



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

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

June 28, 2019

THE BOARD OF DIRECTORS

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



Gentlemen/Madam:

Pursuant to Section 2, Article IX-D of the Philippine Constitution and Section 43 of Presidential Decree (PD) 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, 2018 and 2017.

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 Annex.

The Auditor expressed an adverse opinion on the fairness of the presentation of the financial statements of the PCSO in view of the following:

1. Presumptive Monthly Retail Receipts (PMRR) Shortfalls for calendar years (CYs) 2018 and 2017 in the total amounts of P7.320 billion and P7.589 billion and the corresponding amounts of Shortfalls due to PCSO totaling P3.051 billion and P2.983 billion, respectively, were not recognized in the books of PCSO despite being valid revenues and receivables from the Authorized Small Town Lottery (STL) Agents (ASAs), as defined under the Philippine Accounting Standard (PAS) 1 and the Conceptual Framework for Financial Reporting (CFFR), resulting in the understatement of revenues, Retained Earnings and receivables - STL by P7.320 billion, P2.983 billion and P6.034 billion, respectively.
2. The faithful representation of the balance of Cash and Cash Equivalents account amounting to P9.815 billion as at December 31, 2018 was not established due to various deficiencies enumerated below, contrary to Paragraph 15 of the PAS 1 and QC12 of the CFFR:
 - a. Variance of P11.882 million between the balance per books and the confirmed bank balances of the Operating Fund (OF) and Main accounts;

- b. Variance of P497.338 million between the balance per books and the confirmed bank balances of the Charity Fund (CF) and Prize Fund (PF) accounts;
 - c. Closed accounts still having outstanding balances in the books amounting to P22.254 million and P18.178 million (negative); and
 - d. Checks totalling P8.631 million already presented to and cleared by bank were erroneously included as unreleased checks that were reverted back to cash.
3. Assets generated as well as the liabilities incurred from the P2.5 billion trust fund intended for the construction of the PCSO building maintained with the Land Bank of the Philippines (LBP) were not reported separately in the Statement of Financial Position as at December 31, 2018. Instead, the equity from the said trust account in the amount of P2.603 billion was recognized under the Financial Assets at Fair Value through Other Comprehensive Income (FVOCI) account, which was tantamount to offsetting of assets and liabilities that is not allowed under Sections 32 and 33 of PAS 1, resulting in the understatement of Cash and Cash Equivalents, Receivables, Prepayments and Liabilities accounts by P509.424 million, P16.801 million, P1.549 million and P3.438 million, respectively, while the Financial Assets account was overstated by P524.336 million.
4. The Accounts Payable – Miscellaneous with a balance of P5.340 billion as at December 31, 2018 and Other Charity Expenses account totaling P198.977 million were overstated by P255.949 million and P23.348 million, respectively, while the Retained Earnings – Charity Fund account with balance of P2.772 billion was understated by P232.600 million as at December 31, 2018 due to erroneous recording of various charity expenses and payments, as follows:
 - a. Erroneous recording of expenses of P23.348 million pertaining to Individual Partnership Program (IPP) and Endowment Fund (EF) Program which were already accrued in 2015;
 - b. Over recording of expenses amounting to P26.077 million under the Purchase of Medical Equipment Program; and
 - c. Erroneous recording of payments for mandatory contributions totaling P206.523 million.
5. Cash bonds of six (6) terminated Authorized Agent Corporations/Authorized STL Agents (AACs/ASAs) totaling P497.183 million were not yet forfeited as of December 31, 2018 despite the issuance of forfeiture order/request by the Branch Operations Sector (BOS), resulting in the overstatement of the Performance Bonds Payable account with a balance of P4.044 billion by P497.183 million and misstatement of the balances of the other affected accounts by the corresponding amounts, which affected the faithful presentation of the balances of subject accounts in the financial statements as of December 31, 2018.

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

1.1 Direct the Accounting and Budget Department (ABD) to:

- a. Recognize as part of the PCSO's revenues the PMRR shortfalls incurred in CYs 2018 and 2017 and recognize as among the receivables the net amount representing unsettled PMRR shortfalls due to PCSO in 2018 and 2017.
- 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.

2.1 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 P10.574 million under OF accounts and P26.841 million under the CF/PF 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 P22.254 million overstatement of the Cash and Cash Equivalents account and the negative balance of P18.178 million, which pertained to book balances of closed Philippine National Bank (PNB) accounts; and
- d. Effect the necessary adjusting entries that will correct the P8.631 million overstatement of the Cash and Cash Equivalents and Accounts Payable accounts as of December 31, 2018 brought about by the erroneous entry reverting back to cash the issued checks that were already cleared by the concerned depository banks.

