

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

## **Management Letter**

**on the**

**Emergency Assistance and Early Recovery for  
Poor Municipalities Affected by Typhoon  
Yolanda- Subcomponent A1  
Grant No.: JFPR 9175-PHI**

**Department of Social Welfare and Development**

**For the Year Ended December 31, 2016**

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

June 30, 2017

**Honorable Ju-ly M. Taguiwalo**  
Secretary  
Department of Social Welfare and Development  
Batasan Hills, Quezon City

Madam:

**Management Letter on the Audit of the Grant No. JFPR 9175-PHI:  
Emergency Assistance and Early Recovery for Poor Municipalities Affected by  
Typhoon Yolanda- Subcomponent A1  
for the Calendar Year 2016**

1. Pursuant to the Grant Agreement No. JFPR 9175-PHI dated March 12, 2014 between the Asian Development Bank and the Republic of the Philippines, thru the Department of Social Welfare and Development, we have audited the accounts and operations of the *Emergency Assistance and Early Recovery for Poor Municipalities Affected by Typhoon Yolanda* for the period ended December 31, 2016. 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 Mesdames, Lea T. Petero and June L. Van Schoonneveldt both 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 2016 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 May 23, 2017 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 2016.

### Operational Highlights

5. As of December 31, 2016, the following are the major programs/projects undertaken by the Agency, viz:

PROJECT	Completed	NYS	On-going	Grand Total
Basic Access Infrastructure	23		1	24
Basic Social Services	78	2	6	86
Environmental Protection	10	3		13
<b>Grand Total</b>	<b>111</b>	<b>5</b>	<b>7</b>	<b>123</b>

Detailed as follows:

PROJECT	No. of SPs	No. of Beneficiaries	KC Grant	LCC	Total Project Cost
<b>Basic Access Infrastructure</b>	<b>24</b>	<b>4819</b>	<b>27,053,850.00</b>	<b>685,595.18</b>	<b>27,739,445.18</b>
Barangay road	7	1145	7,083,615.00	61,020.00	7,144,635.00
Farm to market road	8	1872	8,169,186.00	351,539.00	8,520,725.00
Hanging bridge	7	259	5,460,412.00	219,504.68	5,679,916.68
Pathwalk	7	1543	6,340,637.00	53,551.50	6,394,188.50
<b>Basic Social Services</b>	<b>86</b>	<b>62451</b>	<b>88,888,514.12</b>	<b>637,251.50</b>	<b>89,525,765.62</b>
Barangay hall	4	501	1,853,653.00	23,114.60	1,876,767.00
Barangay health center	5	1357	1,010,780.00	12,250.00	1,023,030.00
Community Center	3	153	378,380.00	4,375.00	382,755.00
Day care center	5	1610	2,752,606.00	24,625.00	2,777,231.00
Provision of Amenities	4	20112	2,597,170.13	7,253.75	2,604,423.88
RHU	1	564	17,400,000.00	1,000.00	17,401,000.00
School building	15	3353	17,870,483.04	27,478.75	17,957,961.79
Solar powered street lights	7	3273	6,020,387.00	48,382.50	6,066,769.50
Street lights	27	19438	23,132,577.95	213,360.75	23,345,938.70
WASH	1	1259	788,059.00	-	788,059.00
Water system	20	8131	15,084,418.00	217,411.75	15,301,829.75
<b>Environmental Protection</b>	<b>13</b>	<b>2295</b>	<b>8,921,890.00</b>	<b>79,224.25</b>	<b>9,001,114.25</b>
Drainage canal	7	1447	5,305,540.00	11,757.50	5,427,703.50
River food control	1	105	193,361.00	1,254.00	204,655.00
Seawall	1	79	461,113.00	4,375.00	465,488.00
Slope protection	2	737	1,239,095.00	8,753.75	1,247,848.75
Splaway	2	227	1,632,375.00	23,044.00	1,655,419.00
<b>Grand Total</b>	<b>123</b>	<b>69565</b>	<b>124,864,254.12</b>	<b>1,402,070.93</b>	<b>126,266,325.05</b>

## Financial Highlights

### 6. Disbursement Status ending December 2016 (in US\$)

Project Category	Allocation (US\$)	Utilized	Disbursement Rate	Unutilized (US\$)
Civil Works	2,697,907.00	2,656,957.30	98%	40,949.70
Vehicles, Equipment, and Supplies	78,182.00	77,344.86	99%	837.14
Trainings, Workshops and Seminars	20,000.00	19,787.09	99%	212.91
Management and Coordination/Consulting Services	203,911.00	-	0%	203,911.00
Imprest Fund-WF	-	41,999.75	-	-
<b>Total</b>	<b>3,000,000.00</b>	<b>2,796,089.00</b>	<b>93%</b>	<b>245,910.75</b>

### A. SUMMARY OF OBSERVATIONS and RECOMMENDATIONS

#### 7. The significant observation and recommendation for JFPR grant -

- a) Community grants amounting to P27,864,634.30 or 29.02 percent of P96,017,263.23 transferred to various NGOs/POs in 2015 remained unliquidated as of December 31, 2016, thus appropriate transactions not recognized in the books.

