

EXECUTIVE SUMMARY

I. Introduction

The Court of Tax Appeals (CTA) was created on June 16, 1954 by virtue of Republic Act No. 1125 with exclusive appellate jurisdiction to review by appeal, decisions of the Collector of Internal Revenue, Commissioner of Customs, and the Provincial or City Boards of Assessment Appeals.

With the passage of Republic Act No. 9282 on April 23, 2004, the CTA became an appellate Court equal in rank to the Court of Appeals with an expanded jurisdiction not only on civil tax cases but also on cases that are criminal in nature, as well as, local tax cases, property taxes, and final collection of taxes.

The CTA envisions to remain worthy of public trust and confidence by maintaining its impartiality, competence, transparency, and faithful compliance with tax laws as guided by the following principles:

1. Fair and speedy collection of taxes by the Government;
2. Adequate judicial remedies to taxpayers against unreasonable or unjust tax assessments and refund of excessive or erroneously collected taxes;
3. Proper interpretation of tax statutes;
4. Adherence to the independence of the Judiciary; and
5. Utmost deference for public trust and confidence in the Judiciary.

With the passage of Republic Act No. 9503 on July 5, 2008, the organizational structure of the CTA was expanded to include one (1) Presiding Justice as Head of the Court, assisted by eight (8) Associate Justices. The CTA may sit *en banc* or in three (3) divisions with each division consisting of three (3) Justices. The CTA, as one of the Courts comprising the Philippine Judiciary, is under the administrative supervision of the Supreme Court.

The personnel complement of 287 assists in the performance of adjudicative support functions with some non-adjudicative or administrative functions among the Office of the Clerk of Court (OCC), Judicial Records Division, Management Information Systems Division, Internal Audit Service, Office of the Legal and Technical Services, Tax Specialist Division, Library, and the Office of Administrative and Finance Services.

II. Financial Highlights

The Calendar Year (CY) 2017 financial condition and the sources and application of funds of the CTA, with corresponding figures for CY 2016 are as follows:

	2017	2016	Increase (Decrease)
(In Philippine Peso)			
Financial Condition			
Assets	846,261,207.21	675,538,208.95	170,722,998.26
Liabilities	89,725,400.59	66,739,352.66	22,986,047.93
Net Assets/ Equity	756,535,806.62	608,798,856.29	147,736,950.33
Sources and Application of Funds			
Allotments Received	413,299,111.76	424,722,558.53	(11,423,446.77)
Obligations Incurred	332,923,475.02	335,942,446.77	(3,018,971.75)
Balances	80,375,636.74	88,780,111.76	(8,404,475.02)

The details of allotments, obligations and balances are presented in *Annex A* of this report.

III. Scope of Audit

A financial and compliance audit was conducted on the accounts and operations of the CTA for the year ended December 31, 2017. It aimed to ascertain the propriety of disbursements, reliability of financial reports and compliance with prescribed accounting and auditing rules and regulations.

IV. Independent Auditor's Report

The Auditor rendered an unqualified opinion on the fairness of the presentation of the financial statements of the Court of Tax Appeals for CY 2017.

V. Significant Audit Observations and Recommendations

The following are the significant audit observations and recommendations, the details of which are discussed in Part II of this report:

1. The Court spent only 1% to 3% of its continuing appropriation/allotment for Capital Outlay during the period CYs 2016 to 2017, thus, maximum utilization of its authorized appropriation/allotment was not achieved, the intended benefits for its employees were not realized, and services to the public were not optimized. (*Paragraph No. 1*)

We recommended that Management:

- a. identify the reason/s for the low budget utilization for CO of the Court and the actions taken or still to be taken to address the causes for the delayed accomplishment of its programs and projects, document and copy furnish this office;
 - b. implement the procurement activities within the timeframe set to ensure maximum utilization of the budget and funds; and
 - c. review and revise the Court's APP in such a way that like items, such as motor vehicles, are consolidated into one procurement activity to allow efficiency in the Bids and Awards Committee and expedite the procurement process and accomplishment of its projects. Also, in so doing, it will attract suppliers to participate and to come up with competitive terms most advantageous to the government.
2. The Internal Audit Service (IAS) of the Court continued to perform functions of routine operating character belonging to another unit in the organization which is inconsistent with the Administrative Order (AO) Nos. 278 dated April 28, 1992, the National Guidelines on Internal Control Systems (NGICS) and the Philippine Government Internal Audit Manual (PGIAM). (*Paragraph No. 15*)

We reiterated our previous recommendation that Management instruct the IAS to strictly adhere and harmonize its activities to the provisions of AO Nos. 278 and 70 and the manuals, NGICS and PGIAM, and not to participate in the regular routine operating activities of another office of the Court for an effective evaluation of the Court's standard operating procedures and operations, and to perform its mandated functions.

3. Expenses totaling P1,065,587.93 incurred under Contracts of Service were erroneously recorded under *Other Professional Services* account instead of *Other General Services*, contrary to the Revised Chart of Accounts. In addition, payments were not supported with individual accomplishment reports to establish validity of the claims. (*Paragraph No. 28*)

We recommended the Court to:

- a. Instruct the Chief, Human Resource Division to strictly observe the provisions of CSC-COA-DBM Joint Circular No. 1, s. 2017 on hiring services of COS, and Job Order workers as well, with emphasis given to transitory provision that allows renewal of COS and JOs until December 31, 2018 and that the existing COS and JOs shall be prioritized in the hiring by the contractor or service provider and in the appointment by the agency to its vacant positions;
- b. Instruct the Chief of Office, Office of Administrative and Finance Services to make representation with the DBM for the additional plantilla of personnel to complement their programs/activities/projects, if necessary;
- c. Require the Accounting Division to: (i) observe the use of appropriate accounts to record transactions; and (ii) ensure that all necessary original supporting documents are complete in every disbursement to establish validity of claims; and
- d. Require the concerned Court employees/COS to submit original supporting documents for claims already made.

The above observations and recommendations were discussed with the concerned officials of the agency in an exit conference held last July 6, 2018. Management comments were considered in the report, where appropriate.

VI. Status of Implementation of Prior Years' Audit Recommendations

Of the five audit recommendations embodied in the prior years' Annual Audit Reports, four were implemented and one is yet to be implemented.