

EXECUTIVE SUMMARY

A. Introduction

The **National Research Council of the Philippines (NRCP)** was created by Republic Act No. 4120 of the Ninth Philippine Legislature dated December 8, 1933 for the promotion of science advancement through research. In the reorganization of then National Science and Technology Authority (NSTA) under Executive Order (EO) No. 784 on March 17, 1982, NRCP was retained as a collegial body and named as Sectoral Council to engage primarily in supporting research of a more basic and fundamental nature, in contrast to the applied research orientation of the other Council under the NSTA System. Such functions were, however, phased out in 1987 under EO No. 128 and the Council was renamed as the Philippine National Science Society. On December 8, 1990, by virtue of RA No. 6974, NRCP was restored to the original name and status as specified under RA No. 4120.

The NRCP is mandated to: promote and support the fundamental or basic research for the continuing improvement of the research capability of individual or group of scientists; foster linkages with local and international scientific organizations for enhanced cooperation in the development and sharing of scientific information; provide advice on problems and issues of national interest; and promote scientific and technological culture to all sectors of society.

The affairs of NRCP are administered by a Governing Board composed of: two Members-at-Large, the Chairmen of Scientific Divisions, the DOST representative, and the Chairmen/Presidents Emeriti of the Council. The Secretariat has a total workforce of 43 headed by Dr. Marieta Bañez Sumagaysay, Executive Director, who oversees the overall management of the Council's activities. She is assisted by the Division Chiefs of Research Development and Management Division (RDMD), Research Information and Dissemination Division (RIDD), and Finance and Administrative Division (FAD). As of December 31, 2016, the NRCP has a total manpower complement of 45 personnel consisting of 35 regular and 10 Job Order.

B. Financial Highlights

Presented below are the financial highlights of the Agency for CY 2016.

1. Allotment Received from the DBM

A. Total Authorized Appropriation CY 2016	₱ 47,056,000.00
Adjustment	7,234,320.00
Total	<u>54,290,320.00</u>

B. Total Allotment	53,426,778.00
Total Obligations Incurred	53,178,188.92
Unobligated Balance	<u>₱ 248,589.08</u>

2. Breakdown of Sources and Application of Funds are as follows:

Particulars	Allotments (Php)	Obligations (Php)	Balances (Php)
Personnel Services	30,009,320.00	29,951,915.72	57,404.28
MOOE	22,754,458.00	22,565,627.16	188,830.84
Capital Outlay	663,000.00	660,646.04	2,353.96
Total	53,426,778.00	53,178,188.92	248,589.08

3. Comparative Financial Condition

Group of Accounts	2016 (Php)	2015 (Php)	Increase/Decrease (Php)
Assets	88,316,559.63	62,746,082.58	25,570,477.05
Liabilities	36,836,058.96	3,709,340.00	33,126,718.96
Net Assets/Equity	51,480,500.67	59,036,742.58	(7,556,241.91)

4. Comparative Financial Performance

Group of Accounts	2016 (Php)	2015 (Php)	Increase/Decrease (Php)
Revenue	52,949,173.10	62,203,253.19	(9,254,080.09)
Expenses	47,591,221.74	44,041,237.80	3,549,983.94
Surplus/Deficit	5,357,951.36	18,162,015.39	(12,804,064.03)

C. Scope of Audit

The audit covered the accounts and operations of NRCP for the year ended December 31, 2016. The audit was conducted to (a) ascertain the level of assurance that may be placed on management's assertions on the financial statements; (b) recommend agency's improvement opportunities, (c) determine the propriety of transactions as well as the extent of compliance with pertinent laws, rules and regulations, and (d) determine the extent of implementation of prior year's audit recommendations.

D. Independent Auditor's Report

An unqualified opinion was rendered on the fairness of presentation of the financial statements.

E. Summary of Significant Observations and Recommendations

Although the Auditor rendered an unqualified opinion, the following were significant audit observations to be addressed, details of which are further discussed in the Part II of the report.