We recommended that the DSWD Secretary direct FO Directors concerned to:

i) **Direct Accounting Division to:**

- ✓ continuously demand from NGOs/POs the submission of LRs and refund of unutilized balance, if any, especially those with long-outstanding dormant balances to comply with the guidelines prescribed under COA Circular No. 2007-001 and the provisions in the MOA/Agreement;
- ✓ strengthen the monitoring controls on fund transfers to NGOs/POs;

ii) **Ensure that necessary provisions on control measures in the implementation of the project up to liquidation of funds are included in the Memorandum of Agreement with NGOs/POs for accountability purposes; and**

iii) **Assign specific personnel to monitor and follow up utilization reports of fund transfers to NGOs/POs.**

## B. DETAILED OBSERVATIONS AND RECOMMENDATIONS

*Unliquidated Due from NGOs/POs - P27,864 Million*

8. Community grants amounting to P27,864,634.30 or 29.02 percent of P96,017,263.23 transferred to various NGOs/POs in 2015 remained unliquidated as of December 31, 2016, thus appropriate transactions not recognized in the books.

8.1 The Revised Guidelines and Documentary for Common Government Transactions on Fund Transfers to Non-Government Organizations/Peoples Organizations (NGOs/POs) is prescribed under COA Circular No. 2012-001, among others:

*Section 2.0 - NGOs/POs are not allowed to participate in the implementation of any program or project of government agencies until such time that any earlier fund releases availed by the said NGOs/POs shall have been fully liquidated pursuant to pertinent accounting and auditing rules and regulations as certified by the Head of Agency concerned and the COA Auditor.*

*Section 3.1-Fund transfers should be properly taken up in the books of both agencies, used only for the purpose intended, and properly accounted and reported.*

8.2 Likewise, COA Circular No. 2007-001 dated October 25, 2007, provides among others:

*Section 4.5.6 - No (NGOs/PO) shall be recipient of funds where any of the provisions thereof and the agreement has not been complied with, in any previous undertaking with funds allocated by the GO.*

*Section 5.3 - The signing officials of Government Organizations (GOs) to the Memorandum of Agreement (MOA) shall cause close monitoring and inspection of project implementation and verification of financial records and reports of the NGOs/POs, and shall insure compliance with the provisions of the MOA and of the COA Circular. Fund releases are subject to liquidation through submission of Fund Utilization Reports (FURs).*

*Section 5.4 - Within sixty (60) days after the completion of the project, the NGO/PO shall submit the final Fund Utilization Report certified by its Accountant and approved by its President/Chairman to the GO, together with the inspection report*

*and certificate of project completion rendered issued by the GO authorized representative, list of beneficiaries with their acceptance/acknowledgment of the project funds/goods/services received. The validity of these documents shall be verified by the internal auditor or equivalent officials of the GO and shall be the basis of the GO in recording the fund utilization in its books of accounts. These documents shall support the liquidation of funds granted to the NGO/PO.*

8.3 Verification of SL balances of the Receivables-Due from NGOs/POs disclosed that P27,864,634.30 or 29.02 per cent of the total grants under the JFPR remained unliquidated as of December 31, 2016. It is worthy to note that the amount of P96,017,263.23 was downloaded in CY 2015 but only 70.98 percent was liquidated.

8.4 Pursuant to the grant agreement, the projects will be implemented through Kapit-Bisig Laban sa Kahirapan (KALAHI) CIDSS targeting the speedy rehabilitation of 220 small-scale municipal and community infrastructure in 13 municipalities using the community-driven development strategy.

8.5 The Community Empowerment Activity Cycle of KALAHI-CIDSS provides that the project should be implemented within six to nine months, however the downloaded grants of P96,017,263.23 in 2015 was not fully liquidated despite the lapsed of the implementation period provided, thus the appropriate transactions not recognized in the books.

8.6 We recommended that the DSWD Secretary direct FO Directors concerned to:

a) Direct Accounting Division to:

✓ continuously demand from NGOs/POs the submission of LRs and refund of unutilized balance, if any, especially those with long-outstanding dormant balances to comply with the guidelines prescribed under COA Circular No. 2007-001 and the provisions in the MOA/Agreement;

✓ strengthen the monitoring controls on fund transfers to NGOs/POs;

b) Ensure that necessary provisions such as timelines, responsibility as well as ~~penalty are included in the MOA with NGOs/POs for accountability~~ purposes; and

c) Assign specific personnel to monitor and follow up utilization reports of fund transfers to NGOs/POs.

