EXECUTIVE SUMMARY

A. Introduction

The Bureau of Internal Revenue (BIR) was established under Reorganization Act No. 1189 on July 2, 1904 and became fully operational on August 1, 1904. The BIR is mandated by law to assess and collect all national internal revenue taxes, fees and charges, and to enforce all forfeitures, penalties and fines connected therewith, including the execution of judgments in all cases decided in its favor by a court of justice.

The BIR is headed by Commissioner Caesar R. Dulay, who is assisted by four Deputy Commissioners and 10 Assistant Commissioners. As of December 31, 2016, it has total permanent personnel complement of 9,855 distributed in its National Office (NO) and 19 Revenue Regional Offices (RROs) located nationwide which are distributed in the following functional groups:

<table>
<thead>
<tr>
<th>Operating Group</th>
<th>Total</th>
<th>National Office</th>
<th>Regional Offices</th>
</tr>
</thead>
<tbody>
<tr>
<td>Management</td>
<td>444</td>
<td>142</td>
<td>302</td>
</tr>
<tr>
<td>Assessment</td>
<td>2,888</td>
<td>304</td>
<td>2,584</td>
</tr>
<tr>
<td>Collection</td>
<td>2,261</td>
<td>174</td>
<td>2,087</td>
</tr>
<tr>
<td>Document Processor</td>
<td>456</td>
<td>89</td>
<td>367</td>
</tr>
<tr>
<td>Excise</td>
<td>193</td>
<td>193</td>
<td>-</td>
</tr>
<tr>
<td>Taxpayer Assistance</td>
<td>451</td>
<td>56</td>
<td>395</td>
</tr>
<tr>
<td>Compliance</td>
<td>48</td>
<td>-</td>
<td>48</td>
</tr>
<tr>
<td>Information Technology</td>
<td>203</td>
<td>199</td>
<td>4</td>
</tr>
<tr>
<td>Legal and Inspection</td>
<td>213</td>
<td>63</td>
<td>150</td>
</tr>
<tr>
<td>Administrative</td>
<td>2,698</td>
<td>849</td>
<td>1,849</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>9,855</strong></td>
<td><strong>2,069</strong></td>
<td><strong>7,786</strong></td>
</tr>
</tbody>
</table>

B. Financial Highlights

The financial position, financial performance and the sources and application of funds for CY 2016, with corresponding figures for CY 2015, are summarized below:

<table>
<thead>
<tr>
<th>Particulars</th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial Position</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Assets</td>
<td>₱22,432,320,147.16</td>
<td>₱23,452,744,916.61</td>
</tr>
<tr>
<td>Liabilities</td>
<td>14,219,649,358.82</td>
<td>15,455,692,445.57</td>
</tr>
<tr>
<td>Net Assets/Equity</td>
<td>8,212,670,788.34</td>
<td>7,997,052,471.04</td>
</tr>
</tbody>
</table>
### Financial Performance

<table>
<thead>
<tr>
<th>Particulars</th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>₱1,572,723,277,497.84</td>
<td>₱1,441,616,565,290.34</td>
</tr>
<tr>
<td>Current Operating Expenses</td>
<td>6,207,563,791.33</td>
<td>6,037,021,005.64</td>
</tr>
<tr>
<td>Net Financial</td>
<td>7,051,221,309.41</td>
<td>6,988,735,116.68</td>
</tr>
<tr>
<td>Assistance/Subsidy</td>
<td>(26,279,917.86)</td>
<td>704,906.61</td>
</tr>
<tr>
<td>Non-Operating Income, Gain (Losses)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Surplus for the Period</td>
<td>1,573,540,655,098.06</td>
<td>1,442,568,984,307.99</td>
</tr>
</tbody>
</table>

### Sources and Application of Funds

<table>
<thead>
<tr>
<th>Allotments Received</th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current Year</td>
<td>₱11,439,788,062.00</td>
<td>₱8,074,326,022.00</td>
</tr>
<tr>
<td>Continuing Appropriations</td>
<td>1,103,267,182.32</td>
<td>1,344,779,163.77</td>
</tr>
<tr>
<td>Obligations Incurred</td>
<td>7,450,517,561.61</td>
<td>6,917,398,931.92</td>
</tr>
<tr>
<td>Disbursements</td>
<td>6,160,003,625.77</td>
<td>5,880,715,363.35</td>
</tr>
<tr>
<td>Unobligated Allotments</td>
<td>5,092,537,682.71</td>
<td>2,450,954,851.85</td>
</tr>
</tbody>
</table>

The BIR’s Statement of Appropriations, Allotments, Obligations, Disbursements and Balances for CY 2016 is attached as Annex A.

