Report of Independent Auditors

Michael G. Aguinaldo
Chairperson
Commission on Audit
Commonwealth Avenue, Diliman
Quezon City

Report on the Audit of the Project Financial Statements

Opinion

We have audited the accompanying project financial statements of the Commission on Audit (the Commission) covering the Capacity Development Support for the Commission on Audit Project under Grant Number TFOA1 162 (the Project). These project financial statements, which are prepared from the books of accounts maintained by the Commission for the Project, are comprised of the statement of financial position as at December 31, 2017, and the statement of funds received and uses of funds, statement of expenditures by project component, statement of designated accounts and the statement of cash receipts and payments for the year then ended and a summary of significant accounting policies and other explanatory information.

In our opinion, the project financial statements present fairly, in all material respects, the financial position of the Project as at December 31, 2017, and of the funds received and expenses incurred for the year then ended, as carried in the books of accounts maintained by the Commission for the Project, in accordance with the accounting policies described in Note 2 to the project financial statements, the guidelines of the International Bank for Reconstruction and Development (the World Bank), and the relevant terms of the grant agreement.
Basis for Opinion

We conducted our audit in accordance with Philippine Standards on Auditing (PSA). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Project Financial Statements section of our report. We are independent of the Commission in accordance with the Code of Ethics for Professional Accountants in the Philippines (Code of Ethics) together with the ethical requirements that are relevant to our audit of the project financial statements in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Matter

This report is intended for the information of the Commission and the World Bank. However, upon release by the World Bank, this report is a matter of public record and its distribution is not limited.

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

Management is responsible for the preparation and fair presentation of the project financial statements in accordance with the accounting policies described in Note 2 to the project financial statements, the World Bank guidelines, and the relevant terms of the agreement, and for such internal control as management determines is necessary to enable the preparation of these project financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors' Responsibilities for the Audit of the Project Financial Statements

Our objectives are to obtain reasonable assurance about whether the project financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' 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 PSA will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these project financial statements.

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

- Identify and assess the risks of material misstatement of the project 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 Commission's internal control.

Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

Evaluate the overall presentation, structure and content of the project financial statements, including the disclosures, and whether the project financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

PUNONGBAYAN & ARAULLO

By: Renan A. Piamonte
Partner

CPA Reg. No. 0107805
TIN 221-843-037
PTR No. 7333700, January 3, 2019, Makati City
SEC Group A Accreditation
Partner - No. 1393-AR-1 (until Mar. 1, 2020)
Firm - No. 0002-FR-5 (until Mar. 26, 2021)
BIR AN 08-002811-37-2016 (until Oct. 3, 2019)
Firm's BOA/PRC Cert. of Reg. No. 0002 (until Jul. 24, 2021)

April 30, 2019
COMMISSION ON AUDIT  
STATEMENT OF FINANCIAL POSITION  
DECEMBER 31, 2017  

COVERING THE  
SUPREME AUDIT INSTITUTION CAPACITY DEVELOPMENT FUND  
CAPACITY DEVELOPMENT SUPPORT FOR THE  
COMMISSION ON AUDIT PROJECT  
(SAI CAPACITY DEVELOPMENT FUND GRANT NO. TF0A1162) 

Notes

**ASSETS**

**CURRENT ASSETS**
- Cash and cash equivalents 3  P  8,834,262
- Receivables 4  16,128
- Other assets 4  239,235

Total Current Assets 9,089,625

**NON-CURRENT ASSET**
- Information and communication equipment 5  724,000

**TOTAL ASSETS**
P  9,813,625

**LIABILITIES AND FUND BALANCE**

**CURRENT LIABILITIES**
- Financial liabilities 6  P  2,423,332
- Inter-agency payables 6  12,593
- Other payables 6  52,821

Total Liabilities 2,488,746

**FUND BALANCE**
- Accumulated surplus (deficit) 2  7,324,879

**TOTAL LIABILITIES AND FUND BALANCE**
P  9,813,625

*See Notes to Project Financial Statements.*
COMMISSION ON AUDIT  
STATEMENT OF FUNDS RECEIVED AND USES OF FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2017  

COVERING THE  
SUPREME AUDIT INSTITUTION CAPACITY DEVELOPMENT FUND  
CAPACITY DEVELOPMENT SUPPORT FOR THE COMMISSION ON AUDIT PROJECT  
(SAI CAPACITY DEVELOPMENT FUND GRANT NO. TF0A1162)  

