



Republic of the Philippines
Department of Environment and Natural Resources
Visayas Avenue, Diliman, Quezon City
Tel Nos. (632) 929-6626 to 29, (632) 929-6252
929-6620, 929-6633 to 35
929-7041 to 43

MEMORANDUM

TO : **The Regional Executive Directors**
Regions 4A-6, 8-12 and CAR

FROM : **The Assistant Secretary**
Finance, Information Systems and Mining Concerns

SUBJECT : **AUDIT OBSERVATION MEMORANDUM (AOM) NO. 2020-016,**
RE: UNRELIABILITY OF THE CARRYING AMOUNT OF LAND
IMPROVEMENTS AND CONSTRUCTION IN PROGRESS –
LAND IMPROVEMENTS DUE TO INCLUSION OF LUMP-SUM
ITEMS TAGGED AS “VARIOUS” AND “FOR
RECONCILIATION”

DATE : **21 SEP 2020**

This refers to the AOM No. 2020-016, regarding the carrying amount of the Consolidated Land Improvements (LI) and Consolidated Construction in Progress – Land Improvements (CIP-LI) accounts of ₱11.220 billion and ₱25.461 billion, respectively, as of December 31, 2019 which were unreliable and its existence and validity could not be ascertained due to the inclusion of lump-sum items tagged as “various” and “for reconciliation” amounting to ₱2.466 billion and ₱2.328 billion, respectively.

The audit observation revealed that some items of LI and CIP-LI were lump-sum and tagged as either “various” or “for reconciliation” and without any details as to the description of the property/project, exact location, name of contractor and the implementation agency. The total amounts for the Consolidated LI and CIP-LI are ₱2.466 billion and ₱2.328 billion, respectively, which represents 22% and 9% of the total carrying amount of the two accounts, as shown below:

Office	Land Improvements	CIP-Land Improvements
Region 4A	₱ 115,821,135.32	₱ -
Region 4B	205,776,854.02	-
Region 5	39,150,333.00	-
Region 6	68,177,800.04	458,270,066.83
Region 8	1,014,283,499.41	1,051,388,819.24
Region 9	82,884,549.78	147,630,211.57
Region 10	2,050,165.12	345,110,492.56
Region 11	95,292,570.99	324,789,326.72
Region 12	181,290,209.01	-
CAR	661,542,012.51	1,244,645.80
Total	2,466,269,129.20	2,328,433,562.72

Office	Land Improvements	CIP-Land Improvements
Total Carrying Amount	₱ 11,220,352,558.91	₱ 25,461,050,361.61
	22%	9%

It was recommended in the AOM that the Regional Accountants should:

- a. Exert extra effort to locate the necessary documents/information details of the balances tagged as “various” and “for reconciliation” in coordination with the concerned Accountants at the Bureaus and the Regional Offices;
- b. Maintain complete and updated Property, Plant and Equipment Ledger Cards (PPELC), and undertake regular analyses and monitoring of all accounts recorded in the books and do corrective actions immediately;
- c. Consider requesting for write-off of the undocumented dormant items from COA following the required procedures in COA Circular No. 97-001 dated 05 February 1997, as maybe allowed, after exhausting all efforts and substantiation of the projects proved futile; and
- d. Defer issuance of clearances to resigning/retiring personnel until such time that a full accounting of their accountability and responsibility have been complied with, and liability, if any, has been settled.

Please comply with the above audit recommendations and submit the updated schedule of LI and CIP-LI to the DENR-CO, Financial and Management Service – Accounting Division.

For any clarifications, please contact Mr. Francis Jan V. Castro at tel No. 8928-0254 and VOIP Nos. 1019 and 1020 or email at francis24.jan@gmail.com

For immediate compliance.


NONITA S. CAGUIOA



Republic of the Philippines
COMMISSION ON AUDIT



Office of the Auditor
Department of Environment and Natural Resources
Central Office
DENR Compound, Visayas Ave., Diliman, Quezon City

AUDIT OBSERVATION MEMORANDUM (AOM)

AOM No.:2020-016

Date: 4 September 2020

For: **Hon. Secretary Roy A. Cimatu**
Department of Environment and Natural Resources
Visayas Ave, Diliman, Quezon City

Attention: **Wilfredo J. Obien**
OIC Director
Financial Management Service

Ms. Diña M. Nillosan
Chief, Accounting Division

We have examined the Consolidated Land Improvements and Consolidated Construction in Progress – Land Improvements accounts of the Department as of 31 December 2019 and noted that:

The carrying amount of the Consolidated Land Improvements and Consolidated Construction in Progress – Land Improvements accounts of ₱11.220 billion and ₱25.461 billion, respectively, as of December 31, 2019 were unreliable and its existence and validity could not be ascertained due to the inclusion of lump-sum items tagged as “various” and “for reconciliation” amounting to ₱2.466 billion and ₱2.328 billion, respectively.