**C. STATUS OF IMPLEMENTATION OF PRIOR YEARS' AUDIT  
RECOMMENDATIONS**

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

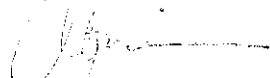
<b>Status of Implementation</b>	<b>No. of Recommendations</b>
Fully Implemented	0
Partially Implemented	1
Not Implemented	0

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

**D. ACKNOWLEDGEMENT**

10. 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 the audit team during the audit.

Very truly yours,

  
**MARILYN B. MIRAN**  
OIC-Supervising Auditor  
DSWD Audit Group

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

**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 - Status of Implementation of Prior Years' Audit Recommendations

# Annexes

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

## 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 **Japan Fund for Poverty Reduction**, which comprise the statement of financial position as at December 31, 2016, 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 **DSWD-Japan Fund for Poverty Reduction** as of December 31, 2016 and of its financial performance, statement of cash flows and statement of net assets/equity for the year then ended in accordance with Philippine Public Sector Accounting Standards.

**COMMISSION ON AUDIT**

  
**MARILYN B. MIRAN**  
OIC-Supervising Auditor

June 30, 2017

**STATEMENT OF MANAGEMENT'S RESPONSIBILITY  
FOR FINANCIAL STATEMENTS**  
Japan Fund for Poverty Reduction ADB Grant No. 9175-PHI


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, 2016** 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

07 FEB 2017

Date Signed

  
**ASEC. RODOLFO M. SANTOS, CESO III**  
Officer-in-Charge  
Office of the Undersecretary for General  
Administration and Support Services

30 FEB 2017

Date Signed



DEPARTMENT OF SOCIAL WELFARE AND DEVELOPMENT  
 Statement of Financial Position  
 Consolidated Central and Regional Offices  
 Japan Fund for Poverty Reduction ADB Grant No. 9175-PHI  
 For the Period Ending December 31, 2016

	Note	2016	2015
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and Cash Equivalents		2,011,324.56	19,194,324.56
Receivables		27,864,634.30	96,017,263.23
Inventories		95,713.00	9,253.00
<b>Total Current Assets</b>		<b>29,971,671.86</b>	<b>115,221,343.06</b>
<b>Non - Current Assets</b>			
Property, Plant and Equipment		3,072,593.00	3,752,009.77
<b>Total Non-Current Assets</b>		<b>3,072,593.00</b>	<b>3,752,009.77</b>
<b>Total Assets</b>		<b>33,044,264.86</b>	<b>118,973,352.83</b>
<b>LIABILITIES</b>			
<b>Current Liabilities</b>			
Financial Liabilities		-	113,528.38
Inter-Agency Payables		-	35,654.38
<b>Total Current Liabilities</b>		-	<b>149,182.76</b>
<b>Non-Current Liabilities</b>		-	-
<b>Total Liabilities</b>		-	<b>149,182.76</b>
<b>NET ASSETS/EQUITY</b>			
Accumulated Surplus/(Deficit)		33,044,264.86	118,824,170.07
<b>Total Net Assets/Equity</b>		<b>33,044,264.86</b>	<b>118,824,170.07</b>
<b>Total Liabilities and Net Assets/Equity</b>		<b>33,044,264.86</b>	<b>118,973,352.83</b>



DEPARTMENT OF SOCIAL WELFARE AND DEVELOPMENT  
 Statement of Financial Performance  
 Consolidated Central and Regional Offices  
 Japan Fund for Poverty Reduction ADB Grant No. 9175-PHI  
 For the Year Ended December 31, 2016

	Note	2015	2016
<b>Revenue</b>			
Service and Business Income	10	29,571.58	67,570.54
<b>Total Revenue</b>		<b>29,571.28</b>	<b>67,570.54</b>
<b>Less: Current Operating Expenses</b>			
Financial Expenses	12	5,726.12	13,435.03
Maintenance and other Operating Expenses	11	242,455.00	653,941.00
Non-Cash Expenses	13	600,236.97	257,001.23
<b>Total Current Operating Expenses</b>		<b>848,418.09</b>	<b>924,377.26</b>
<b>Surplus/(Deficit) from Current Operations</b>		<b>(818,846.51)</b>	<b>(856,806.72)</b>
<b>Financial Assistance/Subsidy</b>			
Financial Assistance/Subsidy from NGAs, LGUs, GOCCs		2,577,422.42	203,580,555.82
Less: Financial Assistance/Subsidy to NGAs, LGUs, GOCCs, NGOs/POs			103,426,783.00
<b>Net Financial Assistance/Subsidy</b>	14	<b>(2,577,422.42)</b>	<b>100,153,772.82</b>
<b>Other Non-Operating Income</b>			
Gains	15.1	65,266.33	1,388,299.71
Losses	15.2	21,560.58	452,977.54
<b>Surplus/(Deficit) for the period</b>		<b>(3,362,563.18)</b>	<b>100,232,288.30</b>



