## EXECUTIVE SUMMARY

### INTRODUCTION

The Philippine Charity Sweepstakes Office (PCSO) was created under Philippine Legislature Act No. 4130 on October 30, 1934 and later amended by Republic Act (RA) No. 1169 in 1954 and Batas Pambansa Blg. 42 on September 24, 1979. It is the principal government agency for raising and providing funds for health programs, medical assistance and services, and charities of national character.

The PCSO's main programs consist of endowment fund/quality health care, individual medical assistance, community outreach, ambulance donation, national calamity and disaster program, and hospital renovation and improvement of health care facilities. It also gives mandatory contributions to various agencies and institutions.

The PCSO also extends regular contributions to charitable institutions engaged in giving welfare services to the children and youth who are either abandoned or exploited, the elderly, and the physically and mentally handicapped, among others. It holds and conducts charity sweepstakes, races, and lotteries and engages in health and welfare-related investments, projects, and activities to provide for permanent and continuing sources of funds for its programs. Other activities to enhance and expand such fund-generating operations as well as strengthen its fund-management capabilities are also being undertaken by the Agency.

The PCSO is being managed by a Board of Directors, composed of the following as of December 31, 2019:

| | | |
|---|---|---|
| Anselmo Simeon P. Pinili | - | Chairman |
| Royina M. Garma | - | Vice-Chairman and General Manager |
| Marlon U. Balite | - | Member |
| Sandra M. Cam | - | Member |
| Ramon Ike V. Seŋeres | - | Member |
| Atty. Wesley A. Barayuga | - | Board Secretary |

As of December 31, 2019, PCSO has a total manpower complement of 1,691, broken down as follows:

| | Head Office | Branch Office | Total |
|---|---|---|---|
| Permanent employees | 617 | 441 | 1,058 |
| Co-Terminus | 53 | 4 | 57 |
| Confidential Agents | 200 | - | 200 |
| Consultants | 64 | - | 64 |
| Job Order | 163 | 149 | 312 |
| | **1,097** | **594** | **1,691** |

The PCSO Main Office is located at the Sun Plaza Building and Conservatory Shaw Plaza Building in Mandaluyong City. It has five branch operations departments, namely: National Capital Region (NCR), Northern and Central Luzon (NCL), Southern Tagalog and Bicol Region (STBR), Visayas and Mindanao. PCSO has sixty-eight (68) branches as of December 31, 2019.

The main sources of funds of the PCSO are the Sweepstakes and the Lottery games. Various game types have been introduced and other game innovations are constantly being conceptualized.

## FINANCIAL HIGHLIGHTS (In Philippine Peso)

### I. Financial Position

| | 2019 | 2018 As Restated | Increase/ (Decrease) |
|---|---|---|---|
| Assets | 29,081,649,788 | 22,910,058,026 | 6,171,591,762 |
| Liabilities | 18,966,780,128 | 15,164,129,811 | 3,802,650,317 |
| **Equity** | **10,114,869,660** | **7,745,928,215** | **2,368,941,445** |

### II. Comprehensive Income

| | 2019 | 2018 As Restated | Increase/ (Decrease) |
|---|---|---|---|
| Total Income | 46,043,176,325 | 63,076,493,487 | (17,033,317,162) |
| Total Operating Expenses | 31,549,632,044 | 49,282,315,154 | (17,732,683,110) |
| Profit/ (Loss) Before Tax | 14,493,544,281 | 13,794,178,333 | 699,365,948 |
| Income Tax Expense/ Benefit | 1,832,499,316 | 627,822,438 | 1,204,676,878 |
| Income Tax Expense / Benefit – Deferred | (107,160,609) | (5,583,636) | (101,576,973) |
| Profit/(Loss) After Tax | 12,768,205,574 | 13,171,939,531 | (403,733,957) |
| Financial Assistance/Subsidy/Contribution | 8,274,995,414 | 12,159,423,810 | (3,884,428,396) |
| Net Income/(Loss) | 4,493,210,160 | 1,012,515,721 | 3,480,694,439 |
| Other Comprehensive Income (Loss) for the period | 95,547,933 | (62,791,067) | 158,339,000 |
| **Total Comprehensive Income** | **4,588,758,093** | **949,724,654** | **3,639,033,439** |