3.1 Direct the concerned accounting personnel to effect the necessary adjusting entries pertaining to the CY 2018 transactions of the trust fund with the LBP, which was intended for the construction of the PCSO building, so that the balances of the affected accounts shall faithfully represent the effects of the said transactions pursuant to Paragraph 15 of PAS 1.

4.1 Direct the concerned accounting personnel to immediately effect the necessary adjusting entries to correct the overstatements of P255.949 million and P23.348 million of the Accounts Payable-Miscellaneous and Charity Expenses accounts, respectively, as well as the understatement of the Retained Earnings – CF account by P232.600 million as at December 31, 2018.

- 4.2 Ensure compliance with Section 111 (2), Chapter 2 of Presidential Decree (PD) No. 1445 by directing the concerned accounting personnel to be more efficient and careful in the recording of the financial transactions of the PCSO to avoid inaccurate or misleading information.
- 5.1 Direct the concerned accounting personnel to effect the necessary adjusting entries to recognize in the books the forfeitures of the cash bonds of the said six (6) terminated AACs so that the balances of the Performance/Bidder's Bonds Payable account and other affected accounts shall be fairly presented in the financial statements. This should be accompanied with the actual transfer of funds to the Charity Fund, pursuant to Board Resolution No. 111, series of 2018, so that the same can be utilized to fund the various charitable programs of the PCSO, particularly the Individual Medical Assistance Program (IMAP).

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

- 6. The PMRR shortfalls due to PCSO in the amount of P4.607 billion, net of the waived PMRR amounting to P665.200 million and reduced PMRR as a result of implementation of Board Resolution No. 401, series 2018 in the amount of P761.909 million, remained unsettled as of December 31, 2018 in violation of Section 18 (e) of the Implementing Rules and Regulations (IRR) for the STL.
- 6.1 We recommended that Management intensify collection of the PMRR shortfalls due from the concerned AACs/ASAs in the total amount of P4.607 billion so that the same can be utilized for the various charitable programs of the PCSO, particularly the IMAP. Otherwise, implement Section 27 (f & g) of the Revised IRR for STL and suspend and/or revoke their Authorities to Operate (ATO) and forfeit their cash bonds corresponding to the amount of their PMRR Shortfalls.
- 7. Unremitted shortfalls in the PMRR as of December 31, 2018 were reduced by a total amount of P1.427 billion due to: (a) waived PMRR shortfalls due to PCSO amounting to P665.200 million based on various Board Resolutions; and (b) reduced PMRR as a result of implementation of Board Resolution No. 401, series 2018 in the amount of P761.909 million.
- 7.1 We recommended that Management:
 - a. Nullify the waiver given to the subject AACs and restore the PMRR shortfalls due from them in the total amount of P665.200 million considering that the PCSO Board of Directors has no authority to condone or waive valid claims by PCSO pursuant to Section 36.1 of PD No. 1445/Section 20(1), Chapter 4, Subtitle B, Title I, Book V of Executive Order (EO) No. 292 or the Administrative Code of 1987; and
 - b. Consider the possibility of recalling Board Resolution (BR) No. 0401, series of 2018 and instead, follow the provisions in the STL Agency Agreement until its renewal, in view of the undue disadvantage suffered by PCSO on account of its issuance.

8. The total amount of P684.302 million, consisting of forfeited prizes for Keno games during CYs 2015 to 2017 in the total amount of P184.302 million as well as the remaining balance of the 2017 unutilized operating fund of P500 million, were not yet transferred to the Charity Fund, contrary to Sections 6.A and 6.D of Republic Act (RA) No. 1169, otherwise known as the PCSO Charter, which could have provided the much-needed fund for the various charitable programs of the PCSO, most specially the IMAP.
- 8.1 We recommended that Management direct the concerned officials of the PCSO to immediately transfer to the CF the total amount of P684.302 million, representing forfeited prizes for Keno games and remaining unutilized CY 2017 operating fund pursuant to Sections 6.A and 6.D of RA No. 1169 to augment the funds that may be utilized for the various charity programs of the PCSO, particularly the IMAP.

The other 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 14, 2019 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 OIC-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 Management extended to the Audit Team, thus facilitating the completion of this report.

Very truly yours,

COMMISSION ON AUDIT

By:

CLEOTILDE M. TUASON
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

PHILIPPINE CHARITY SWEEPSTAKES OFFICE
STATEMENTS OF FINANCIAL POSITION
(ALL FUNDS)

As at December 31, 2018 and 2017
(In Philippine Peso)

