**EXECUTIVE SUMMARY**

**INTRODUCTION**

The National Tobacco Administration (NTA) with business address at Scout Reyes, corner Panay Avenue, Quezon City is an attached agency of the Department of Agriculture operating under the administration of Mr. Robert Victor G. Seares, Jr., the Head of the Agency. It is created under Executive Order (EO) No. 116 dated January 30, 1987, which was implemented by EO No. 245 dated July 24, 1987. Under EO No. 245, seven tobacco agencies were merged to the NTA, namely, Philippine Tobacco Administration; Philippine Virginia Tobacco Administration; Philippine Virginia Tobacco Board; Philippine Tobacco Research and Training Center; Virginia Tobacco Fuel Wood Corporation; Virginia Flue-Curing Board; and National Tobacco Classification Council.

The NTA is mandated to: (a) improve the economic and living conditions and raise the quality of life of the tobacco farmers including those who depend upon the industry for their livelihood; and (b) promote the balanced and integrated growth and development of the industry and help make agriculture a solid base for massive industrialization. The Agency also administers and regulates the tobacco industry of the Philippines.

As at December 31, 2019, NTA’s manpower complement consisted of 273 regular personnel and 205 job order employees, of whom 38 were assigned in the Central Office (CO), 132 in the Branch Offices (BOs), 30 at the AgriPinoy Tobacco Food Processing and Trading Center, five at Tobacco Dust Processing Plant in Sto. Tomas, La Union, and 35 trading clerks.

**FINANCIAL HIGHLIGHTS (In Million Pesos)**

**I. Comparative Financial Position**

|  |  |  |  |
| --- | --- | --- | --- |
|  | **2019** | **2018** | **Increase (Decrease)** |
| Total assets | 1,842.434 | 1,818.838 | 23.596 |
| Total liabilities | 350.197 | 350.437 | (0.240) |
| Net assets/equity | 1,492.237 | 1,468.401 | 23.836 |

**II. Comparative Financial Performance**

|  |  |  |  |
| --- | --- | --- | --- |
|  | **2019** | **2018** | **Increase**  **(Decrease)** |
| Total revenues | 130.796 | 161.885 | (31.089) |
| Total operating expenses | 537.673 | 575.093 | (37.420) |
| Deficit from current operations | (406.877) | (413.208) | 6.331 |
| Other non-operating income | 15.447 | 1.144 | 14.303 |
| Subsidy income from the national government | 401.370 | 345.530 | 55.840 |
| Net surplus/(deficit) | 9.940 | (66.534) | 76.474 |

**III. Comparison of Budget and Actual Amounts**

|  | **Budget** | **Actual** | **Difference** |
| --- | --- | --- | --- |
| Personnel services | 244.360 | 243.022 | 1.338 |
| Maintenance and other operating expenses | 216.195 | 187.920 | 28.275 |
| Investment outlay | 385.283 | 236.887 | 148.396 |
| Capital outlay | 157.372 | 65.496 | 91.876 |
| Financial expenses | 0.049 | 0.048 | 0.001 |
| Accounts payable | - | 20.432 | (20.432) |
|  | 1,003.259 | 753.805 | 249.454 |

**SCOPE OF AUDIT**

The audit covered the examination, on a test basis, of the accounts and financial transactions of NTA for the period January 1 to December 31, 2019 in accordance with International Standards of Supreme Audit Institutions to enable us to express an opinion on the fairness of the presentation of the financial statements for the years ended December 31, 2019 and 2018. Also, we conducted our audit to assess compliance with pertinent laws, rules and regulations, as well as, adherence to prescribed policies and procedures.

**INDEPENDENT AUDITOR’S REPORT ON THE FINANCIAL STATEMENTS**

We rendered a qualified opinion on the fairness of the presentation of the financial statements due to inadequate provision for impairment losses, contrary to Paragraphs 67 and 68 of Philippine Public Sector Accounting Standard (PPSAS) 29 and NTA’s policy on the measurement and revaluation of Receivables, as such, Allowance for Impairment Losses was understated by P99.662 million while Accumulated Surplus was overstated for the same amount as at December 31, 2019.

For the above observation, which caused the issuance of a qualified opinion, we recommended that the Management instruct the CO and BOs’ Accountants to recalculate and adjust the Allowance for Impairment Losses to fairly present the Receivables, Other Current and Non-Current Assets accounts in the financial statements, in compliance with the pertinent provisions of PPSAS 29 and NTA’s policy on impairment losses.

**OTHER SIGNIFICANT AUDIT OBSERVATIONS AND RECOMMENDATIONS**

1. The collections from Supervision and Regulation Enforcement (S&RE) fees for Calendar Year (CY) 2019 amounting to P79.109 million, fell short by P93.537 million or 54.18 per cent as compared to the projected collection of P172.646 million due to strict regulation on anti-smoking and increase in tobacco excise tax, which resulted in decrease in revenue from collections of S&RE fees by P36.152 million or 31.37 per cent from CY 2018 to CY 2019.

1.1 We recommended that Management instruct the Manager of the Regulation and Finance Departments to prepare realistic and attainable projected revenue in order to accomplish and implement projected programs/activities/projects, thus, attaining its objectives and benefiting the intendedbeneficiaries.

1. Only P112.788 million or 34 per cent were collected during the year, out of the P331.770 million due for collections in CY 2019 representing loans granted to farmer-beneficiaries in NTA Pangasinan, Abra, Vigan and La Union BOs, showing low collection efficiency. Thus, NTA was deprived of additional funds for its operations for the attainment of its mandate. Moreover, in Cagayan BO, the significant decline in collection efficiency by 39.39 per cent, specifically on the Rice Production Project under the Integrated Farming and Other Income Generating Project, was due to the change of type of loan from cash to fertilizer distribution.
   1. We recommended that Management:
2. Limit the loans to be extended to viable projects;
3. Consider granting loans only to tobacco-farmers with good credit standing;
4. Deduct from the proceeds of new loans the unpaid balances to prevent accumulation of arrearages;
5. Intensify collection efforts by sending regular Statement of Accounts, then demand letters, either personally or through registered mail with return card;
6. Initiate legal action against defaulting farmer-beneficiaries with long overdue accounts, if no settlement made despite demand letters sent;
7. Consider granting loan in cash to enable the farmer-beneficiaries to immediately procure the fertilizers necessary for their farmlands and crops; and
8. Monitor and evaluate the financial activities of BOs and ensure that accounting procedures and control measures are in place to attain a higher collection efficiency rate of loans receivable.

**AUDIT DISALLOWANCES, CHARGES AND SUSPENSIONS**

As of December 31, 2019, total unsettled audit disallowances, charge and suspension amounted to P30.591 million, P54,280 and P128.408 million, respectively. Of the total 49 Notices of Disallowances (NDs), 27 were issued with Notices of Finality of Decision and COA Orders of Execution and two NDs with partial settlement through payroll deduction. Eight NDs are under Appeal while 12 with Petition for Review before the Commission Proper. There were partial settlements on the Notice of Charge and Notice of Suspension. The details and status of the unsettled disallowances, charge and suspension are presented in Annex A of this Report.

**STATUS OF IMPLEMENTATION BY THE AUDITEE OF PRIOR YEARS’ AUDIT RECOMMENDATIONS**

Of the 48 audit recommendations embodied in the Annual Audit Reports for CYs 2018 and prior years, 10 were fully implemented, thus, deleted and excluded in this Report. Six were not implemented; 30 were partially implemented; and two were revised and reformulated to be more specific, measurable and doable. The details of the prior years’ audit recommendations are presented in Part III of this Report.