



Republic of the Philippines
COMMISSION ON AUDIT
Commonwealth Avenue, Quezon City, Philippines

CORPORATE GOVERNMENT AUDIT SECTOR
Cluster 6 – Social, Cultural, Trading, Promotional and Other Services

September 5, 2024

THE BOARD OF DIRECTORS

Philippine Charity Sweepstakes Office
Sun Plaza Building
1507 Shaw Boulevard corner Princeton Street,
Mandaluyong City



Gentlemen/Mesdames:

Pursuant to Section 2, Article IX-D of the 1987 Philippine Constitution and Section 43 of Presidential Decree No. 1445, otherwise known as the Government Auditing Code of the Philippines, we transmit herewith our report on the results of the audit of the accounts and transactions of the **Philippine Charity Sweepstakes Office (PCSO)** for the years ended December 31, 2023 and 2022.

The report consists of the Independent Auditor's Report, the Audited Financial Statements, the Observations and Recommendations, the Status of Implementation of Prior Year's Audit Recommendations and the Annex.

The Auditor rendered a qualified opinion on the fairness of presentation of the financial statements in view of the following:

1. The accounts Guaranty Security Deposits Payable-Cash Bond-STL, Accounts Receivable-STL, and Other Deposits-Lotto/Keno/STL Cash Bond were overstated by P847.369 million, P391.050 million and P847.369 million, respectively, and the accounts Cash-in-Bank, Other Business Income-Operating Fund-STL and Retained Earnings were understated by P847.369 million, P456.319 million and P456.319 million, respectively, contrary to Paragraph 15 of Philippine Accounting Standard 1 due to the failure of PCSO to charge the outstanding liabilities of 55 Authorized Agent Corporations (AACs) totaling P391.050 million against their respective cash bond and to forfeit the cash bond of 18 AACs in total amount of P456.319 million in favor of PCSO.
2. The balance of Prizes-STL-Lower Prize 10,000 and Below expense account for calendar year 2023 totaling P9.910 billion was overstated by P71.394 million due to (a) erroneous recognition of STL Prize Fund expense account on the over remittance of the excess Net Prize Fund (NPF) by Authorized Agent Corporations totaling P22.068 million and (b) understatement of excess NPF recorded by the Accounting and Budget Department totaling P49.326 million; thus, resulting in the understatement of the Retained Earning-Prize Fund, Accounts Receivable and Other Payable account by P71.394 million, P72.057 million and P0.663 million, respectively, contrary to Paragraph 15 of Philippine Accounting Standard 1.

3. The Cash-in-Bank-Prize Fund (PF) account was overstated by P397.591 million and the Cash-in-Bank-Charity Fund (CF) account was understated by the same amount as of December 31, 2023 due to the delay in the transfer of cash pertaining to forfeited prizes of Lotto and Keno games from March to December 2023; and, the accounts Cash-in-Bank-CF and Retained Earnings-CF were overstated, and the accounts Cash-in-Bank-PF and Accounts Payable-Miscellaneous-PF were understated, each by P10.908 million due to the discrepancy in reporting amount of forfeited prizes between accounting records and the Data Center Division for the month of February 2023 by P10.908 million as at December 31, 2023, contrary to Section 6(A) of Republic Act No. 1169, as amended, and Paragraph 15 of the Philippine Accounting Standard 1.
4. The fair presentation of the Accounts Payable (AP) totaling P10.052 billion as at December 31, 2023 could not be ascertained due to: (a) Non-maintenance of Subsidiary Ledger for each payee/creditor to support the General Ledger balances of the AP-Miscellaneous accounts amounting to P8.758 billion; (b) Discrepancies between the balances per PCSO books and the supporting schedules of the AP accounts in total amount of P332.399 million; (c) Existence of long outstanding payables in the total amount of P3.367 billion; and (d) Existence of abnormal/debit balances of AP accounts in the total amount of P88.120 million, contrary to Paragraph 15 of the Philippine Accounting Standard 1.
5. The faithful representation in the financial statements of the balance of the Accounts Receivable (AR) with a carrying amount of P4.298 billion as at December 31, 2023 cannot be ascertained in view of (a) Unreconciled balances of AR in the General Ledger and the Subsidiary Ledger or the Schedule of AR with Aging report amounting to P389.732 million and P(2.389) million, respectively, (b) two (2) AR sub-accounts had abnormal (credit) balances amounting to P(1.610) million, (c) three (3) AR sub-accounts were not provided with allowance for impairment loss and (d) the accounting policy of PCSO on the age classification of outstanding receivables was not uniformly adopted and applied contrary to Paragraph 15 of the Philippine Accounting Standard (PAS) 1, Paragraph 9 of PAS 36 and Paragraph 5.5.15 (a) of the Philippine Financial Reporting Standard 9 on the Expected Credit Loss model.
6. The faithful representation in the financial statements of the balance of the Property, Plant and Equipment (PPE) account with a carrying amount of P5.859 billion as at December 31, 2023, excluding Land and Other Land Improvements accounts was not established due to unaccounted discrepancy of P130.413 million and P207.396 million, respectively, when compared with the balance per Lapsing Schedules/PPE Ledger Cards and the Report on the Physical Count of PPE of the Head Office and various Branch Offices, thus affecting the fair presentation of the balance of the account in the Financial Statements contrary to Paragraph 15 of the Philippine Accounting Standard 1 and Section 6.3 of COA Circular No. 2020-006 dated January 31, 2021.

