</u>
Cash Provided By (Used In) Investing Activities		(377,169.34)
Effects of Exchange Rate Changes on Cash and Cash Equivalents		2,098.77
Total Cash Provided by Operating, Investing and Financing Activities		(29,840,547.59)
Add: Cash Balance, Beginning January 1, 2014		30,652,172.96
Cash Balance, Ending December 31, 2014		<u>813,724.14</u>

Annex F



DEPARTMENT OF SOCIAL WELFARE AND DEVELOPMENT
 Statement of Changes in Net Assets/Equity
 Consolidated Central and Regional Offices
 AusAID NCDDP Grant No. TF011939
 For the Year Ended December 31, 2014

	<u>2014</u>
Balance at December 31, 2013	30,093,104.46
Changes in Accounting Policy	
Restated Balance	<u>30,093,104.46</u>
Changes in Net Assets/Equity for 2013	
Adjustment of net revenue recognized directly in net assets/equity	(200,859.51)
Surplus/(Deficit) for the period	<u>(27,359,991.01)</u>
Total recognized revenue and expense for the period	<u>(27,560,580.52)</u>
Balance at December 31, 2014 carried forward	<u>2,532,523.94</u>

NOTES TO FINANCIAL STATEMENTS
Fund 171 – DCC
CY 2014

1. General information

Department of Social Welfare and Development – Co-financing for Kapitbisig Laban sa Kahirapan – Comprehensive and Integrated Delivery of Social Services (KALAHI-CIDSS) Project

The Co-financing for Kapitbisig Laban sa Kahirapan – Comprehensive and Integrated Delivery of Social Services (KALAHI-CIDSS) Project is a grant from the Government of Australia under Grant Agreement No. TF011939 dated May 30, 2012, with the World Bank as the administrator of funds, represented by the Australian Agency for International Development under the Australia-World Bank Philippines Development Trust Fund. The objective of the grant is to empower local communities in targeted poor municipalities and selected urban areas, to achieve improved access to sustainable basic public services and to participate in more inclusive local government unit planning and budgeting. The specific activities to be financed by the grant are: (a) carrying out of investment sub-projects specifically related to the construction of day care centers and school buildings classrooms to meet the needs through provision of sub-grants to barangays; (b) mobilization of community volunteers for the preparation and updating of the program of work and technical plans, as well as the mobilization of local counterpart contributions for the construction and rehabilitation of day care centers and school buildings and classrooms.

Grant Data

Project Name	Co-financing for Kapitbisig Laban sa Kahirapan-Comprehensive (KALAHI) and Integrated Delivery of Social Services Project (CIDSS)
Executing Agency	Department of Social Welfare and Development
Grant No.	TF011939
Grantor	International Bank for Reconstruction and Development ("World Bank")
Funding Source	Australia-World Bank Philippines Development Trust Fund
Amount of Grant	U.S. \$10,000,000.00
Grant Agreement Signing Date	May 30, 2012
Effectivity Date	May 30, 2012
Closing Date (Original)	December 31, 2013
Revised Date (Revised)	May 31, 2014
Total Project cost	

Project Components

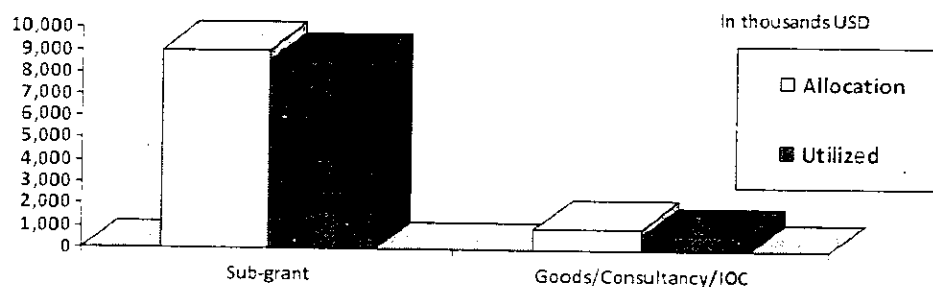
Components	Output Indicators	Cost ₱M	Target at End of Project	
			Original*	Revised
1. Barangay Grants for Daycare Centers and Classrooms	<ul style="list-style-type: none"> Day care centers/classrooms constructed/rehabilitated by the community in accordance with technical plans, with standards respectively set by DSWD and DepED, and within schedule as well as budget, and Target barangays with completed daycare centers and classrooms have functionality ratings of satisfactory or higher. 	362	515 classrooms	626 classrooms
2. Capacity Building and Implementation Support	<ul style="list-style-type: none"> Community volunteers trained on sub-project implementation, supervision, finance, procurement, monitoring, and O&M; and Partnership between communities, local school boards (LSBs), school governing councils (SGCs), and parents-teachers associations (PTAs) forged. 	40	N/A	9,595 volunteers trained