### Operational Highlights

Based on its Major Final Output – Tax Collection Services for the period January to December 2016, the reported total collections of the BIR amounting to ₱1.576 trillion surpassed the previous year’s collection by 8.5 percent or by ₱0.44 trillion, but was below the collection target of ₱1.620 trillion as shown in the table below:

<table>
<thead>
<tr>
<th>Collection</th>
<th>Goal</th>
<th>Collection</th>
<th>Collection versus Goal</th>
<th>Collection Compared to Previous Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>1,576</td>
<td>1,620</td>
<td>1,442</td>
<td>0.044 (2.7%)</td>
</tr>
</tbody>
</table>

*Source: CY 2016 collection figure is based on Bureau of the Treasury /Revenue Accounting Division data as of February 23, 2017, figures in Trillion Pesos*

For CY 2016, the BIR’s collection performance was the result of the implementation of the various initiatives as indicated in the following reported accomplishments which were evaluated on a test basis by the Audit Team:

a. A total of 71 tax fraud cases for the “Run After the Tax Evaders” program were filed at the Department of Justice with estimated tax liabilities of ₱9.76 billion;

b. A total of 81 establishments were closed under the “Oplan Kandado” program with collections amounting to ₱134.03 Million;
c. Deployment of Accounts Receivable Management System personnel to additional sites in RRO Nos. 13-Cebu City, 16-Cagayan de Oro City and 19-Davao City;

d. Institutionalized the VAT Audit Group in the regional offices to maximize the effectiveness of the VAT Audit Program. Collections generated through this program amounted to ₱2.396 billion out of 1,511 cases for CY 2016;

e. Fully implemented the “Electronic Certificate Authorizing Registration (eCAR) System” through linkage with the Land Registration Authority using the electronic CAR Verification System;

f. With the “Ease of Doing Business” project of the government, the BIR was able to reduced documentary requirement from 9 to 3 and processing time of most clearances was also reduced;

g. Established the BIR Quality Management System for ISO Certification for the Business Registration Process. Gap Training Analysis was conducted to five RDOs under RR4-Pampanga. Also conducted the 2nd cycle of QMS Surveillance Audit for existing ISO Certified district officers under RRO 7 Quezon City;

h. Established 17 fully operational Document Processing Divisions (DPDs), of which, 1313 are under Level I and four are under Level II. Level I pertains to the manual encoding and processing of returns while Level II refers to the processing of returns which involves scanning and encoding;

i. Entered a Memorandum of Agreement between the Department of Trade and Industry and Housing and Urban Development Coordination Council-National Housing Authority to facilitate the issuance of Tax Identification Number to registering small and medium domestic businesses and for the availment of tax incentives for socialized housing projects for the homeless and underprivileged families, respectively; and

j. Served 372 Show Cause Orders to Revenue Officers for failure to terminate the investigation/verification of tax cases assigned to them and submit the required reports of investigation.

D. Scope of Audit

The audit covered the accounts and operations of the BIR-NO and its 19 RROs for CY 2016. The audit was conducted in accordance with the Philippine Public Sector Standards on Auditing.
Verification on the correctness/accuracy of the revenues/taxes collected during the year totaling ₱1.576 trillion, however, was not done due to the absence of approved guidelines in the audit of tax assessment required under Executive Order No. 38 dated October 30, 1998.

E. Auditor’s Report on the Financial Statements

The Auditor rendered a qualified opinion on the fairness of presentation of the BIR’s financial statements as of December 31, 2016 due to the accounting errors and deficiencies presented below and discussed in detail under Part II of this Report:

Collection Books

1. The carrying amount of Forfeited Assets/Property is unreliable due to: (a) non-recognition of ₱2.169 billion or 95.01 per cent of the total Fair Value of the real properties; (b) unreconciled subsidiary ledgers and Consolidated Inventory of Seized Forfeited Assets (CISFA); and (c) understatement of equity instruments by ₱0.62 million or 95.36 per cent of the total reported FV.