7. The validity and accuracy of the reported net sales totaling P80.558 billion for the Calendar Years 2021 to 2023 was not established due to cancelled sales totaling P367.207 million for the same period, which were not validated caused by the inadequate internal control procedures on the accounting, monitoring and validating the canceled sales of lotto tickets.

For the afore-stated observations, we recommended that Management:

- 1.1. Direct the Accounting and Budget Department (ABD) to prepare the necessary entries to correct the overstatement of Guaranty Security Deposits Payable-Cash Bond-STL, Accounts receivable-STL and Other Deposits – Lotto/Keno/STL Cash Bond account by P847.369 million, P391.050 million and P847.369 million, respectively, and understatement of Cash in Bank account and Other Business Income – Operating Fund – STL/Retained Earnings account by P847.369 million and P456.319 million, respectively.
- 2.1. Direct the ABD personnel to prepare the necessary adjusting entry to correct the balance of the subject accounts by debiting Accounts Receivable account by P72.057 million, and crediting Retained Earnings-Prize Fund and Other Payable account by P71.394 million and 0.663 million, respectively, and ensure that all transactions are properly and completely recorded in the books for fair presentation of the account in compliance with PAS 1.
- 3.1. Direct the Treasury Department to transfer cash from CF account to PF account amounting to P10.908 million pertaining to the overstatement of the forfeited prizes and ABD to effect the necessary adjustments in the books to correct the overstatement of the Cash-in-Bank-CF account and RE-CF account both by 10.908 million and the understatement of Cash-in-Bank-PF account and Accounts Payable-Miscellaneous-PF also both by P10.908 million.
- 4.1. Direct ABD to (a) Prepare SL per payee/creditor to support the balance of AP-Miscellaneous accounts totaling P8.758 billion and to reflect the correct balance of outstanding payable per payee/creditor; (b) Analyze and determine the causes of the discrepancies totaling P332.399 million between the balances of PCSO books and the supporting schedules, and prepare the necessary adjusting entries; (c) Verify the validity of the long outstanding AP totaling P3.367 billion and prepare the necessary adjusting entries; and (d) Analyze the abnormal/debit balances of the AP accounts in total amount of P88.120 million and book up the necessary adjusting entries.
- 5.1. Direct the concerned personnel of ABD and Branch Operations Sector to (a) Conduct a thorough examination to determine the causes of the unreconciled balance of P389.732 million and P(2.389) million, respectively, between AR balance per GL and the SL/Schedule of AR with Aging Report and make the necessary adjustments duly supported with reliable financial records; (b) Effect the necessary adjusting entries on the abnormal (credit) balances totaling P1.610 million which pertained to prior years' errors in posting; and (c) Ensure that the allowance for impairment loss on all financial assets that are already past due for two to three years and onwards is provided in compliance with Paragraph 9 of PAS No. 36 and is uniformly adopted and applied by the ABD and BOS, and uniformly adopt the PCSO accounting policy on the age classification of outstanding receivables to

ensure reliability in the measurement of impairment loss allowances for financial assets.

- 6.1. Direct the concerned ABD personnel to (a) Conduct an immediate reconciliation of Items of PPE per books with the balances in the corresponding lapsing schedules/PPELCs to determine the causes of the discrepancy of P130.413 million as at December 31, 2023; (b) Coordinate with the concerned ASMD personnel and conduct immediate reconciliation of the balances of the items of PPE per books with the balances per RPCPPE as at December 31, 2023 in order to determine the causes of the discrepancy of P207.396 million and conduct an investigation considering the balance per book is greater than actual physical count which may indicate missing items of PPE; and (c) Effect the necessary adjustments in the books or corrections in the lapsing schedule and RPCPPE to arrive at reconciled balances.
- 7.1. To update the Game Rules and Regulations for lotto and digit games to clearly define conditions of a valid cancellation of tickets and should be captured by the system accordingly and enhance the existing internal control policy and adopt measures that will ensure the accuracy, validity and reliability of the reported canceled sales to address the risk of improper cancellation of sales of lotto tickets.