<table>
<thead>
<tr>
<th>Fund Income:</th>
<th>FOR THE YEAR ENDED DECEMBER 31, 2017</th>
<th>ACCUMULATED TO-DATE</th>
</tr>
</thead>
<tbody>
<tr>
<td>SAI Capacity Development Fund Grant</td>
<td>P 14,040,420</td>
<td>P 14,040,420</td>
</tr>
<tr>
<td>Interest Income</td>
<td>4,706</td>
<td>4,706</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Uses of Funds*</th>
<th>FOR THE YEAR ENDED DECEMBER 31, 2017</th>
<th>ACCUMULATED TO-DATE</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Adoption and Implementation of International Standard of Supreme Audit Institution-based Philippine Public Sector Standards on Auditing</td>
<td>2,585,917</td>
<td>2,645,113</td>
</tr>
<tr>
<td>2. Development and Adoption of a Specialized Audit Manual for Disaster-related Funds and Activities</td>
<td>3,833,784</td>
<td>3,912,946</td>
</tr>
</tbody>
</table>

| Effects of exchange rate changes | (162,188) | (162,188) |

| EXCESS OF FUNDS RECEIVED OVER EXPENDITURES | P 7,463,237 | P 7,324,879 |

* Please refer to the Statement of Expenditures by Project Component for the breakdown of expenditures incurred.

See Notes to Project Financial Statements.
**COMMISSION ON AUDIT**  
**STATEMENT OF EXPENDITURES BY PROJECT COMPONENT**  
**FOR THE YEAR ENDED DECEMBER 31, 2017**  
**COVERING THE**  
**SUPREME AUDIT INSTITUTION CAPACITY DEVELOPMENT FUND**  
**CAPACITY DEVELOPMENT SUPPORT FOR THE**  
**COMMISSION ON AUDIT PROJECT**  
**(SAI CAPACITY DEVELOPMENT FUND GRANT NO. TF0A1162)**

| Component 1 - Adoption and Implementation of  
| International Standard of Supreme Audit  
<table>
<thead>
<tr>
<th>Institution-based Philippine Public Sector Standards on Auditing</th>
<th>Notes</th>
<th>FOR THE YEAR ENDED DECEMBER 31, 2017</th>
<th>ACCUMULATED TO-DATE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trainings</td>
<td>7</td>
<td>P</td>
<td>2,250,449</td>
</tr>
<tr>
<td>Operating costs</td>
<td>8</td>
<td></td>
<td>335,468</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td></td>
<td><strong>2,585,917</strong></td>
</tr>
</tbody>
</table>

| Component 2 - Development and Adoption of a  
| Specialized Audit Manual for Disaster-related  
<table>
<thead>
<tr>
<th>Funds and Activities</th>
<th>Notes</th>
<th>FOR THE YEAR ENDED DECEMBER 31, 2017</th>
<th>ACCUMULATED TO-DATE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trainings</td>
<td>7</td>
<td></td>
<td>3,741,277</td>
</tr>
<tr>
<td>Operating costs</td>
<td>8</td>
<td></td>
<td>92,507</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td></td>
<td><strong>3,833,784</strong></td>
</tr>
</tbody>
</table>

| TOTAL EXPENDITURES | | **P 6,419,701** | **P 6,558,059** |

*See Notes to Project Financial Statements.*
Commission on Audit
Statement of Designated Accounts
For the Year Ended December 31, 2017
Covering the
Supreme Audit Institution Capacity Development Fund
Capacity Development Support for the Commission on Audit Project
(SAI Capacity Development Fund Grant No. TF0A1162)

Bank: Land Bank of the Philippines
Account number: 1694-0077-04

Funds received from World Bank P 14,040,420
Project fund balance at beginning of year P 138,358
Balance of the designated account as of December 31, 2017 8,834,262
Total amount of expenditures claimed during the year 6,419,701

Other reconciling items:
- Financial liabilities (2,423,332)
- Acquisition of communication and information equipment 800,000
- Other assets 239,235
- Depreciation (76,000)
- Other payables (52,821)
- Receivables 16,128
- Inter-agency payables (12,593)
- Interest income (4,706)
- Effects of exchange rate changes 162,188

Total funds received as accounted for P 14,040,420

See Notes to Project Financial Statements.
CASH FLOWS FROM OPERATING ACTIVITIES

Cash Inflows
- Receipt of notice of cash allocation: P 14,040,420
- Receipt of refund of cash advances: 89,339
- Collection of interest income: 4,706
- Other adjustments: 5,069
  Total Cash Inflows: 14,139,534

Cash Outflows
- Payment of training and operating costs: (3,358,445)
- Grant of cash advances: (791,800)
- Remittance of taxes withheld: (105,870)
- Release of intra-agency fund transfers: (86,969)
  Total Cash Outflows: (4,343,084)

Net Cash From Operating Activities: 9,796,450

CASH FLOWS FROM AN INVESTING ACTIVITY

- Acquisition of information and communication equipment: (800,000)

Effect of Exchange Rate Changes on Cash in Bank: (162,188)

Increase in Cash in Bank: 8,834,262

CASH IN BANK AT THE BEGINNING OF YEAR

CASH IN BANK AT END OF YEAR: P 8,834,262

See Notes to Project Financial Statements.
1. PROJECT INFORMATION

1.1 The Implementing Organization

The Commission on Audit (COA or the Commission) is an independent constitutional commission established by the Constitution of the Republic of the Philippines. It has the primary function to examine, audit and settle all accounts pertaining to the revenue and receipts of, and expenditures or uses of funds and property owned or held in trust by, or pertaining to, the government. It also promulgates accounting and auditing rules and regulations including those for the prevention and disallowance of irregular, unnecessary, excessive, extravagant or unconscionable expenditures, or uses of government funds and properties.

