EXECUTIVE SUMMARY

A. Introduction

The Agricultural Credit Policy Council (ACPC), an attached agency of the Department of Agriculture, was created on December 24, 1986, by virtue of Presidential Decree No, 113 replacing the Presidential Committee on Agricultural Credit (PCAC) and the Technical Board for Agricultural Credit (TBAC).

ACPC is mandated to (a) assist the Department of Agriculture (DA) in synchronizing all credit policies and programs in support of the Department's priority programs; (b) review and evaluate the economic soundness of all ongoing and proposed agricultural credit programs; (c) receive all reports and documents of all programs with agricultural credit and financing components; and (d) undertake measures of increasing its fund base and adopt other liquidity interest stabilization and risk cover mechanisms for its various financing programs in consultation with the Monetary Board.

The mandate of ACPC expanded with the issuance of the following: (a) RA 7607 or the Magna Carta for Small Farmers in 1992; (b) R.A. 8435 or the Agriculture and Fisheries Modernization Act [AFMA] of 1997; (c) DA Administrative Order No. 6 (IRR of the AFMA) dated July 10, 1998; and (d) DA Special Order No. 605, series of 2011, dated September 21, 2011 which designated ACPC to implement Section 7 of the IRR of R.A. 10000. Thus, ACPC was tasked further to recommend policy changes on agricultural credit programs for farmers; strengthen farmers' organizations, cooperatives and credit organizations to improve credit access by farmers and fisherfolk, promote credit awareness thru training and extensive information drive in collaboration with the Land Bank of the Philippines (LBP), Bangko Sentral ng Pilipinas (BSP), and other government agencies and private organizations.

The ACPC is governed by a Council composed of the Department of Agriculture (DA) Secretary as Chairman, Bangko Sentral ng Pilipinas (BSP) Governor as Vice-Chairman, the Secretaries of the Department of Finance (DoF), Department of Budget and Management (DBM), and the National Economic and Development Authority (NEDA) Director-General as Members. The agency operation is headed by an Executive Director, assisted by a Deputy Executive Director. Pursuant to EO 366, the ACPC Rationalization Plan was approved effective May 2, 2013, which abolished the former position of a Deputy Director and reduced from six to four the operating services. The present operating services each headed by a Director are renamed as (a) Policy, Planning and Program Development and Advocacy Staff (PPPAS); (b) Program Monitoring and Information Systems Management Staff (PMISMS); (c) Fund Management Staff (FMS); and (d) Administrative, Financial and Management Staff (AFMS). As of December 31, 2016, ACPC had 36 employees, out of 42 plantilla positions, with five of them holding co-terminus with the incumbent positions to be abolished once vacated. The workforce is supported by 43 contracted services hired on a per job order basis.

B. Financial Highlights

The Agency's financial position, performance and sources and application of funds for CY 2016 compared with that of the previous year are as follows:

Particulars	2016	2015	Increase / (Decrease)
Financial Position			
Assets	₱6,025,547,409.72	₱5,345,457,531.33	₱ 680,089,878.39
Liabilities	90,123,198.23	67,192,927.05	22,930,271.18
Net Assets/Equity	₱5,935,424,211.49	₱5,278,264,604.28	₱ 657,159,607.21
Financial Performance			
Revenue	₱ 22,866,241.25	₱ 2,092,304.43	₱ 20,773,936.82
Net Financial Assistance/Subsidy	695,995,512.02	1,395,464,429.31	(699,468,917.29)
Total	718,861,753.27	1,397,556,733.74	(678,694,980.47)
Current Operating Expenses	78,176,403.25	71,056,868.10	7,119,535.15
Surplus/(Deficit) for the period	₱ 640,685,350.02	₱1,326,499,865.64	₱ (685,814,515.62)
Sources and Applications of Funds			
Appropriations	₱ 43,035,000.00	₱2,035,659,000.00	₱(1,992,624,000.00)
Allotments Received	50,134,928.00	2,041,358,472.00	(1,991,223,544.00)
Continuing Appropriations	652,243,114.45	1,400,474.96	650,842,639.49
Obligations Incurred	(696,229,629.73)	(1,390,121,042.00)	693,891,412.27
Unobligated Balance	₱ 6,148,412.72	₱ 652,637,904.96	₱ (646,489,492.24)

ACPC also received supplemental budget of ₱76,320,000.00 sourced from the Agro-Industry Modernization Credit and Financing Program (AMCFP). The additional budget augmented the regular ACPC appropriations in the administration of the AMCFP; collection of loans and consolidation of funds into the AMCFP; strengthening the capability of farmers, borrowers and credit providers; improve credit delivery through policy research and advocacy; planning, monitoring and evaluation of ongoing and proposed credit programs.

C. Scope and Objectives of Audit

The audit was conducted on the transactions, accounts and operations of the ACPC for CY 2016 to (a) ascertain the level of assurance that may be placed on management's assertions on the financial statements; (b) determine the propriety of transactions as well as the extent of compliance with applicable laws, rules and regulations; (c) recommend agency improvement opportunities; and (d) determine the extent of implementation of prior years' audit recommendations.

D. Independent Auditor's Report

A qualified opinion was rendered on the fairness of presentation of the financial statements due to accounting errors and omissions **(Annex D)**, which are discussed in detail in Part II of the report. A special audit team, created under COA Office Order No. 2016-915 dated November 3, 2016, conducted the pilot International Standards on Supreme Audit Institutions (ISSAI) compliant financial audit of the ACPC financial statements for CY 2016.

E. Other Significant Audit Observations and Recommendations

Significant audit observations with the corresponding recommendation include the following:

1. The ACPC achieved almost all its targets for Credit Support Services, notably surpassing its collection target of ₱5.4 million by ₱10.5 million or 194 percent under terminated agri-directed credit programs. However, it did not achieve its targets of ₱3.789 billion loans granted and 117,680 loans beneficiaries which were short by 18 percent or ₱670 million loans granted and 59 percent or 68,942 loans beneficiaries, respectively. Moreover, the agency has utilized only the amount of ₱27.568 million or 84 percent of the total budget of ₱32.809 million for said undertakings. **(Observation No. 1)**

   We recommended and management agreed to (a) strengthen/intensify credit fund utilization thru its partner financial institutions to promote the interest of the small farmers and fisherfolk; and (b) conduct field validation in coordination with programs partners and concerned LBP personnel on other requirements of the program.

2. Property and equipment with a carrying amount of ₱51.999 million were not insured with the GIF of the GSIS pending submission of the list of insurable property, thus, leaving the agency at risk of loss without right of indemnification. **(Observation No. 5)**

   We recommended and management agreed to (a) submit immediately the list of insurable property to the GSIS for property insurance coverage consistent with the provisions of COA Circular No. 92-390 dated November 17, 1992; and (b) insure all insurable property of the agency with the GSIS under the General Insurance Fund to indemnify losses that may arise from fire, theft and other causes.

The observations and recommendations were discussed with agency officials in an exit conference on March 28, 2017. Management views and reactions were considered in the report, where appropriate.

F. Enforcement of Audit Suspensions, Disallowances and Charges

There were no audit suspensions, disallowances and charges issued during the year. Deficiencies noted during the year were either complied with or settled immediately upon communicating to the concerned officials and employees of such findings. There were also no unsettled audit suspensions, disallowances and charges in prior years.

G. Implementation of Prior Years' Audit Recommendations

Of the 18 audit recommendations embodied in the prior years' Annual Audit Reports, ten were implemented, seven were partially implemented and one was not implemented.