We recommended that Management require the Revenue Accounting Division (RAD) and the Revenue Regions to: (a) adjust the forfeited real properties to correct the understatement of ₱2.169 billion, by ensuring recognition of the reported forfeited real properties in the CISFA; and revaluation of the recognized forfeited real properties to their FV; (b) conduct an annual reconciliation of the Forfeited Assets/Property account and the CISFA; and (c) adjust the equity instrument forfeited assets with carrying amount of ₱30,253.90 to their FV of ₱0.652 million in CY 2016.

2. The validity, accuracy and collectability of Other Receivables account of ₱10.222 billion as of December 31, 2016 is doubtful due to: (a) Dishonored Checks (DCs) which are unredeemed for more than 15 years; (b) unmonitored dormant accounts and multiple SLs of taxpayers; and, (c) unrecognized DCs in RROs 2, 6, 7 and 8, and unrecognized redeemed DCs in RROs 5, 6, 7, and 8 amounting to ₱45.656 million and ₱117.963 million, respectively.

We recommended and Management agreed to require the (a) concerned Offices/RROs to verify whether the balances are still outstanding and unredeemed. In case these are already redeemed, provide the RAD with the required reports to initiate the recording; assess the collectability of the DCs of the taxpayers in compliance with RMO No. 11-2014; and record the dishonored and redemption of checks for CY 2016 and thereafter; and (b) RAD to record redemption after due verification based on the report provided by the concerned Office/officer; and analyze existing SLs and effect the necessary corrections to ensure accurate balance of the taxpayers account.
Disbursement Books

3. The *Cash in Bank – Local Currency, Current Account* with carrying amount of ₱58.943 million is doubtful due to unreconciled balance of ₱18.955 million between the BIR-NO and the bank; and ₱5.831 million between RRO 7 and the bank, thus, affecting the fair presentation of the account in the financial statements.

We recommended and Management agreed to require the Chief – Disbursement Accounting Division (DAD) of BIR – NO to: (a) make a strong representation with the bank to demand for the copies of credit and debit advices, or any acceptable evidence of payment made by the LBP and effect the necessary adjusting entry; (b) make sure that all bank statements received are accompanied with the subject advices to facilitate prompt recording; and (c) prepare adjusting entries on stale checks amounting to ₱13,940.00 and close the book balance pertaining to NPSTAR.

Further, we recommended that the Accountant of RRO 7 to take up in the books the reconciling items to reflect the correct balance of LBP CA No. xxxx-1048-26 and exhaust all possible remedies before requesting write-off of the accounts that cannot be supported with appropriate documents in accordance with COA Circular 97-001.

4. The BIR was not able to reconcile the ₱3.630 billion balance of the account *Cash-Treasury/Agency Deposit, Trust* with the Bureau of the Treasury’s (BTr) record of ₱10.101 billion, resulting in a discrepancy of ₱6.476 billion, thus, rendering the account doubtful.

We recommended that Management require the Chief, DAD to provide the BTr with the requested Monthly Statement of Account to facilitate reconciliation of both records. Henceforth, submit monthly reconciliation of the account to address immediately any discrepancy that may be discovered.

5. The accuracy of the year-end carrying amount of *Due from NGAs* of ₱780.974 million is doubtful due to discrepancy totaling ₱209.892 million between the records of BIR-NO, RROs 5, and 8, with other NGAs concerned and existence of dormant balances amounting to ₱55.06 million in BIR-NO, thus, affecting the fair presentation of the account.

We recommended and Management agreed to:

a. Require PIA to submit the Report of Disbursements together with supporting documents for the liquidation of the account

b. Require the Chief, DAD to: (i) request/coordinate with the Procurement Division of the BIR for the submission of Delivery Receipts as basis of the
recognition in the books; and (ii) exert best effort in determining whether dormant accounts are still valid;

c. Require the RFD, RRO 5 to: (i) take up the unrecognized deliveries of ₱0.80 million; (ii) coordinate regularly with AHRMD to ensure that all deliveries/inventories received are reflected in the books of the Agency; and (iii) coordinate and reconcile, together with the Administrative Division, the records with the PS and effect the necessary adjustments; and

d. Require in RRO 8, to: (i) take up the unrecognized deliveries of ₱0.529 million and the adjustment amounting to ₱359,586.24 for the erroneously recorded delivered items; (ii) to reconcile the difference of ₱5,404.67 between the two books; and (iii) to conduct periodic reconciliation on the balances between the two books.