Accounting deficiencies

1. There is inadequate monitoring of utilization and liquidation of inter-agency transferred funds (IATFs) due to non-maintenance of subsidiary ledgers (SLs) which further prevented in-depth analysis of the *Due to NGAs* account with year-end balance of ₱34.455 million. (*Observation No. 2*)

We recommended and Management agreed to direct the Accountant to maintain SLs for each IATF received and ensure that releases to individual researchers are recorded in the appropriate SLs in strict adherence to Section 63, Chapter 6, Volume I of the Government Accounting Manual (GAM).

2. Disbursements out of the IATFs amounting to ₱4.173 million were recorded as *Donations* instead of the particular asset and expense accounts thereby misstating the balances of the *Donations* and appropriate asset and expense accounts as well as lacking control over property accountability. (*Observation No. 3*)

We recommended and Management agreed to direct the Accountant to effect the necessary adjusting entries to recognize assets acquired and/or expenses incurred out of IATFs and henceforth, observe the proper recording of the disbursements out of IATFs as prescribed in the Annex M, Volume I of the GAM and the Memoranda of Agreement entered into between NRCP and the researchers/project leaders.

These are shown in the Matrix of Analysis on the Effects of the Misstatements in the Financial Statements (*Annex A*).

Other Observation

1. Management did not strictly enforce procedures on non-liquidation of research grants, thus receivables amounting to ₱3.364 million remained unliquidated after 3 to 12 years. Moreover, grants totaling ₱2.525 million were extended to 17 researchers even though their previous accountabilities were not yet settled. (*Observation No. 1*)

We recommended and Management agreed to: a) Send demand letters to project leaders/grantees; and b) Refrain from extending further grants/support to proponents with unsettled accountabilities; and

c) Strictly apply the sanctions provided under Section 6.3.6 of DOST AO No. 005 against project leaders/grantees with unliquidated balances

These were discussed with the management officials concerned during the exit conference on March 14, 2017. To wit, their views and comments were incorporated in the report, where appropriate.

F. Status of Settlement of Disallowances, Charges and Suspensions

In CY 2016, Audit Suspension of ₱300,000.00 under Notice of Suspension No. 2016-001-101 (2015) dated June 2, 2016 was issued for the Agency's reimbursable medical expenses incurred in CY 2015 for failure to comply with the submission of Official receipts as proof and support of its utilization. The Agency complied with the submission of the Official Receipts and Utilization Summary Report in the amount ₱137, 970.44. Thus, NSSDC No. 17-001 dated March 31, 2017 was issued.

However, the remaining amount of ₱162,029.56 remained unsupported which matured into disallowance after the lapse of 90 days for non-complying with the NS. Consequently, the covering NSSDC No. 17-002 as well as Notice of Disallowance (ND) No. 17-001-(2015) both dated March 31, 2017 were issued.

The ND pertains to the overpayment of Hazard and Longevity Pay for the period July 2007 to August 2008 under ND No. 09-001-101 - (08) in the amount of ₱103,558.10 issued in CY 2009. To date, total settlement from CY 2015 to 2016 amounted to ₱62,682.91 leaving the balance of ₱40,875.19 as of December 31, 2016.

Particulars	Beginning Balance (As of 12/31/2015)	This period January 1 to December 31, 2016		Ending Balance (As of 12/31/2016))
		NS/ND/NC	NSSDC	
NS	300,000.00	0.00	0.000	300,000.00
ND	88,922.71	0.00	48,047.52	40,875.19
NC	0.00	0.00	0.00	0.00
Total	388,922.71	0.00	48,047.52	340,875.19

G. Status of Implementation of Prior Year's Audit Recommendations

Out of the total six audit recommendations contained in CY 2015 and CY 2014 Annual Audit Report three were partially implemented and three were not implemented. Details are presented in Part III of this report.

We enjoin Management to ensure full implementation of all audit recommendations to improve the financial and operational efficiency of the Agency.