	NOTES	2018	2017 (As Restated)	1 January 2017 (As Restated)
ASSETS				
Current Assets				
Cash and Cash Equivalents	5	9,814,627,510	10,326,306,495	5,670,760,531
Other Investments	6	1,606,912,432	3,188,621,807	3,675,813,503
Receivables	7	2,177,751,351	1,279,905,412	1,350,787,448
Inventories	8	162,535,528	36,745,275	223,776,486
Other Current Assets	9	654,049,106	29,223,921	29,532,536
		14,415,875,927	14,860,802,910	10,950,670,504
Non-Current Assets				
Financial Assets	10	2,802,512,704	2,804,680,269	2,680,616,974
Other Investments	10	385,538,351	365,933,801	365,068,855
Investment Property	11	280,701,366	281,032,298	273,240,137
Property, Plant and Equipment	12	795,329,828	787,573,703	787,580,333
Intangible Assets	13	36,487,652	48,351,955	38,872,714
Deferred Tax Assets - net	15.1	5,583,636	-	-
Other Non-Current Assets	14	4,214,378,490	3,374,902,864	784,675,586
		8,520,532,027	7,662,474,890	4,930,054,599
TOTAL ASSETS		22,936,407,954	22,523,277,800	15,880,725,103
LIABILITIES AND EQUITY				
Current Liabilities				
Financial Liabilities	16	7,764,015,907	7,965,952,505	5,723,246,498
Inter-Agency Payables	17	712,202,310	150,246,637	343,570,559
Provisions	18	4,836,933	1,676,345	4,827,644
Other Current Liabilities	19	1,977,137,813	893,375,827	776,115,750
		10,458,192,963	9,011,251,314	6,847,760,451
Non-Current Liabilities				
Financial Liabilities	20	26,517,481	28,894,257	28,888,338
Trust Liabilities	21	4,046,921,242	3,245,054,413	465,660,761
Provisions	18	171,536,519	162,352,371	84,812,205
		4,244,975,242	3,436,301,041	579,361,304
TOTAL LIABILITIES		14,703,168,205	12,447,552,355	7,427,121,755
EQUITY				
Retained Earnings	22	8,323,819,533	10,103,514,162	8,469,259,495
Cumulative Changes in Fair Value	22	(90,579,784)	(27,788,717)	(15,656,147)
		8,233,239,749	10,075,725,445	8,453,603,348
TOTAL LIABILITIES AND EQUITY		22,936,407,954	22,523,277,800	15,880,725,103

The notes on pages 11 to 89 form part of these Financial Statements.

PHILIPPINE CHARITY SWEEPSTAKES OFFICE
STATEMENTS OF COMPREHENSIVE INCOME
(ALL FUNDS)

For the Years Ended December 31, 2018 and 2017
(In Philippine Peso)

	NOTES	2018	2017 (As Restated)
INCOME			
Service and Business Income		63,051,051,834	53,962,801,435
Gains		17,139,799	1,286,296
Other Non-Operating Income		29,135,237	23,538,938
	23	63,097,326,870	53,987,626,669
EXPENSES			
Personnel Services		909,557,281	1,315,429,729
Maintenance and Other Operating Expenses		48,299,764,542	38,537,789,753
Financial Expenses		5,999,680	6,631,276
Non-Cash Expenses		70,202,559	83,059,591
	24	49,285,524,062	39,942,910,349
Profit/(Loss) Before Tax		13,811,802,808	14,044,716,320
Income Tax Expense/(Benefit)	15	627,822,438	-
Income Tax Expense/(Benefit) - Deferred	15.1	(5,583,636)	-
Profit/(Loss) After Tax		13,189,564,006	14,044,716,320
Financial Assistance/Subsidy/Contribution	24	11,678,375,035	12,654,060,832
Net Income/(Loss)		1,511,188,971	1,390,655,488
Other Comprehensive Loss for the period		(62,791,067)	(12,132,570)
Total Comprehensive Income		1,448,397,904	1,378,522,918

The notes on pages 11 to 89 form part of these Financial Statements.

PHILIPPINE CHARITY SWEEPSTAKES OFFICE
STATEMENT OF CHANGES IN EQUITY
(ALL FUNDS)

For the Years Ended December 31, 2018 and 2017
(In Philippine Peso)

	Cumulative Changes in Fair Value of Investments (Note 22)	Retained Earnings (Deficit) (Note 22)	TOTAL
BALANCE AT JANUARY 1, 2017	-	5,259,794,611	5,259,794,611
ADJUSTMENTS:			
Add/(Deduct):			
Changes in Accounting Policy	(15,656,147)	729,957,845	714,301,698
Prior Period Errors	-	79,507,039	79,507,039
Other Adjustments	-	2,400,000,000	2,400,000,000
RESTATED BALANCE AT JANUARY 1, 2017	(15,656,147)	8,469,259,495	8,453,603,348
CHANGES IN EQUITY FOR 2017			
Add/(Deduct):			
Comprehensive Income	(12,132,570)	1,390,655,488	1,378,522,918
Other Adjustments	-	415,600	415,600
BALANCE AT DECEMBER 31, 2017	(27,788,717)	9,860,330,583	9,832,541,866
ADJUSTMENTS:			
Add/(Deduct):			
Other Adjustments	-	243,183,579	243,183,579
RESTATED BALANCE AT DECEMBER 31, 2017	(27,788,717)	10,103,514,162	10,075,725,445
CHANGES IN EQUITY FOR 2018			
Add/(Deduct):			
Payment of Dividends	-	(2,535,289,114)	(2,535,289,114)
Dividends Payable	-	(755,594,486)	(755,594,486)
Comprehensive Income	(62,791,067)	1,511,188,971	1,448,397,904
BALANCE AT DECEMBER 31, 2018	(90,579,784)	8,323,819,533	8,233,239,749

The notes on pages 11 to 89 form part of these Financial Statements.