6. The carrying amounts of Due from Officers and Employees of ₱4.071 million and Other Receivables of ₱9.996 million include dormant and abnormal balances in BIR-NO, RROs 5 and 6 amounting to ₱3.037 million, ₱0.360 million and ₱0.473 million, respectively, thus, the validity of the account cannot be fully ascertained thereby affecting the fair presentation of the account in the financial statements.

We recommended and Management agreed to require the Chief Accountant of BIR-NO, RROs 5 and 6 to:

a. Issue demand letter to employees who are still connected with BIR and cause the settlement of their obligations;

b. Coordinate with the Personnel Division in reviewing the process of issuing clearance from money accountabilities and ensure that cash accountabilities and other outstanding obligation of officers and employees are settled first before their transfer, separation or retirement from service;

c. Analyze and adjust the abnormal balances in the books in order to correct the books of accounts; and

d. Consider reclassifying to Other Receivable account, the balances of those employees who were no longer in service/connected with the BIR.

7. The accuracy and existence of the Inventory accounts with a carrying amount of ₱308.008 million are doubtful due to: (a) discrepancies totalling ₱11.435 million between the balance in the books and Report of Physical Count of Inventories (RPCI) in RROs 1, 2, 6, and 8; (b) unrecognized receipts and issuances of office supplies in RRO 5; (c) purchases of supplies treated as outright expenses in RROs 5 and 7; and (d) non-submission and updating of required inventory reports by the Supply Units of RROs 5, 6, 7, 11, and 15.
We recommended and Management agreed to require the concerned Accountants and the Supply Officers to:

a. Determine the nature and causes of the discrepancies between the Accounting records and the RPCI and reconcile their records periodically;

b. Draw JEV taking up the unrecognized receipts and issuances of supplies and make appropriate corrections/adjustments, if any;

c. Record receipt of inventories under its proper inventory accounts instead of outright expense;

d. Maintain or update the SC for each item of office supplies and document the disposal of damaged supplies to cause the dropping in the books;

e. Maintain SLCs and conduct regular reconciliation with the SC kept by the Supply Officers; and

f. Conduct regular physical count and prepare/submit the RPCI to the Audit Team.

8. The validity, completeness and existence of the PPE accounts with total carrying amount of ₱3.912 billion is doubtful due to: (a) discrepancies between the records of the DAD/RFD and Property Division totaling ₱515.270 million (b) non-recognition of various properties; (c) unutilized idle/unserviceable PPE; (d) non-reclassification of the Construction in Progress-Buildings and Other Structures amounting to ₱340.912 million to appropriate Buildings and Other Structures account; (e) misclassification of PPE sub-accounts; (f) deficiencies of the incomplete and non-conduct of physical count; (g) erroneous and non-provision of Depreciation Expenses for some PPE; and (h) non-compliance with pertinent rules and regulations.

We recommended that Management agreed to require:

a. DAD/Accounting Units and the PD/Property Units of the concerned offices to exert best effort in resolving the discrepancy between their records by conducting a regular reconciliation;

b. DAD/Accounting Units and the PD/Property Units to effect adjustments on the noted deficiencies;

c. Concerned offices and personnel to comply strictly with the all pertinent rules and regulations on PPE;

d. In NO, (i) the PD to submit a complete and detailed report of physical count of unserviceable or no longer needed medical and dental equipment to the
National Disposal Committee (NDC); (ii) the NDC to assess the disposition of these property, by lot, may be through transfer without cost to other government agencies, through sale or other means of disposal; and (iii) the Accounting Division to recognize the impairment loss to adjust and correct the balance of Medical and Dental Equipment account;

e. In RRO 1, the Chief, RFD to recognize in the books of accounts the market value of the titled land and expedite the processing of the documents to facilitate transfer of ownership of the three lots to the BIR;