### III. Comparison of 2019 Budget and Actual Amounts on Comparable Basis

| | Approved Corporate Operating Budget | Actual Amounts on Comparable Basis | Variance |
|---|---|---|---|
| Operating Fund | | | |
| Personnel Services | 1,104,315,000 | 853,504,168 | 250,810,832 |
| Maintenance and Other Operating Expenses | 10,559,671,000 | 6,618,621,589 | 3,941,049,411 |
| Capital Outlays | 3,309,846,000 | 80,995,770 | 3,228,850,230 |
| Charity Fund | | | |
| Maintenance and Other Operating Expenses | 102,689,000 | 2,030,727,549 | (1,928,038,549) |
| Others | 19,759,829,000 | 8,274,995,414 | 11,484,833,586 |
| Prize Fund | | | |
| Maintenance and Other Operating Expenses | 34,482,159,000 | 21,871,178,113 | 12,610,980,887 |
| **TOTAL** | **69,318,509,000** | **39,730,022,603** | **29,588,486,397** |

## SCOPE OF AUDIT

The audit covered the examination, on a test basis, of the accounts, transactions and operations of the PCSO to enable us to express an opinion on the financial statements for the years ended December 31, 2019 and 2018 in accordance with International Standards of Supreme Audit Institutions (ISSAIs). It was also conducted at determining the PCSO's compliance with pertinent laws, rules and regulations and adherence to prescribed policies and procedures.

## INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS

We rendered an adverse opinion on the fairness of presentation of the financial statements of the PCSO in view of the following:

1. The Guaranteed Minimum Monthly Retail Receipts (GMMRR) Shortfalls for calendar years (CYs) 2017-2018 and 2019 in the total amounts of P13.905 billion and P6.305 billion and the corresponding amounts of Shortfalls due to PCSO (receivables) totaling P5.617 billion and P3.081 billion, respectively, were not recognized in the books of PCSO despite being valid revenues and receivables from the Authorized Agent Corporations (AACs), as defined under the Philippine Accounting Standard (PAS) 1 and the Conceptual Framework for Financial Reporting (CFFR), resulting in the understatement of Income from Gaming Operations-Small Town Lottery (STL), Receivables – STL, Retained Earnings, Expenses and Payables accounts by P6.305 billion, P6.980 billion, P2.331 billion, P4.696 billion and P4.757 billion, respectively, and overstatement of Other Business Income and Miscellaneous Income accounts in the amounts of P1.055 billion and P663.001 million, respectively.

2. The full amount of P961.013 million retail receipts generated from the Instant Sweepstakes Program (ISP), representing the CY 2019 guaranteed sales of P833.333 million plus the P127.680 million from the CY 2018 sales, were recognized in the books despite that only thirteen (13) per cent thereof, or P124.932 million accrue to the PCSO as its guaranteed share, which was tantamount to misrepresentation of the actual revenues derived from the ISP, contrary to Section 4 (i) of the RIRR for the ISP, Paragraph 15 of PAS 1 and Paragraph 4.47 of the Conceptual Framework for Financial Reporting (CFFR).

3. The faithful representation in the financial statements of the balance of the Cash and Cash Equivalents account of P14.840 billion as of December 31, 2019 was not established due to various deficiencies enumerated below, contrary to Paragraph 15 of PAS 1 and QC12 of the CFFR:

    a. Variance between the balances per books and the confirmed bank balances of the Operating Fund (OF) accounts and Main account in the total amount of P46.138 million;

    b. Variance of P61.861 million between the balances per books and the confirmed bank balances of the Charity Fund (CF), Prize Fund (PF) and Small Town Lottery (STL) remittances accounts;

    c. Closed accounts still having outstanding balances in the books amounting to P12.020 million and P39.280 million (negative);

    d. Variance of P3.377 million between the balances per books and the confirmed bank balances of the bank accounts maintained with the Land Bank of the Philippines (LBP) that was not reconciled due to non-preparation of the monthly Bank Reconciliation Statements (BRSs); and

e. Checks totaling P1.550 million already presented to and cleared by the bank were erroneously included as unreleased checks that were reverted back to cash at year-end.

