



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

**CORPORATE GOVERNMENT SECTOR**  
**Cluster 5 – Agricultural and Natural Resources**

September 17, 2020

**Mr. ROBERT VICTOR G. SEARES, JR.**

Administrator  
National Tobacco Administration  
Scout Reyes corner Panay Avenue  
Quezon City



**Dear Mr. Seares:**

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 **National Tobacco Administration (NTA)** for the years ended December 31, 2019 and 2018.

The report consists of the Independent Auditor's Report, the Audited Financial Statements, the Observations and Recommendations, the Status of Implementation of Prior Years' Recommendations, and Annex.

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 Central Office and Branch Offices' (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.

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

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 intended beneficiaries.

2. 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.

2.1 We recommended that Management:

- a. Limit the loans to be extended to viable projects;
- b. Consider granting loans only to tobacco-farmers with good credit standing;
- c. Deduct from the proceeds of new loans the unpaid balances to prevent accumulation of arrearages;
- d. Intensify collection efforts by sending regular Statement of Accounts, then demand letters, either personally or through registered mail with return card;
- e. Initiate legal action against defaulting farmer-beneficiaries with long overdue accounts, if no settlement made despite demand letters sent;
- f. Consider granting loan in cash to enable the farmer-beneficiaries to immediately procure the fertilizers necessary for their farmlands and crops; and
- g. 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.

The audit 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 September 14, 2020, are discussed in detail in Part II of the Report. We also invite your attention to the prior years' unimplemented and partially implemented audit recommendations embodied in Part III of the Report.




We respectfully request that the recommendations contained in Part II of the Report be implemented and that this Commission be informed of the actions taken thereon by accomplishing the Agency Action Plan and Status of Implementation Form (copy attached) and returning the same to us within 60 days from the date of receipt hereof.

We acknowledge the support and cooperation that Management extended to the Audit Team, thus facilitating the completion of the report.

Very truly yours,

**COMMISSION ON AUDIT**

By:

  
**MARY S. ADELINO**  
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 Bureau of the Treasury*  
*The Governance Commission for Government-Owned or Controlled Corporations*  
*The Presidential Commission on Good Government*  
*The National Library*  
*The UP Law Center*



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

**CORPORATE GOVERNMENT SECTOR**  
**Cluster 5 – Agricultural and Natural Resources**

September 17, 2020

OFFICE OF THE ADMINISTRATOR  
**NTA RECEIVED**

NAME: \_\_\_\_\_  
DATE: 17 SEP 2020 *[Signature]*

**THE BOARD OF DIRECTORS**

National Tobacco Administration  
Scout Reyes corner Panay Avenue  
Quezon City

**Gentlemen:**

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 **National Tobacco Administration (NTA)** for the years ended December 31, 2019 and 2018.

The report consists of the Independent Auditor's Report, the Audited Financial Statements, the Observations and Recommendations, the Status of Implementation of Prior Years' Recommendations, and Annex.

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 Central Office and Branch Offices' (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.

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

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 intended beneficiaries.

2. 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.

2.1 We recommended that Management:

- a. Limit the loans to be extended to viable projects;
- b. Consider granting loans only to tobacco-farmers with good credit standing;
- c. Deduct from the proceeds of new loans the unpaid balances to prevent accumulation of arrearages;
- d. Intensify collection efforts by sending regular Statement of Accounts, then demand letters, either personally or through registered mail with return card;
- e. Initiate legal action against defaulting farmer-beneficiaries with long overdue accounts, if no settlement made despite demand letters sent;
- f. Consider granting loan in cash to enable the farmer-beneficiaries to immediately procure the fertilizers necessary for their farmlands and crops; and
- g. 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.

The audit 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 September 14, 2020, are discussed in detail in Part II of the Report. We also invite your attention to the prior years' unimplemented and partially implemented audit recommendations embodied in Part III of the Report.

In our transmittal letter of even date, we request the Administrator of NTA 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 the report.

Very truly yours,

**COMMISSION ON AUDIT**

By:

  
**MARY S. ADELINO**  
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 Bureau of the Treasury  
The Governance Commission for Government-Owned or Controlled Corporations  
The Presidential Commission on Good Government  
The National Library  
The UP Law Center*