PHILIPPINE CHARITY SWEEPSTAKES OFFICE
STATEMENTS OF CASH FLOWS
(ALL FUNDS)

As at December 31, 2018 and 2017
(In Philippine Peso)

	NOTES	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash Inflows			
Proceeds from Sales	30,895,913,128	26,625,189,998	
Share From Small Town Lottery / Bingo Milyonaryo / Peryahan	-	14,073,734	
STL Agent - Remittances	9,401,855,682	5,945,368,359	
Share From Scratch Tickets	269,903,662	-	
Interest Income	28,013,414	25,383,808	
Miscellaneous Income	19,538,439	15,679,934	
Other Service Income	138,078,993	770,444,039	
Application / Filing / Processing Fees	11,619,198	11,698,203	
Inspection / Installation Fee	11,055,000	11,759,750	
Fines and Penalties	9,536,436	4,260,442	
Collection of Accounts Receivable	151,760	47,525	
Rental Income	-	11,829	
Miscellaneous Receivables / Cash Collections	454	186,055	
Cash Bond / Performance Bond / Bidder'S Bond	10,721,296	5,780,055	
Guaranty Deposits	-	163,800	
Prize Fund Seed From PGMC / POSC / Instant Sweepstakes	1,000,000	5,000,000	
Fund Transfer to / from Office of the Department Manager (Region)	-	1,700,000	
Fund Transfer to Home Office	-	11,914,836	
Total Cash Inflows	40,797,387,462	33,448,662,367	
Cash Outflows			
Prize Fund Expenses	4,613,483,805	6,008,864,630	
Maintenance and Other Operating Expenses	1,272,627,703	758,887,530	
Payments Made to Bureau of Internal Revenue	17,078,668,375	8,284,276,453	
Charity Fund Expenses	12,056,435,124	9,112,524,172	
Personal Services Expenses	866,038,056	1,261,739,846	
Inventories-Office Supplies,Thermal Rolls and Betslips,Etc.	328,523,569	184,204,511	
Payment of Liabilities	3,026,680,688	3,404,641,900	
Cash Advance / Due from Officers and Employees	61,856,921	48,504,561	
Payments Made to GSIS, Pag-IBIG, Philhealth and etc.	13,165,638	15,265,043	
Prepayments	20,684,073	1,224,447	
Garnishment	707,223,555	-	
Guaranty Deposits	11,442,190	-	
Payment of Other Liabilities	192,405,316	90,845,102	
Fund Transfer to / from Office of the Department Manager (Region)	-	6,051,744	
Fund Transfer to Home Office	20,736,735	19,051,829	
Total Cash Outflows	40,269,971,748	29,196,081,768	
Net Cash Provided by (Used in) Operating Activities	527,415,714	4,252,580,599	
CASH FLOWS FROM INVESTING ACTIVITIES			
Cash Inflows			
Termination of Short-Term Investments	1,627,165,203	548,933,450	
Disposal of Assets	54,240	14,167	
Total Cash Inflows	1,627,219,443	548,947,617	
Cash Outflows			
Investment and Other Marketable Securities	-	100,000,000	
Other Assets	317,836	110,679	
Purchase of Equipment	39,082,801	4,073,378	
Purchase of It Equipment	43,525,179	41,057,155	
Purchase of Furniture and Fixtures	1,240,188	328,729	
Purchase of Medical Dental / Hospital Equipment	26,508,100	-	
Construction of Office Building	16,810,325	-	
Leasehold Improvement / Renovation	3,540,599	412,311	
Total Cash Outflows	131,025,028	145,982,252	
Net Cash Provided By (Used In) Investing Activities	1,496,194,415	402,965,365	
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash Outflows			
Payment of Dividends	(2,535,289,114)	-	
Net Cash Provided By (Used In) Investing Activities	(2,535,289,114)	-	

	NOTES	2018	2017
Increase (Decrease) In Cash And Cash Equivalents		(511,678,985)	4,655,545,964
Cash and Cash Equivalent at January 1		10,326,306,495	5,670,760,531
CASH AND CASH EQUIVALENTS, DECEMBER 31	5	9,814,627,510	10,326,306,495

The notes on pages 11 to 89 form part of these Financial Statements.