4. The measurement of right-of-use asset and lease liability was not in accordance with the Philippine Financial Reporting Standard (PFRS) 16 – *Leases*, resulting in the overstatement of the Finance Lease Payable, Prepaid Rent and Depreciation Expense accounts by P26.508 million, P24.631 million and P1.473 million, respectively, and the corresponding understatement of Leased Assets, Accumulated Depreciation, Interest Expense, Rent Expense and Retained Earnings accounts by P97.512 million, P98.985 million, P1.063 million, P0.874 million and P0.868 million, respectively.

5. The faithful representation of the effects of the transactions relating to the Accounts Receivable (AR) account having a balance of P1.096 billion, net of Allowance for Impairment of P163.864 million, as of December 31, 2019 was not established due to various deficiencies enumerated below, contrary to Paragraph 15 of the PAS 1 and QC12 of the CFFR:

   a. Abnormal (credit) balances of four (4) AR sub-accounts totaling P681.735 million;

   b. Variance in the total amount of P466.230 million between the account balances per General Ledger (GL) and the Aging Schedule resulting from prior period errors in posting of transactions; and

   c. Twelve (12) AR sub-accounts totaling P72.089 million cannot be validated due to absence of complete supporting subsidiary ledgers, schedules and the corresponding aging schedule.

For the afore-cited observations, which caused the issuance of an adverse opinion, we recommended that Management:

1.1 Direct the concerned accounting personnel to:

   a. Recognize as part of the PCSO's revenues the GMMRR shortfalls incurred by the concerned AACs during CYs 2017-2019 totaling P20.210 billion and recognize as receivables the amount of P6.980 billion, representing unsettled GMMRR shortfalls due to PCSO for CYs 2017-2019.

   b. Record the STL transactions on accrual basis to ensure that the same are recognized in the period in which they were earned and not when cash was collected, pursuant to Paragraphs 27 and 28 of PAS 1 and the CFFR.

   c. Effect the necessary adjusting entries to correct the misstatements of Retained Earnings, Expenses, Payables, Other Business Income and Miscellaneous Income accounts, resulting from the inconsistent treatment of transactions relating to the settlements of GMMRR shortfalls as well as the unrecorded allocation of expenses relating to the unrecorded GMMRR shortfalls.

2.1 Direct the concerned Accounting personnel to effect the necessary adjusting entries in order to reflect the correct amount of retail receipts from the ISP accruing to the PCSO pursuant to Section 4 (i) of the RIRR for the ISP, in accordance with Paragraphs 15 and 4.47 of PAS 1 and CFFR, respectively.

3.1 Direct the concerned Accounting personnel to:

a. Effect the necessary adjustments, after a thorough verification of the book reconciling items for each of the subject bank accounts, in order to present fairly the balance of the Cash in Bank account in the financial statements;

b. Intensify the efforts in coordinating with the corresponding depository banks to thresh out the details of the bank reconciling items and investigate the cause/s of the alleged unposted deposits totaling P32.733 million under the Operating Fund accounts so that appropriate action may be taken thereafter;

c. Effect the necessary adjusting entries, after a thorough verification of the long-outstanding reconciling items, in order to correct the P12.020 million overstatement of the Cash and Cash Equivalents account and the negative balance of P39.280 million, which pertained to book balances of closed Philippine National Bank (PNB) accounts;

d. Effect the necessary adjusting entries that will correct the P1.550 million overstatement of the Cash and Cash Equivalents and Accounts Payable accounts as of December 31, 2019 brought about by the erroneous entry reverting back to cash the issued checks that were already cleared by the concerned depository banks at year-end; and

e. Ensure the timely preparation of monthly BRSs for all the bank accounts of the PCSO to facilitate prompt reconciliation of discrepancies.