f. In RRO 2, the Accountant to (i) coordinate with the NO to issue the pertinent JEVs for the remaining unrecognized properties as well as issue instructions on the treatment of donated properties without costs; and (ii) provide depreciation for PPE items not depreciated in CY 2016 and correct erroneous computation on depreciation, and record the same in the books of accounts;

g. In RRO 3, (i) create an Inventory Committee who will conduct inventory taking once a year to be witnessed by a representative of COA and to submit authentic, complete RPCPPE for submission to the Auditor not later than January 31 of the ensuing year; (ii) provide property tags on unnumbered properties; and (iii) conduct a regular test check on the conditions of PPE and prepare regular reconciliation of the Accounting and Property records;

h. In RRO 5, the RFD to provide depreciation for PPEs that were not depreciated and adjust the same for those with erroneous computation and ensure that in the future, initial entries for acquisitions and transfers of assets are correct, including the acquisition dates, useful lives and the equivalent depreciation expenses to serve as the proper basis of the succeeding depreciation entries;

i. In RRO 7, the Accountant to take up in the books the motor vehicle upon obtaining relevant details from the BIR-NO and to request the RDC to include in the e-NGAS the Semi-Expendable inventory accounts in order to reclassify the items to their respective Semi-Expendable accounts;

j. In RRO 14, the RFD to reclassify the balances under “Construction in Progress Account – Buildings and Other Structures” to their appropriate building account and compute the corresponding depreciation of the reclassified asset from the time they are available for use or actually used.

k. In RRO 15, the supply/property officer to segregate the serviceable from unserviceable PPE and semi-expendable items, prepare IIRUP, to be submitted to the RFD for the proper recording/adjustments in the books of account; and (ii) submit required documents on the request for the relief of accountability of PPE;
1. In RRO 17, the Property Officer to (i) conduct actual physical count together with the Inventory Committee, of all existing PPEs to ascertain its physical existence and condition; (ii) prepare RPCPPE based on the actual counts and maintain updated property cards (PC) using the actual counts as the beginning balances; and (iii) reconcile the balance per property ledgers cards maintained by the Accounting Division and the balances per property cards maintained by the Property Unit to ensure correctness of the accounts balances per GL;

m. In RRO 18, (i) the Acting Property Officer to conduct full inventory and inspection of all unserviceable property and cause the immediate disposal of all unserviceable properties and submit the complete documents to the Accountant; and (ii) submit to the Accountant the necessary documents to record the disposal of the unserviceable properties; and

n. In RRO 19, (i) to reclassify the balances under Construction in Progress Account – Buildings and Other Structures to their appropriate building account and compute the corresponding depreciation of the reclassified asset from the time they are available for use or actually used.

9. The existence and accuracy of Accounts Payable year-end balance of ₱303.339 million is doubtful due to: (a) non-reversion of balances amounting to ₱1.838 million and ₱313,819.25 in RROs 5 and 6, respectively which have been outstanding for more than two years; and (b) erroneously recorded transactions amounting to ₱1.039 million in RRO 5 contrary to Sec. 98 of PD No. 1445 and Sec. 7, Chapter 19 of GAM, Volume I.

We recommended and Management of RROs 5 and 6 agreed to analyze and review the accounts and revert the undocumented payables which have been in the books for more than two years without valid claims and to make a thorough reconciliation of payables recognized in the books of BIR and creditors to bring the two records in agreement and adjust the affected accounts accordingly.

10. The reliability, accuracy and completeness of the balances of Tax Refunds Payable as of December 31, 2016 amounting to ₱3.675 billion is doubtful due to: (a) unreconciled amount of ₱8.677 million in RROs 1, 2 and 15; and (b) non-maintenance of SLs of individual creditors/taxpayers entitled for the refunds in RRO 1, which affected the fair presentation of the account in the financial statements.