DEPARTMENT OF SOCIAL WELFARE AND DEVELOPMENT  
Statement of Cash Flows  
Consolidated Central and Regional Offices  
Japan Fund for Poverty Reduction ADB Grant No. 9175-PHI  
For the Year Ended December 31, 2016

	<u>NOTE</u>	<u>2016</u>	<u>2015</u>
<b>Cash Flows From Operating Activities</b>			
<b>Cash Inflows</b>			
Receipt of Notice of Cash Allocation		-	100,153,772.82
Collection of Income/Revenues		29,571.58	67,570.54
Receipt of Intra-Agency Fund Transfers		-	103,426,783.00
Other Receipts		-	1,576,625.27
Adjustments		33,705.75	28,500.00
<b>Total Cash Inflows</b>		<b>63,277.33</b>	<b>205,253,251.63</b>
<b>Cash Outflows</b>			
Remittance to National Treasury		-	86.62
Payment of Expenses		17,167,494.04	56,317,372.96
Remittance of Personnel Benefit Contributions and Mandatory Deductions		50,785.36	270,372.91
Release of Inter-Agency Fund Transfers		-	44,637,051.59
Release of Intra-Agency Fund Transfers		-	103,426,783.00
Adjustments		28,500.00	-
<b>Total Cash Outflows</b>		<b>17,246,779.40</b>	<b>204,651,667.08</b>
<b>Net Cash Provided by (Used in) Operating Activities</b>		<b>(17,183,502.07)</b>	<b>601,584.55</b>
<b>Cash Flows from Investing Activities</b>			
<b>Cash Outflows</b>			
Purchase/Construction of Property, Plant and Equipment		0.20	-
<b>Total Cash Outflows</b>		<b>0.20</b>	<b>.00</b>
<b>Cash Provided By (Used In) Investing Activities</b>		<b>(0.20)</b>	<b>-0.00</b>
<b>Increase/(Decrease) in Cash and Cash Equivalents</b>		<b>(17,183,502.27)</b>	<b>601,584.55</b>
Effects of Exchange Rate Changes on Cash and Cash Equivalents		-	.00
Add: Cash Balance, Beginning January 1, 2015		19,194,826.83	18,593,242.28
<b>Cash Balance, Ending December 31, 2015</b>		<b>2,011,324.56</b>	<b>19,194,826.83</b>



*DEPARTMENT OF SOCIAL WELFARE AND DEVELOPMENT*  
 Statement of Changes in Net Assets/Equity  
 Consolidated Central and Regional Offices  
 Japan Fund for Poverty Reduction ADB Grant No. 9175-PHI  
 For the Year Ended December 31, 2016

	<u>2016</u>	<u>2015</u>
Balance at December 31, 2015	118,824,170.07	18,593,242.28
Changes in Accounting Policy		
Prior Period Adjustments/Unrecorded Income and Expenses	82,417,342.03	
Restated Balance	36,406,828.04	18,593,242.28
Changes in Net Assets/Equity for 2016	-	86.62
Adjustment of net revenue recognized directly in net assets/equity	-	(1,447.13)
Closing of Cash-Treasury/Agency Deposit - Regular	-	(1,447.13)
Closing of Cash-Treasury/Agency Deposit - Trust	-	-
Surplus/(Deficit) for the period	(3,362,563.18)	100,232,288.30
Total recognized revenue and expense for the period	(3,362,563.18)	100,232,374.92
Others	-	-
<b>Balance at December 31, 2015 carried forward</b>	<b>33,044,264.86</b>	<b>118,824,170.07</b>

**NOTES TO FINANCIAL STATEMENTS**  
**Fund 171 -JEPR**  
**CY 2016**

**I. General Information/Agency Profile**

The financial statements of Department of Social Welfare and Development-Office of the Secretary were authorized for issue on February 14, 2017 as shown in the Statement of Management Responsibility for Financial Statements signed by Director Deseree D. Fajardo, Director for Financial Management Service and Assistant Secretary Rodolfo M. Santos, Office-in-Charge for General Administrative and Support Services.

On 15 February 1915, upon creation of the Public Welfare Board during the American Regime, the government started to get involved in social welfare. The board was established to coordinate, regulate and supervise social services activities and other charitable works rendered by religious orders and organizations. Finally in 1917, the first government orphanage was established. As a result of several changes by the government in its bureaus and departments, the original Public Welfare Board of the year 1915 became The Department of Social Welfare and Development (DSWD). After which, The Social Welfare Administrator was formally created by virtue of Executive Order No. 396 dated 13 January 1951. Republic Act No. 5416 known as the Social Welfare Act was approved in 1968. It was made into a Department, whose responsibility was to provide comprehensive program of social welfare services designed to ameliorate the living conditions of distressed Filipinos, particularly those who are handicapped by reason of poverty, youth, physical and mental disability, illness and old age, or who are victims of natural calamities including assistance to members of the cultural minorities.