4.1 Direct the concerned Accounting personnel to effect the necessary adjusting entries to correct the erroneous entries made on the transition from operating lease to finance lease in accordance with PFRS 16 as well as to correct the misstatements in various accounts.

5.1 We recommended that Management:

a. Direct the concerned Accounting personnel to: (i) conduct an immediate thorough evaluation of the AR sub-accounts with abnormal balances totaling P681.735 million; (ii) undertake closer coordination with the concerned Branch officials and employees in order to determine the specific cause/s thereof, and thereafter, effect the necessary adjusting entries to bring the accounts to their normal balances; and (iii) submit to the Audit Team the complete supporting schedules, subsidiary ledgers and aging schedules for the AR sub-accounts in the total amount of P72.089 million, pursuant to the provisions of PD No. 1445 and COA Circular No. 2015-004; and

b. Direct the ABD and the BOS to: (i) conduct thorough analysis of the outstanding receivables due from each agent/debtor and reconcile their records in order to determine the causes of the P466.230 million variance between the balance per GL and the aging schedule of the subject receivables; and (ii) effect the necessary adjusting entries thereafter to ensure that the balance of the AR account presented in the financial statements faithfully represents the effects of transactions on the said account and properly supported with reliable financial records.

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

6. The faithful representation in the financial statements as of December 31, 2019 of the Prize Fund expenses-STL account totaling P622.393 million could not be established due to the non-submission of the summary of all prizes and winnings paid and charged to prize fund together with all the other related reports, as required under Section 18 (g) of the 2019 Revised Implementing Rules and Regulations (RIRR) for the STL.

6.1 We recommended that Management: (a) require the AACs to submit the reports on the utilization of the STL Prize Fund enumerated under Section 18 (g) of the RIRR for the STL, copy furnished the Office of the Auditor; and (b) ensure that recognition of prize fund expenses in the books of accounts is supported by valid documents.

7. Absence of provisions in the 2019 Revised Implementing Rules and Regulations (RIRR) for the Small Town Lottery (STL) and the 2017 RIRR for the Instant Sweepstakes of the PCSO on the proper accounting and monitoring of the allocation for printing costs retained by the Authorized Agent Corporations (AACs) and the Instant Sweepstakes Authorized Corporation (ISAC) in the total amount of P197.284 million during CY 2019 resulted in apparent absence of internal control system that will ensure that government funds are safeguarded against loss or wastage through illegal or improper disposition, contrary to Section 2 of Presidential Decree (PD) No. 1445.

7.1 We recommended that Management:

a. Revisit the 2019 RIRR for the STL and the 2017 RIRR for the Instant Sweepstakes and consider amending certain provisions relating to the printing costs of STL and Instant Sweepstakes tickets to include guidelines on the proper accounting, reporting and monitoring thereof; and

b. Require the AACs and ISAC to liquidate the amounts retained by them for the printing of STL and Sweepstakes tickets, submit the original documents to support the utilization of funds and return to PCSO any unutilized amounts.

8. Applicable taxes for draw allowances paid by PCSO in CY 2019 in the total amount of P182.087 million were not withheld, in violation of the National Internal Revenue Code (NIRC) of the Philippines and depriving the National Government of additional revenue.

8.1 We reiterated our prior year's recommendation that Management ensure compliance with Section 251 of the NIRC of 1997, as amended by RA No. 10963, and direct the concerned officials to cause the withholding of the applicable taxes from the draw allowances being paid to the concerned PCSO officials and employees and other individuals and to remit the same to the BIR.

**SUMMARY OF TOTAL SUSPENSIONS, DISALLOWANCES AND CHARGES**

As of December 31, 2019, the unsettled audit suspensions and disallowances amounted to P37.999 million and P2.076 billion, respectively. The details are presented in Part IV, Annex A of this Report.

**STATUS OF IMPLEMENTATION OF PRIOR YEAR'S AUDIT RECOMMENDATIONS**

Out of the 33 audit recommendations embodied in the previous year's Annual Audit Report, 13 were fully implemented, 14 were partially implemented and six were not implemented. Details are presented in Part III of this Report.