The head office of Commission is located at Commonwealth Avenue, Quezon City.

1.2 Project Description

In 2015, the International Bank for Reconstruction and Development (the World Bank), acting as administrator of grant funds provided by multiple donors under the Supreme Audit Institution Capacity Development Fund, extended to the Commission a grant in an amount not to exceed United States (U.S.) $278,000. The fund is for Capacity Development Support to the Commission on Audit under Grant No. TF0A1162 (the Project). The Project's objective is to increase uniformity of practice of audit and assurance services provided by the Supreme Audit Institutions of the Philippines (Commission on Audit) and promote its compliance with international audit guidelines and best practices in the specialized area of disaster related activities. The Commission started the project in 2016.

The Project components are as follows:

1. Adoption and Implementation of International Standard of Supreme Audit Institution (ISSAI)-based Philippine Public Sector Standards on Auditing (PPSSA).

   Provision of technical assistance in the following:

   • professional staff capacity development by providing training on level 4 ISSAIs and the iCATs; and,

   • organizational system capacity development through adoption and dissemination of PPSSAs along with guidance and practice notes, and audit manuals.
2. Development and Adoption of a Specialized Audit Manual for Disaster-related Funds and Activities

- provision of technical assistance in the professional staff capacity development by providing training on accounting and auditing guidelines related to Disaster Risk Reduction and Management Fund; and,

- development of a specialized audit manual as a guide for the audit of disaster-related funds.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of Preparation

The accompanying project financial statements have been prepared and maintained on the accrual basis in accordance with the Philippine Public Sector Accounting Standards.

2.2 Functional and Presentation Currency

The accompanying project financial statements are presented in Philippine Peso (PHP), the currency of the country in which the Project is operating.

2.3 Cash and Cash Equivalents

Cash and cash equivalents include bank deposit that is restricted to specific purposes bound by the contracted agreements.

2.4 Receivables and Other Assets

Receivable and other assets comprise of cash advances to officers and employees for project expenses.

2.5 Information and Communication Equipment

Items of information and communication equipment are measured at cost less accumulated depreciation and any accumulated impairment losses. The cost of an asset comprises its purchase price and directly attributable costs of bringing the asset to working condition for its intended use. Expenditures for additions, major improvements and renewals are capitalized while expenditures for repairs and maintenance are charged to expense during the period in which they are incurred.

Depreciation on information and communication equipment is calculated using the straight-line method over its estimated useful life of five years.

2.6 Financial Liabilities, Inter-Agency and Other Payables

Financial liabilities, inter-agency and other payables are obligations on the basis of normal credit terms and do not bear interest.
2.7 Accumulated Surplus (Deficit)

The amount included in fund balance includes accumulated excess of grant funds received over expenses reduced by funds returned to funding agencies/partners and other adjustments.

2.8 Grant Funds

The World Bank advances grant funds into a designated account of the Commission to finance eligible expenditures for the Project and for which supporting documents are provided at a later date.

2.9 Costs and Expenses

Costs and expenses are decreases in economic benefits during the accounting period in the form of outflows or decrease of assets or incurrence of liabilities that result in decreases in fund balance. Costs and expenses are recognized in the statement of funds received and uses of funds when paid rather than when the obligation is incurred, except for accrual of certain personnel, benefits, and other operating costs.

2.10 Foreign Currency Transactions and Translation

The accounting records of the Commission are maintained in Philippine pesos. Foreign currency gains and losses resulting from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currency are recognized in the statement of funds received and uses of funds.

2.11 Provisions

Provisions, if any, are recognized when the Project has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

2.12 Contingencies

Contingent liabilities are not recognized in the project financial statements. They are disclosed in the notes to the project financial statements unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the project financial statements but are disclosed in the notes to project financial statements when an inflow of economic benefits is probable.

2.13 Events After the End of the Reporting Period

Any post-year-end event that provides additional information about the Project's financial position at the end of the reporting period (adjusting event) is reflected in the project financial statements. Post-year-end events that are not adjusting events, if any, are disclosed when material to the project financial statements.
3. CASH AND CASH EQUIVALENTS

As of December 31, 2017, the Project has cash in bank amounting to P8,834,262. Cash in bank generally earns interest based on daily bank deposit rates. Interest income earned on savings deposits amounted to P4,706 for the year ended December 31, 2017.