With the provision of DSWD Mandate under Executive Order No. 15, DSWD was transformed from the rowing to steering role that usher in the new vision, mission and goals for the Department.

The Department's vision is directed towards the attainment of a "society where the poor, vulnerable and disadvantaged individuals, families and communities are empowered for an improved quality of life".

In the pursuit of its vision, the DSWD mission is to "provide social protection and promote the rights and welfare of the poor, vulnerable, and disadvantage individuals, family and ~~community to contribute to poverty alleviation and empowerment through SWD policies,~~ programs, projects and services implemented with or through Local Government Units (LGUs), Non-Government Organizations (NGOs), Peoples' Organization and other members of civil society".

**1.1 Programs/Projects/Activities**



## ❖ Foreign Assisted Program

- Japan Fund for Poverty Reduction – Assistance for Emergency Assistance and Early Recovery for Poor Municipalities Affected by Typhoon Yolanda (JFPR Project No. 9175-PIH) – This is a financial assistance provided by Japan under the JFPR administered by Asian Development Bank in the amount not exceeding \$30M for the Republic of the Philippines. This will benefit about 1.2 million individuals from 74 municipalities in the region that was hit hardest by Typhoon Yolanda. A certain amount will be used for the rehabilitation projects to be implemented through Kapit-Bisig Laban sa Kahirapan – CIDSS. Kalabi Cidss targets the speedy rehabilitation of 220 small-scale municipal and community infrastructures in 13 municipalities using the community-driven development a (CDD) strategy, a development approach that focuses on empowering and building up the capacities of citizens and local government units so they will be able to lift own communities out of poverty.

DSWD Central Office – registered office address is located in Constitution Hills, Batasan Pambansa Complex, Main Road, Quezon City, Philippines.

## 2. Statement of Compliance and Basis of Preparation of Financial Statements

2.1 The financial statements have been prepared in accordance with and comply with the Philippine Public Sector Accounting Standards (PPSAS) issued by the Commission on Audit per COA Resolution No. 2014-003 dated January 24, 2014. The financial statements are presented in Philippine Peso, which is the functional and reporting currency of the DSWD.

2.2 The financial statements have been prepared on the basis of historical cost, unless stated otherwise. The Statement of Cash Flows is prepared using the direct method.

## 3. Summary of Significant Accounting Policies

### 3.1 Basis of accounting

The financial statements are prepared on an accrual basis in accordance with the Philippine Public Sector Accounting Standards (PPSAS).

### ~~3.2 Financial instruments~~

#### a. Financial assets

*Initial recognition and measurement*

Financial assets within the scope of PPSAS 29 Financial Instruments: Recognition and Measurement are classified as financial assets at fair value through surplus or deficit, loans and receivables as appropriate. The Department of Social Welfare and Development determines the classification of its financial assets at initial recognition.

The DSWD's financial assets include cash and other receivables.

#### *Subsequent measurement*

The subsequent measurement of financial assets depends on their classification.

#### *Loans and Receivables*

Loans and Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortized cost using the effective interest method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. Losses arising from impairment are recognized in the surplus or deficit.

#### *Derecognition*

The DSWD derecognizes a financial asset or, where applicable, a part of a financial asset or part of DSWD of similar financial assets when:

- The rights to receive cash flows from the asset have expired or is waived.
- The DSWD has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party, and either: a) the DSWD has transferred substantially all the risks and rewards of the asset or b) the DSWD has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

#### *Impairment of financial assets*

The DSWD assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of initial recognition of the asset (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Evidence of impairment may include the following indicators:

- a. The debtors or a group of debtors are experiencing significant financial difficulties:
  - 1. Default or delinquency in interest or principal payments;
  - 2. The probability that debtors will enter bankruptcy or other financial reorganization;
  - 3. Observable data indicates a measurable decrease in estimated future cash flows (e.g. changes in arrears or economic conditions that correlate with defaults).
- b. Financial Liabilities

#### *Initial recognition and measurement*

Financial liabilities within the scope of PPSAS 29 are classified as financial liabilities at fair value through surplus or deficit. The entity determines the classification of its financial liabilities at initial recognition.

The DSWD's financial liabilities include other payables

#### *Subsequent measurement*

The measurement of financial liabilities depends on their classification.

#### *Derecognition*

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amount is recognized in surplus or deficit.

### **3.3 Cash and cash equivalents**

Cash and cash equivalents comprise cash on hand, cash in bank for local and foreign currencies, and treasury/agency accounts.

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### **3.4 Changes in accounting policies and estimates**

The DSWD recognize the effects of changes in accounting policy retrospectively. The effects of changes in accounting policy are applied prospectively if retrospective application is impractical.