Financial Profile

Category	Allocation (USD)	Percentage of Expenditures to be Financed (inclusive of Taxes)
1. Goods, Consultants' Services and Workshops	1,000,000	100%
2. Sub-grants	9,000,000	100% of Sub-grant amount disbursed
Total	10,000,000	

As of December 31, 2014 utilized grants is US\$9,245,840.43 or 92.46% disbursement rate leaving a balance of US\$754,159.57.

PROJECT CATEGORY	ALLOCATION	UTILIZED	DISBURSEMENT RATE	UNUTILIZED
GOODS/CONSULTANTS' SERVICES/IOC	1,000,000.00	702,188.43	70%	297,811.57
SUB-GRANTS	9,000,000.00	8,543,652.00	95%	456,348.00
TOTAL PROJECT COST	10,000,000.00	9,245,840.43	92%	754,159.57



2. Statement of compliance and basis of preparation

- 2.1. The consolidated financial statements of the DSWD have been prepared in accordance with generally accepted government accounting principles and pertinent laws, rules and regulations and comply with the Philippine Public Sector Accounting Standards (PPSAS).
- 2.2. Accounts were converted to conform to the Revised Chart of Accounts (RCA) for National Government Agencies under Commission on Audit Circular No. 2013-002 dated January 30, 2013.
- 2.3. The financial statements are presented in Philippine Pesos which is the functional and reporting currency of the agency.
- 2.4. The agency implemented the Enhanced eNGAS version 2.0 in December, 2014 to comply with the PPSAS, Unified Accounts Codes Structure (UACS) and the Revised Chart of Accounts.
- 2.5. The financial statements have been prepared on the basis of historical cost, unless stated otherwise.
- 2.6. The financial statements have been prepared on the basis of historical cost, unless stated otherwise. The cash flows statement is prepared using the direct method. The consolidated financial statements are prepared on an accrual basis.

3. Summary of significant accounting policies

- 3.1. The agency uses **Accrual Basis of Accounting** – All expenses are recognized when incurred and reported in the financial statements in the period to which they relate. Income is recorded upon receipt.
- 3.2. The cost of ending inventory of Office Supplies and Materials and other inventory items are computed using the Moving Average Method in accordance with PPSAS.
- 3.3. Supplies and Materials Purchased for inventory purposes and recorded using the Perpetual Inventory System in accordance with PPSAS.
- 3.4. All property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the items. All other repair and maintenance costs are recognized in expenses as incurred.

- 3.5. Depreciation on assets is charged on a straight-line basis over the useful life of the asset. The residual value is computed at five percent effective January 1, 2014.

<u>Account Name</u>	<u>Est. Life</u>
Buildings	20-30 years
Office Equipment	5 years
Furniture and Fixtures	10 years
Information and Communication Technology Equipment	5 years
Books	5 years
Communication Equipment	10 years
Construction and Heavy Equipment	10 years
Disaster Response and Rescue Equipment	7 years
Medical Equipment	10 years
Sports Equipment	5 years
Technical and Scientific Equipment	10 years
Other Machinery and Equipment	10 years
Motor Vehicles	7 years
Other Property, Plant and Equipment	5 years

- 3.6. Intangible assets acquired separately are initially recognized at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses.
- 3.7. The useful life of the intangible assets is assessed as either finite or indefinite. Intangible assets with a finite life is amortized over its useful life:

Computer Software	5 years
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- 3.8. Payable Accounts are recognized and recorded in the book of accounts only upon delivery and acceptance of the goods/inventory/other assets and rendition of services to the agency.
- 3.9. Income receipts which the agency are not authorized to use and are required to be remitted to the National Treasury are recorded in the National Government (NG) Books. However, interest income from current bank accounts of projects funded by foreign donors were required to be reported and refunded back to the grantor in compliance with the provisions of the financial manual or grant agreements.
- 3.10. A foreign currency transaction is recorded, on initial recognition in the Philippine peso, by applying to the foreign currency amount the exchange rate between the functional currency and the foreign currency at the date of the transaction.
- 3.11. Unrealized gains and losses arising from changes in foreign currency exchange rates are not cash flows. However, the effect of exchange rate changes

on cash and cash equivalents held in a foreign currency is reported in the cash flow statement in order to reconcile cash and cash equivalents at the beginning and the end of the period. This amount is presented separately from cash flows from operating, investing and financing activities, and includes the differences, if any, if those cash flows had been reported at end of period exchange rates.

- 3.12. Correction of fundamental errors of prior years are done by adjusting the Accumulated Surplus/(Deficit) beginning balance account. Fundamental errors affecting current year's operation are charged to the current year's accounts.

4. CASH AND CASH EQUIVALENTS

Account Name	Code	CY 2014
Cash in Bank - Local Currency, Current Account	10102020	804,213.13
Cash in Bank - Foreign Currency, Savings Account	10103030	9,511.01
Total		<u>813,724.14</u>

Cash in Bank- Local Currency Account includes the funds that were deposited with **Authorized Government Depository Bank (AGDB)** in accordance with **GAFMIS Circular Letter No. 2003-005** dated **November 21, 2003**.

Cash in Bank Foreign Currency Savings Account includes the deposits from Grants and Donations and loan proceeds received by **DSWD**.

5. RECEIVABLES

Account Name	Code	CY 2014
Due from National Government Agencies	10303010	2,345.76
Due from Officers and Employees	10305020	20.00
Total		<u>2,365.76</u>

Due from NGAs represents the amount paid in advance for supplies to Procurement Service and subject for liquidation.

6. INVENTORIES

Inventory items of the Department include the following:

Account Name	Code	Amount
Office Supplies Inventory	10404010	30,320.00
Other Supplies and Materials Inventory	10404990	30,118.76
TOTAL		<u>60,438.76</u>

Office and Other Supplies Inventory are supplies and materials purchased during the implementation of the project.

7. PROPERTY, PLANT AND EQUIPMENT

Property, Plant and Equipment for CY 2014 are summarized as follows:

Account Name	Code	Cost at January 1, 2014	Additions	Disposals	Transfer/ Adjustment	Cost at December 31, 2014
Information and Communication Technology Equipment	10605030	812,810.00	802,136.00			1,614,946.00
Communication Equipment	10606070	9,480.00				9,480.00
Motor Vehicles	10606010		413,094.95			413,094.95
Less: Accumulated Depreciation						(351,905.43)
Total						1,685,615.52

Property, Plant and Equipment is carried at cost less accumulated depreciation. Regular maintenance, repair and minor replacements are charged against Maintenance and Other Operating Expense (MOOE).

8. Financial Liabilities

The Accounts Payable of P41,018.57 represents the various claims of creditors as of December 31, 2014.

9. Interagency Payables

Account Name	Code	CY 2014
Due to BIR	20201010	(13,248.33)
Due to Pag-IBIG	20201030	1,400.00
Total		(11,848.33)

Due to BIR consists of income tax deducted from employees and are over remitted during the year.

Due to Pag-IBIG comprises of Pag-IBIG Premiums, Multi-Purpose Loan and Housing Loans and are also remitted during the first month of the ensuing year.

10. Accumulated Surplus/Deficit

Account Name	Code	CY 2014
Accumulated Surplus/Deficit	30101010	29,892,514.95
Total		29,892,514.95

Accumulated Surplus (Deficit) is the residual interest, which was the excess of the Department's assets over its liabilities. This account was used in lieu of the Government Equity account.