4. RECEIVABLES AND OTHER ASSETS

The composition of these accounts as of December 31, 2017 is as follows:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Receivables</td>
<td>P 16,128</td>
</tr>
<tr>
<td>Other receivables</td>
<td></td>
</tr>
<tr>
<td>Other assets</td>
<td></td>
</tr>
<tr>
<td>Advances to special disbursing officer</td>
<td>239,235</td>
</tr>
<tr>
<td>Total</td>
<td>P 255,363</td>
</tr>
</tbody>
</table>

5. INFORMATION AND COMMUNICATION EQUIPMENT

The gross carrying amounts and accumulated depreciation of information and communication equipment as of December 31, 2017 are shown below.

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost</td>
<td>P 800,000</td>
</tr>
<tr>
<td>Additions during the year</td>
<td></td>
</tr>
<tr>
<td>Accumulated depreciation</td>
<td></td>
</tr>
<tr>
<td>Depreciation during the year</td>
<td>(76,000)</td>
</tr>
<tr>
<td>Total</td>
<td>P 724,000</td>
</tr>
</tbody>
</table>

Depreciation charges are recorded under Operating Costs in the statement of expenditures by project component.

6. FINANCIAL LIABILITIES, INTER-AGENCY AND OTHER PAYABLES

The composition of these accounts as of December 31, 2017 is as follows:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial liabilities</td>
<td></td>
</tr>
<tr>
<td>Accounts payable</td>
<td>P 594,530</td>
</tr>
<tr>
<td>Due to officers and employees</td>
<td>1,828,802</td>
</tr>
<tr>
<td>Inter-agency payables</td>
<td></td>
</tr>
<tr>
<td>Due to Bureau of Internal Revenue</td>
<td>12,593</td>
</tr>
<tr>
<td>Other payables</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>P 2,488,746</td>
</tr>
</tbody>
</table>
7. **TRAININGS**

Trainings represent expenditures incurred by the Commission to conduct training, including purchase of supplies and materials, meals and accommodation, and other training-related costs.

The details of training expenses by nature are shown below.

<table>
<thead>
<tr>
<th></th>
<th>For the Year Ended December 31, 2017</th>
<th>Accumulated To-date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Travel and transportation</td>
<td>P 3,396,472</td>
<td>P 3,396,472</td>
</tr>
<tr>
<td>Meals and accommodation</td>
<td>2,533,417</td>
<td>2,657,817</td>
</tr>
<tr>
<td>Supplies and materials</td>
<td>57,337</td>
<td>57,337</td>
</tr>
<tr>
<td>Others</td>
<td>4,500</td>
<td>4,500</td>
</tr>
<tr>
<td></td>
<td>P 5,991,726</td>
<td>P 6,116,126</td>
</tr>
</tbody>
</table>

The summary of training expenses incurred by each project component is shown below.

<table>
<thead>
<tr>
<th>Component</th>
<th>For the Year Ended December 31, 2017</th>
<th>Accumulated To-date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Component 1</td>
<td>P 2,250,449</td>
<td>P 2,309,345</td>
</tr>
<tr>
<td>Component 2</td>
<td>3,741,277</td>
<td>3,806,781</td>
</tr>
<tr>
<td></td>
<td>P 5,991,726</td>
<td>P 6,116,126</td>
</tr>
</tbody>
</table>

8. **OPERATING COSTS**

Operating costs mean reasonable recurrent expenditures incurred by Commission required for the implementation, monitoring and evaluation of the Project.

The details of operating costs by nature are shown below.

<table>
<thead>
<tr>
<th></th>
<th>For the Year Ended December 31, 2017</th>
<th>Accumulated To-date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Professional fees</td>
<td>P 208,919</td>
<td>P 208,919</td>
</tr>
<tr>
<td>Representation</td>
<td>135,580</td>
<td>149,538</td>
</tr>
<tr>
<td>Depreciation</td>
<td>76,000</td>
<td>76,000</td>
</tr>
<tr>
<td>Others</td>
<td>7,476</td>
<td>7,476</td>
</tr>
<tr>
<td></td>
<td>P 427,975</td>
<td>P 441,933</td>
</tr>
</tbody>
</table>

The summary of operating costs incurred by each project component is shown below.

<table>
<thead>
<tr>
<th>Component</th>
<th>For the Year Ended December 31, 2017</th>
<th>Accumulated To-date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Component 1</td>
<td>P 335,468</td>
<td>P 335,768</td>
</tr>
<tr>
<td>Component 2</td>
<td>92,507</td>
<td>106,165</td>
</tr>
<tr>
<td></td>
<td>P 427,975</td>
<td>P 441,933</td>
</tr>
</tbody>
</table>