The DSWD recognizes the effects of changes in accounting estimates prospectively by including in surplus or deficit.

The DSWD correct material prior period errors retrospectively in the first set of financial statements authorized for issue after their discovery by:

- Restating the comparative amounts for prior period(s) presented in which the error occurred; or
- If the error occurred before the earliest prior period presented, restating the opening balances of assets, liabilities and net asset/equity for the earliest prior period presented.

### 3.5 Foreign currency transactions

Transactions in foreign currencies are initially recognized by applying the spot exchange rate between the function currency and the foreign currency at the transaction.

At each reporting date:

- Foreign currency monetary items are translated using the closing Rate;
- Nonmonetary items that are measured in terms of historical cost in a foreign currency shall be translated using the exchange rate at the date of the transaction; and
- Nonmonetary items that are measured at fair value in a foreign Currency shall be translated using the exchange rates at the date when the fair value was determined.

Exchange differences arising (a) on the settlement of monetary items, or (b) on translating monetary items at rates different from those at which they were translated on initial recognition during the period or in previous financial statements, are recognized in surplus or deficit in the period in which they arise, except as those arising on a monetary item that forms part of a reporting entity's net investment in a foreign operation.

### 3.6 Revenue from non-exchange transactions

#### *Recognition and Measurement of Assets from Non-Exchange Transactions*

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An inflow of resources from a non-exchange transaction, other than services in-kind, that meets the definition of an asset are recognized as an asset if the following criteria are met:

- It is probable that the future economic benefits or service potential associated with the asset will flow to the entity; and
- The fair value of the asset can be measured reliably.

An asset acquired through a non-exchange transaction is initially measured at its fair value of the date of acquisition

#### ***Recognition Revenue from Non-Exchange Transactions***

An inflow of resources from a non-exchange transaction recognized as an asset is recognized as revenue, except to the extent that a liability is also recognized in respect of the same inflow.

As DSWD satisfies a present obligation recognized as a liability in respect of an inflow of resources from a non-exchange transaction recognized as an asset, it reduces the carrying amount of the liability recognized and recognizes an amount of revenue equal to that reduction.

#### ***Measurement of Revenue from Non-Exchange Transactions***

Revenue from non-exchange transactions is measured at the amount of the increase in net assets recognized by the entity, unless a corresponding liability is recognized.

#### ***Measurement of Liabilities in Initial Recognition from Non-Exchange Transactions***

The amount recognized as a liability in a non-exchange transaction is the best estimate of the amount required to settle the present obligation at the reporting date.

#### ***Fees and fines not related to taxes***

The DSWD recognizes revenues from fees and fines, except those related to taxes, when earned and the asset recognition criteria are met.

Other non-exchange revenues were recognized when it is probable that the future economic benefits or service potential associated with the asset will flow to the entity and the fair value of the asset can be measured reliably.

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#### ***Gifts and Donations***

The DSWD recognizes assets and revenue from gifts and donations when it is probable that the future economic benefits or service potential will flow to the entity and the fair value of the assets can be measured reliably.

Goods in-kind are recognized as assets when the goods are received, or there is a binding arrangement to receive the goods. If goods in-kind are received without conditions attached, revenue is recognized immediately. If conditions are attached, a liability is recognized, which is reduced and revenue recognized as the conditions are satisfied.

On initial recognition, gifts and donations including goods in-kind are measured at their fair value as at the date of acquisition, which were ascertained by reference to an active market, or by appraisal. An appraisal of the value of an asset is normally undertaken by a member of the valuation profession who holds a recognized and relevant professional qualification. For many assets, the fair value are ascertained by reference to quoted prices in an active and liquid market.

### *Transfers*

The DSWD recognizes an asset in respect of transfers when the transferred Resources meet the definition of an asset and satisfy the criteria for recognition as an asset, except those arising from services in-kind.

### *Services in-Kind*

Services in-Kind are not recognized as asset and revenue considering the Complexity of the determination of and recognition of asset and revenue and The eventual recognition of expenses.

### *Transfers from other government entities*

Revenues from non-exchange transactions with other government entities And the related assets are measured at fair market value and recognized on obtaining control of the assets (cash, goods, services and property) if the transfer is free from conditions and it is probable that the economic benefits or service potential related to the asset will flow to the (Name of Entity) and can be measured reliably.

## **3.7 Budget Information**

The annual budget is prepared on a cash basis and is published in the Government website.

### *A separate Statement of Comparison of Budget and Actual Amounts*

(SCBAA) was prepared since the budget and financial statements were not prepared on comparative basis. The SCBAA was presented showing the original and final budget and the actual amounts on comparable basis to the budget. Explanatory comments are provided in the notes to the annual financial statements.