The other significant audit observation and recommendations that need immediate action are as follows:

8. The non-submission of the detailed monthly Prizes and Winners Summary Report for calendar years (CY) 2018 to 2023, the delay in the submission of the monthly Inventory and Sales Report, and the incomplete submission of the Production Report and its supporting documents by the Powerball Marketing and Logistic Corporation (PMLC) for CYs 2022 and 2023, and the lack of written approval of the PCSO on the production of 2 million tickets of *Go for Gold 50* game variant constitute non-compliance of PMLC with Sections 31(b), 34, and 41 of the 2017 RIRR for ISP and Section 7 of the Memorandum of Agreement between PCSO and PMLC, and inadequate program monitoring by PCSO contrary to Section 47 of the 2017 Revised Implementing Rules and Regulations for ISP.

- 8.1. We recommended Management to:
 - a. Require the PMLC to submit the PWS Reports pertaining to the five-year contract with PCSO from CY 2018 to CY 2023, including the details such as the number of winners per game variant and the amount of winnings. Henceforth, we recommend the timely submission of the monthly reports required under the approved guidelines for ISP;
 - b. Require the PMLC to submit the Production Reports including its complete supporting documents pertaining to the production/re-printing of the 18 million IS tickets in CY 2022,
 - c. Require ISAC the strict compliance on the approval of PCSO before the production of IS tickets; and

- d. Impose the sanctions or remedies available in the 2017 RIRR for ISP and the MOA between PCSO and PMLC for the above stated non-compliance of PMLC.

The observations together with the recommended courses of action which were discussed by the Audit Team with concerned Management officials and staff during the exit conference conducted on June 21, 2024 are discussed in detail in Part II of the report. We also invite your attention to the prior year's partially and unimplemented audit recommendations embodied in Part III of the report.


In our transmittal letter of even date, we request the General Manager of PCSO to implement the recommendations contained in the report and to inform this Commission of the actions taken thereon within 60 days from receipt of the report.

We acknowledge the support and cooperation that you and your staff extended to the Audit Team, thus facilitating the submission of the report.

Very truly yours,

COMMISSION ON AUDIT

By:



ATTY. CHITO C. JANABAN
Director IV
Cluster Director

Copy furnished:

The President of the Republic of the Philippines
The Vice President
The President of the Senate
The Speaker of the House of Representatives
The Chairperson – Senate Finance Committee
The Chairperson – Appropriations Committee
The Secretary of the Department of Budget and Management
The Governance Commission for Government-Owned or Controlled Corporations
The Presidential Management Staff, Office of the President
The UP Law Center
The National Library
The COA Central Library



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COMMISSION ON AUDIT
Commonwealth Avenue, Quezon City, Philippines

CORPORATE GOVERNMENT AUDIT SECTOR
Cluster 6 – Social, Cultural, Trading, Promotional and Other Services

September 5, 2024

Mr. MELQUIADES A. ROBLES
General Manager
Philippine Charity Sweepstakes Office
Sun Plaza Building
1507 Shaw Boulevard corner Princeton Street,
Mandaluyong City



Dear General Manager Robles:

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The observations together with the recommended courses of action which were discussed by the Audit Team with concerned Management officials and staff during the exit conference conducted on June 21, 2024 are discussed in detail in Part II of the report. We also invite your attention to the prior year's partially and unimplemented audit recommendations embodied in Part III of the report.

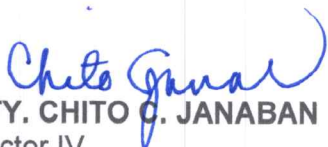
We request that appropriate actions be taken on the observations and recommendations contained in the report and that we be informed of the action(s) taken thereon by submitting the duly accomplished Agency Action Plan and Status of Implementation form (copy attached) within 60 days upon receipt hereof.

We acknowledge the support and cooperation that you and your staff extended to the Audit Team, thus facilitating the submission of the report.

Very truly yours,

COMMISSION ON AUDIT

By:



ATTY. CHITO C. JANABAN
Director IV
Cluster Director

Copy furnished:

The President of the Republic of the Philippines
The Vice President
The President of the Senate
The Speaker of the House of Representatives
The Chairperson – Senate Finance Committee
The Chairperson – Appropriations Committee
The Secretary of the Department of Budget and Management
The Governance Commission for Government-Owned or Controlled Corporations
The Presidential Management Staff, Office of the President
The UP Law Center
The National Library
The COA Central Library



Annex A

Name of the Agency and Address

AGENCY ACTION PLAN AND STATUS OF IMPLEMENTATION
Audit Observations and Recommendations
For the Calendar Year 20____
As of _____

[illegible]

Agency sign-off:

Name and Position of Agency Officer

Date _____

Note: Status of Implementation may either be (a) Fully Implemented, (b) Ongoing, (c) Not Implemented, (d) Partially Implemented, or (e) Delayed.
This template shall be used for Current Year's audit recommendations and Prior Years' recommendations as contained in the Parts II and III, respectively, of the Annual Audit Report.