1. The accounts of an agency shall be kept in such detail as necessary to meet the needs of the agency and at the same time be adequate to furnish the information needed by fiscal or control agencies of the government.¹
2. Sound financial control requires, among others, that financial transactions should be well documented in order to establish their validity/reliability and adherence to prescribed policies and procedures.
3. The responsibility for the fair presentation and reliability of financial statements rests with the management of the reporting entity, particularly the head of finance/accounting office and the head of entity or his authorized representative.²

¹ Section 111 (1), Presidential Decree 1445

² Paragraph 19, Philippine Public Sector Accounting Standards (PPSAS) I, Volume I


4. Review of the schedules supporting the *Consolidated Land Improvements (LI)* and *Consolidated Construction in Progress – Land Improvements (CIP-LI)* accounts revealed that some items presented therein were lumped-sum and tagged as either “various” or “for reconciliation” and without any details as to the description of the property/project, exact location, name of contractor and the implementing agency. The total amounts for the Consolidated LI and CIP-LI are ₱2.466 billion and ₱2.328 billion, respectively, which represents 22% and 9% of the total carrying amount of the two accounts, as shown below:

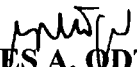
Office	Land Improvements	CIP-Land Improvements
Region 4A	₱ 115,821,135.32	₱ -
Region 4B	205,776,854.02	-
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Total Carrying Amount	₱ 11,220,352,558.91	₱ 25,461,050,361.61
Percentage	22%	9%

5. Information gathered disclosed that part of the above balances were the results of the conversion of the accounts from the old government accounting system (OGAS) to new government accounting system (NGAS), which were either inadequately or not supported with the necessary documents. Moreover, previous accountants, who were no longer in service, did not properly turnover the financial records, hence, current accountants experience difficulty in substantiating the details of the transactions.
6. We also noted the non-maintenance of subsidiary ledgers to support the GL balances as evident by the absence of schedules supporting the trial balances in most of the Regional Offices and the Bureaus.
7. In view of the incomplete schedules supporting the account balances due to incomplete or non-updated subsidiary ledgers and the lack of related supporting documents, their nature and existence could not be determined. Further, the validity and reliability of the accounts’ balances could not be ascertained due to the incomplete information, thus rendered the balances unreliable. Moreover, it is unlikely to determine which of those tagged in CIP account as “various” and “for reconciliation” that should be classified to its PPE account because of the incomplete information and unavailability of supporting documents.
8. It is to be noted that the existence of these balances in the books of accounts affects the fair presentation of the *Consolidated Land Improvements* and *Consolidated Construction in Progress – Land Improvements* accounts in the financial statements due to the materiality of the amounts.

9. In our assessment, the above-enumerated deficiencies were attributed to the practice of not giving much importance to require the outgoing accountants to properly and completely turnover all the necessary documents before his/her last day of office, and in not closely and/or strictly conducting monitoring and evaluation of employees performance, which are clear indications of weaknesses in the internal control systems of the Department.
10. Moreover, the same could have been corrected had the accounting division/sections in the Central Office and the Regional Offices maintained complete and updated SLs, performed regular analyses of accounts and do corrective measures to establish the details of the accounts, thereby achieving reliability in financial reporting.
11. As a result, the carrying amounts of Land Improvement and Construction in Progress – Land Improvements of ₱11.220 billion and ₱25.461 billion, respectively, as of December 31, 2019 cannot be relied upon, and existence of the assets and validity of the account balances could not be ascertained due to lack of details caused by the absence of supporting schedules.
12. **We recommend that Management instruct the Department Chief Accountant and the Regional Accountants to:**
 - a) **exert extra effort to locate the necessary documents/information details of the balances tagged as “various” and “for reconciliation” in coordination with the concerned Accountants at the Bureaus and the Regional Offices;**
 - b) **maintained complete and updated Property, Plant and Equipment Ledger Cards (PPELC), and undertake regular analyses and monitoring of all accounts recorded in the books and do corrective actions immediately;**
 - c) **consider requesting for write-off of the undocumented dormant items from COA following the required procedures in COA Circular No. 97-001 dated 05 February 1997, as maybe allowed, after exhausting all efforts and substantiation of the projects proved futile; and,**
 - d) **defer issuance of clearances to resigning/retiring personnel until such time that a full accounting of their accountability and responsibility have been complied with, and liability, if any, has been settled.**

May we have your comments on the above audit observations within five (5) days from receipt hereof.


CATHERINE P. GAONGEN-LOGRONIO
Audit Team Leader
DENR-CO


MARITES A. ODOJAN, CESE
Supervising Auditor
DENR 1 & 2 Audit Groups

Proof of Receipt

Name	Position/ Designation	Received by: (Pls. print & sign)	Date