11. Service and Business Income

<u>Account Name</u>	<u>Code</u>	<u>CY 2014</u>
Interest Income	40202210	106,632.46
Total		<u>106,632.46</u>

Interest Income represents income earned from the special bank accounts of the Department

12. Maintenance and Other Operating Expenses

<u>Account Name</u>	<u>Code</u>	<u>CY 2014</u>
Traveling Expenses - Local	50201010	1,501,605.65
Training Expenses	50202010	2,539,115.97
Office Supplies Expenses	50203010	73,012.85
Telephone Expenses	50205020	120,465.42
Other Professional Services	50211990	4,841,868.18
Representation Expenses	50299030	8,082.75
Other Maintenance and Operating Expenses	50299990	11,405.00
Total		<u>9,095,555.82</u>

Traveling Expenses - includes accommodation and daily subsistence allowance of DSWD Officials and Employees during travels on official business to attend various trainings seminars, consultation meetings for the period January to December 2014.

Training Expenses consists of payment of honorarium of resource persons, board and lodging and or hotel accommodation of participants to various seminar, training - workshops. It also includes course fee and or registration fees of DSWD Officials and Employees to enhancement training and seminars.

Telephone Expenses are payments made to the Philippine Long Distance Telephone Company (PLDT) for current charges of DSWD Telephone (Landlines) lines. It also includes mobile expenses made to Globe Telecom, Inc. and Smart Communications, Inc. for use of DSWD Officials and Employees who are Globe/Touch Mobile and Smart/Talk and Text subscribers. Also included are reimbursements of individual postpaid lines payments in lieu of prepaid card allocation.

Other Professional Services are payments to DSWD hired workers under a Cost of Service Contracts.

13. Financial Expenses

<u>Account Name</u>	<u>Code</u>	<u>CY 2014</u>
Bank Charges	50301040	1,840.58
Total		<u>1,840.58</u>

The account Bank Charges generally refers to the charges imposed by the bank for various services rendered.

14. Non-Cash Expenses

<u>Account Name</u>	<u>Code</u>	<u>CY 2014</u>
Depreciation - Machinery and Equipment	50501050	296,582.67
Depreciation - Transportation Equipment	50501060	24,932.83
Total		<u>321,515.50</u>

The Depreciation for Machinery and Equipment, Transportation Equipment are periodic cost allocation for the wear and tear the Department's PPE.

15. Net Financial Subsidy

<u>Account Name</u>	<u>Code</u>	<u>CY 2014</u>
Subsidy from National Government	40301010	7,565,391.46
Subsidies - Others	50214990	25,615,201.80
Total		<u>(18,049,810.34)</u>

The account Subsidy from National Government is further broken down as follows:

NCA Received from DBM		
Operating Requirements		40,883,687.55
Total		<u>40,883,687.55</u>
Less:		
Refund of Grants Adjustments		33,318,296.09
TOTAL Subsidy from National Government as of 12/31/14		<u>7,565,391.46</u>

The account Subsidies – Others pertains to transfer of community grants for the implementation of sub-projects.

16. Gains/Losses

<u>Account Name</u>	<u>Code</u>	<u>CY 2014</u>
Gain on Foreign Exchange (FOREX)	40501010	2,098.77
Total		<u>2,098.77</u>

Gains on Foreign Exchange results from the translation of foreign currency into the presentation currency which the Philippine peso was using the prevailing exchange rate at every end of the period. This is the excess of current exchange rate (closing rate) at the reporting date over the rate initially or previously recognized multiplied by the balance of the foreign currency account.

17. Receipt of Notice of Cash Allocation

The total receipt of notice of cash allocation to cover operating requirements for the implementation of various programs projects activities, replenishment of Working Fund for the program and project loan support.

18. Remittance to National Treasury

The Remittance to National Treasury refers to deposit of collections with the BTr for refunds of current and prior year expenses as well as disallowances, miscellaneous income, permits and licenses and remittance of interest income.

19. Payment of Expenses

This refers to payments of maintenance and other operating expenses and financial expenses.

20. Grant of Financial Assistance/Subsidy

This refers payments financial assistance for assistance to individuals in crisis situation as a result of the adoption of the e-NGAS version 2.0 and transfer of funds through funding checks charged against Loan Proceeds and other Trust accounts to Field Offices for the implementation of various projects/programs/activities.

21. Release of Intra-Agency Fund Transfers

This pertains to cash outflows for transfer of subsidy and capital seed fund to Field Offices.