### **3.8 Impairment of Non-Financial Assets**

#### *Impairment of non-cash-generating assets*

The DSWD assesses at its reporting date whether there is an indication that a non-cash-generating asset may be impaired if any indication exists, or when annual impairment testing for an asset is required, the DSWD estimates the asset's recoverable service amount. An asset's recoverable service amount is the higher of the non-cash generating asset's fair value less costs to sell and its value in use.

Where the carrying amount of an asset exceeds its recoverable service amount, the asset is considered impaired and is written down to its recoverable service amount. The DSWD classifies assets as cash-generating assets are held with Primary objective generating a commercial return. Therefore, non-cash generating assets would be those assets from which the DSWD does not intend (as its primary objective) to realize a commercial return.

### **3.9 Measurement uncertainty**

The preparation of financial statements in conformity with PPSAS, requires management to make estimates and assumptions that effect the reporting amounts of assets and liabilities, at the date of the financial statements and the reported amounts of the revenue and expenses during the period. Items requiring the use of the significant estimates include the useful life of capital assets.

Estimates were based on the best information available at the time of preparation of the financial statements and were reviewed annually to reflect new information as it becomes available. Measurement uncertainty exists in these financial statements. Actual results could differ these estimates.

### **4. Changes in Accounting Policies**

DSWD has not adopted any change in Accounting Policies for CY 2015. The 25 PPSAS had been adopted beginning January 1, 2014 as per COA Resolution No. 2014-003 dated January 24, 2014.

### **5. Prior Period Adjustments**

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The DSWD has determined transactions relating to the previous year which have cumulative effect on surplus/deficit of the prior year.

The description of the prior period adjustments, including peso amount, its effect for each financial statement line item affected in current and prior year, and cumulative effect on opening accumulated surplus (deficit) in current and prior year, and

cumulative effect on surplus/deficit in prior year are shown on this notes to financial statements.

## 6. Cash and Cash Equivalents

Account Name	2016	2015
Cash in Bank - Local Currency, Current Account	1,366,414.58	18,560,794.57
Cash in Bank - Foreign Currency, Savings Account	644,909.98	634,032.26
<b>Total</b>	<b>2,011,324.56</b>	<b>19,194,826.83</b>

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 as follows:

### 1. Foreign Assisted Projects

- Japan Fund for Poverty Reduction (Peso) Current Account

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

- Japan Fund for Poverty Reduction (Dollar) Account

Cash-Treasury Agency Deposit, Regular pertains to the remittance to BTr for the interest earned from the dollar and peso current maintained from AGDB accounts and for the refund of the unexpended and maintaining balance.

## 7. Receivables

### 7.1 Inter-Agency Receivables

Account Name	2016	2015
Due from Non-Government Organizations/People's Organizations	27,864,634.30	96,017,263.23
<b>Total</b>	<b>27,864,634.30</b>	<b>96,017,263.23</b>

**Due From Non-Government Organizations/People's Organizations** accounts are the request for fund release (RFR) to preferred Barangays through the Municipal Inter-Barangay forum. No grant was downloaded for 2016, while refunds from excess fund transfer amounted to P1,003,438.46.

## 8. Inventories

Inventory items of the Department include the following:



Particulars	2016			
	Inventories carried at the lower of cost and net realizable value	Inventories carries at fair value less cost to sell	Inventory write down recognized during the year	Reversal of inventory write down recognized during the year
Carrying amount, January 1, 2016				
Inventory held for consumption				
Carrying Amount, Jan. 1, 2016	8,553.00			
Additions/Acquisition during the year				
Expense during the year except write-down				
Adjustment during the year				
Write-down during the year				
Reversal of write-down during year				
Carrying Amount, Dec. 31, 2016	8,553.00			
Semi-Expendable Inventories				
Additions/Acquisitions during the year				
Adjustments during the year	87,160.00			
Write-down during the year				
Reversal of write-down during the year				
Carrying Amount, Dec. 31, 2016	87,150.00			

## 9. Property, Plant and Equipment

Property, Plant and Equipment for CY 2016 are summarized as follows:

Particulars	Buildings and Other Structures	Machinery and Equipment	Furniture and Fixtures	Other Property and Equipment	Total
Carrying Amounts, January 1, 2016	2,486,636.54	1,142,537.75	81,189.98	41,674.50	3,752,009.77

Additions Acquisitions		0.00			
Adjustments	29	(31,930,000)	(47,250,000)	(79,139,800)	
<b>Total</b>	<b>2,486,636.54</b>	<b>1,110,608.75</b>	<b>33,909.98</b>	<b>41,674.50</b>	<b>3,672,829.97</b>
Disposals					
Depreciation (As per Statement of Financial Performance)	(247,977.42)	(345,197,023)	(3,828,250)	(9,334,000)	(600,236,971)
Impairment Loss (as per Statement of Financial Performance)					
Carrying Amount, December 31, 2016 (As per Statement of Financial Performance)	2,244,659.29	765,411.73	30,081.48	32,440.50	3,072,593.00
Gross Cost (Asset Account Balance per Statement of Financial Position)	2,547,131.10	1,293,800.10	40,300.00	48,600.00	3,929,831.20
Less Acc. Depreciation	(302,471.81)	(528,388.37)	(10,218.52)	(16,159.50)	(857,238.20)
Allowance to Impairment					
Carrying Amount, December 31, 2016 (As per Statement of Financial Position)	2,244,659.29	765,411.73	30,081.48	32,440.30	3,072,593.00

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).

