



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

INDEPENDENT AUDITOR'S REPORT

THE BOARD OF DIRECTORS

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

Report on the Audit of the Financial Statements

Qualified Opinion

We have audited the financial statements of the **Philippine Charity Sweepstakes Office (PCSO)**, which comprise the statements of financial position as at December 31, 2023 and 2022, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and notes to financial statements, including a summary of significant accounting policies.

In our opinion, except for the effects and possible effects of the matters described in the Bases for Qualified Opinion section of our report, the accompanying financial statements present fairly, in all material respects, the financial position of PCSO as at December 31, 2023 and 2022, and its financial performance and cash flows for the years then ended in accordance with Philippine Financial Reporting Standards (PFRSs).

Bases for Qualified Opinion

The accounts 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.

Likewise, 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.

Moreover, 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.

Also, 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.

Further, 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.

Furthermore, 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.

Lastly, 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.

Emphasis of Matter

We draw attention to Note 29 of the financial statements disclosing that the Commission on Audit issued observations pertaining to PCSO's non-payment of dividends. However, due to the provision in Republic Act (RA) No. 1169, otherwise known as the "PCSO Charter", the PCSO is mandated that all balances of any funds shall regularly be reverted to and form part of the Charity Fund, thus, there is nothing left to be declared and remitted as dividend. The matter has been referred to the Department of Finance (DOF) and it confirmed that the PCSO is not exempt from RA No. 7656; however, the former recognized that the latter's Charter mandates all balances of any funds to revert to and form part of the Charity Fund. As of December 31, 2023, the PCSO is still negotiating with the DOF if indeed the PCSO would be required to remit dividends to the National Government totaling P8.422 billion inclusive of the amounts due from CYs 1994 to 2016. Our opinion is not modified in respect of this matter.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with PFRSs, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the PCSO's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate PCSO or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the PCSO's financial reporting process.

Auditor's Responsibility for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAIs, will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISSAIs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatements of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from

fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

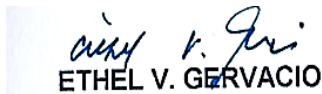
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the PCSO's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the PCSO's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the PCSO to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among others, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during the audit.

Report on Other Legal and Regulatory Requirements

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information for the year ended December 31, 2023, required by the Bureau of Internal Revenue as disclosed in Note 26 to the financial statements is presented for purposes of additional analysis and is not a required part of the basic financial statements prepared in accordance with PFRSs. Such supplementary information is the responsibility of management.

COMMISSION ON AUDIT



ETHEL V. GERVACIO

Supervising Auditor

Audit Group A – Philippine Charity Sweepstakes Office

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

Corporate Government Sector

June 21, 2024