Department of Social Welfare and Development
Project: AusAID Grant No. TF 011939
Status of Implementation of Prior Years' Audit Recommendations

Observations	Ref.	Management Comments/Actions Taken (Update as of May 2015)	Results of Auditor's Validation
<p><i>The GOP financial counterpart in the amount of ₱64,350,435.36 for the KALAHI-AF was not utilized for its intended purpose due to the following:</i></p> <p><i>a) charging of expenses of other foreign assisted projects (FAPs); and</i></p> <p><i>b) advance funding by the DSWD for expenditures chargeable against the loan proceeds which were not immediately reimbursed, thus depriving all other expenses of the KC-AF project for CY 2013. Further, the inclusion of expenses of other FAPs and PAMANA resulted to the overstatement of reported expenditures in the books of KC-AF.</i></p> <p>We recommend that Management to:</p> <p>a) Stop the use of GOP financial counterpart for grants of sub-projects and disburse the same according to its intended use; and</p> <p>b) Make necessary adjustments/reclassification of the payments to its respective or appropriate funds for consistency or proper reference.</p>	2013 CAAR	Management to implement recommendations, prospectively.	Partially implemented
<p><i>Purchases of IT Equipment in the amount of ₱1,861,055.66 in 2013 out of KALAHI-MCC, JSDF and AusAid Funds were without prior approval by the National Government Offices contrary to COA-DBM Joint Circular No. 2-97.</i></p>	2013 CAAR	Management to implement recommendations, prospectively.	Implemented with the submission of Information System Strategic Plan to

We recommend that the Management to:

a) Submit to NCC, the list of procured IT Equipment and Software with their specifications together with its purposes and usage sourced from the said grants for their information and comments; and

b) Close monitoring and supervision be undertaken by the National Project Monitoring Committee to ensure the proper implementation/ procurement of the projects in compliance with the guidelines on Foreign Assisted Projects

Information
Communica
tion
Technology
Office
(formerly
NCC)

ACTION PLAN MONITORING

Sector: National Government Sector, Cluster 6 - Health and Science
 Team: _____ Prepared by: _____ Date: _____
 Agency Audited: Department of Social Welfare and Development Reviewed by: _____ Date: _____
 Audit Period: _____ Approved by: _____ Date: _____
 AAR Date: _____

CAAR Ref	Audit Observation	AGENCY ACTION PLAN and STATUS of IMPLEMENTATION				RESULTS of COA VALIDATION					
		Action Plan	Person/Dept. Responsible	Agency Action Plan Target Implementation Date From To	Status of Implementation	Reason for Partial/Delay/Non-Implementation, if applicable	Action Taken/Action to be Taken	Date Follow up	Status of Implementation	Actual Implementation Date From To	Remarks
2014	<p><i>Loan proceeds/grants directly refunded without DOF BTR notification</i></p> <p>Audit Recommendations</p> <ul style="list-style-type: none"> Furnish the DOF and the BTR of the LBP bank debit memo pertaining to the return/refunds of loan/grant proceeds with the corresponding letters authorizing the withdrawal and deposit of the amount P6,953,796.22 and \$2,425,268.48 to Wachovia Bank NA, New York, of the IBRD; stop the practice of direct refund/return of loan/grant balances, for future transactions of the same nature, instead request for cancellation of the unwithdrawn amount of 										

CAAR Ref	Audit Observation	AGENCY ACTION PLAN and STATUS of IMPLEMENTATION				RESULTS of COA VALIDATION						
		Action Plan	Person/Dept. Responsible	Agency Action Plan Target Implementation Date From To	Status of Implementation	Reason for Partial/Delay/Non-Implementation if applicable	Action Taken/Action to be Taken	Date Follow up	Status of Implementation	Actual Implementation Date From To	Remarks	
		Audit Recommendations through loan/grant DOE/BTr:										
	<i>Delayed/unimplemented/not functional</i>	<ul style="list-style-type: none"> Require the KAL/ATH-CIDSS Regional Monitoring Management Unit in coordination with the field personnel to fast track the completion of SPS; adopt measures and institute feedback mechanism system to address the issues and concerns which hinder the timely completion of projects; and direct the ACT and BSPMIC to immediately correct the defects/deficiencies noted and closely coordinate during planning and pre and post construction phases. 										
	<i>KAL/ATH-CIDSS sub-projects</i>											