#### 10. Service and Business Income

Account Name	2016	2015
Fines and Penalties-Service Income	-	292.50
Interest Income	29,571.58	67,278.04
<b>Total</b>	<b>29,571.58</b>	<b>67,570.54</b>

The account Fines and Penalties -- Service Income is the amount charged or being collected by the Department from various contractors/suppliers for the delivery of goods and services as specified in the Purchase Order.

Interest Income represents income earned from various bank accounts of the Department which were remitted to the Bureau of Treasury.

## 11. Maintenance and Other Operating Expenses

### 11.1 Training and Scholarship Expenses

Particulars	2016	2015
Training and Scholarship Expenses	242,455.00	608,341.00
<b>Total</b>	<b>242,455.00</b>	<b>608,341.00</b>

**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 sand or registration fees of DSWD Officials and Employees to enhancement training and seminars

## 12. Financial Liabilities

Accounts Name	2016	2015
Bank Charges	5,726.12	13,435.03
<b>Total</b>	<b>5,726.12</b>	<b>13,435.03</b>

The account Bank Charges generally refers cable changes for electronic fund transfers of Foreign Currency Account of Japan Projects.

## 13. Non-Cash Expenses

### 13.1 Depreciation

Particulars	2016	2015
Depreciation-Buildings and Other Structures	241,977.45	60,494.36
Depreciation-Machinery and Equipment	345,197.02	183,191.35
Depreciation-Furniture, Fixtures and Books	3,828.50	6,390.02
Depreciation-Other Property, Plant and Equipment	9,234.00	6,925.50
<b>Total</b>	<b>600,236.97</b>	<b>257,001.23</b>

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

## 14. Net Financial Assistance/Subsidy

### ~~Financial Assistance/Subsidy from NGAs, LGUs, GOCCs~~

Particulars	2016	2015
Subsidy from National Government	-	100,153,772.82
Subsidy from Other National Government Agencies	-	103,426,783.00
<b>Total Financial Assistance/Subsidy from NGAs, LGUs</b>	-	<b>203,580,555.82</b>

**Less: Financial Assistance/Subsidy to NGAs, LGUs, GOCCs, NGOs/POs**

Particulars	2015	201
Financial Assistance to NGAs		103,426,783.00
Subsidies-Others	2,577,422.42	
<b>Total Financial Assistance/Subsidy to NGAs, LGUs</b>	<b>2,577,422.42</b>	<b>103,426,783.00</b>
<b>Net Financial Assistance/Subsidy</b>	<b>2,577,422.22</b>	<b>100,153,772.82</b>

The account Financial Assistance to NGAs pertains to transfer of funds through funding checks charged against Japan Fund for Poverty Reduction account to Field Offices for the implementation of various projects programs activities.

**14. Non-operating Income, Gain, or Losses**

**10.1 Non Operating Income/Gain**

Particulars	2016	2015
Gain on Foreign Exchange (FOREX)	65,266.33	1,388,299.71
<b>Total Non-Operating Income/Gain</b>	<b>65,266.33</b>	<b>1,388,299.71</b>

**10.2 Non Operating Losses**

Particulars	2016	2015
Loss on Foreign Exchange (FOREX)	31,560.58	452,977.51
<b>Total Non-Operating Losses</b>	<b>31,560.58</b>	<b>452,977.51</b>

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.

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

**STATUS OF IMPLEMENTATION OF PRIOR YEARS'  
AUDIT RECOMMENDATIONS  
CY 2016**

Observations	Ref.	Management Comments/Actions Taken	Status of Implementation	Results of Auditor's Validation
<p><i>Unliquidated fund transfers to NGOs/POs</i></p> <p>The delayed or non-liquidation of fund transfers to Implementing Agencies due to (a) lack of and/or inappropriate documentations submitted, (b) inadequate monitoring of submission of LRs from the IAs, resulted in the outstanding and accumulation of the balance of the account Due from NGOs/POs (BSPMC) amounting to P96.017 million as of year-end.</p>	2015 CAAR		Partially Implemented	<p>As of 12/31/2016 the total ending balance was P27,864,634.30</p> <p>Reiterated in this report under Observation No. 8</p>