We recommended that Management require:

a. RRO 1 to: (i) coordinate with the BIR-NO for the list of the concerned taxpayers/creditors covered by these Tax Refunds Payable account, otherwise, coordinate with them on the disposition of the cash in bank in the amount of ₱2.234 million which remained to be the same since January 31, 2013 earning no interest at all; (ii) make immediate and strong representation with the
concerned banks to expedite the production/presentation of the supporting documents for all the adjustments made in the accounts of the agency before these banks will dispose their bank records; (iii) instruct the OIC-RFD to prepare the necessary supporting documents for the account by which the bank records had been disposed of and closed by the concerned bank and make request for write-off of the subject amounts; and (iv) for the OIC-RFD, to see that whatever adjustments appeared in the bank statements are appropriately addressed to avoid the accumulation of reconciling items and ensure a more accurate balance of cash accounts and also coordinate with the branch concerned to expedite the furnishing of the copy of the bank statements on the current accounts to facilitate the verification of the bank reconciliation statements;

b. RRO 2 the Regional Director to: (i) direct the concerned official to submit the result of their verification and details of the recommended amount of refund of ₱47,309.29; (ii) prepare adjusting entry for the unrecorded receipt of NTA from BIR-NO; and (iii) for future claims, ensure that before claims are processed and paid, all required and necessary documents are attached to the disbursement voucher. Likewise, undertake a review of each supporting documents to assure that information are consistent with each other; and

c. RRO 15, require the accounting division to reconcile the discrepancy in the balances of the accounts Cash in Bank – LCCA and Tax Refunds Payable with the records of the personnel handling the transactions of the refund of taxes to taxpayers.

11. The carrying amount of Due to Officers and Employees totaling ₱154.95 million includes ₱14.179 million of RRO 5 which is unreliable due to: (a) 32 SLs balances which remained outstanding for two years and more; (b) presence of SL account labelled as “For Reconciliation”; and (c) occurrence of three SLs with negative/abnormal balances totaling ₱7.350 million, thereby, affecting the fair presentation of the account in the financial statements.

We recommended and Management agreed to require the RFD to:

a. Exert extra efforts to locate the necessary documents and analyze, review, and make necessary adjustments, if any, otherwise, revert the correct amount corresponding to the undocumented claims under account Due to Officers and Employees which have been in the books for two years and more; and

b. Effect the adjustments/corrections corresponding to SLs with negative/abnormal balances.

12. In RRO 5, the inter-agency payable accounts are unreliable due to: (a) negative SL balance of ₱5.149 million in Due to GSIS; (b) under recognition of ₱0.722 million and unresolved balances of ₱182,213.36 of Due to Pag-ibig; and (c)
dormant SL accounts amounting to ₱1.191 million of *Due to NGAs* and ₱5,851.30 of *Due to GOCCs*, thus, affecting the fair presentation of the accounts in the financial statements.

We recommended and Management of RRO 5 agreed to:

a. Review the noted observations and draw a JEV in order to adjust the erroneous recordings;

b. Adjust the erroneous recognition of Pag-Ibig Multi-Purpose Loan and Housing Loan of the employees amounting to ₱0.722 million; and analyse and review the unresolved balances amounting to ₱182,213.36 and make the necessary actions, if warranted; and

c. We reiterated our previous recommendation and Management agreed to pursue the request for write-off of these accounts in accordance with COA Circular 97-001 dated February 5, 1997.

13. The BIR-NO still maintained in its books of accounts, Fund Cluster 2 for Foreign Assisted Project Fund and Fund Cluster 4 for Special Accounts-Assisted/ Foreign Grants Fund although the projects had been completed several years ago and the PPE worth ₱1.304 million under Fund Cluster 2 were not provided with depreciation contrary to GAM, thus, rendered the year-end carrying amount of the accounts unreliable.

We recommended and Management agreed to require the Chief Accountant to:

a. Transfer all transactions/accounts of foreign-funded projects recognized under Fund Clusters 2 and 4 to Fund Cluster 1-Regular Agency Fund;

b. Coordinate with the Chief of Property Division to determine the physical condition of the abovementioned PPEs to make necessary actions pursuant to the policies on idle, unserviceable and fully depreciated PPE; and

c. Provide depreciation for those PPEs which were not depreciated over their useful lives that are still serviceable.

F. Other Significant Audit Observations and Recommendations

Collection books

1. The non-imposition/under-computation of penalties in the redemption of dishonored checks (DC) and for late payment of taxes amounting to approximately ₱12.0 million and ₱6.165 million, respectively, contrary to Sections 248 and 249 of the National Internal Revenue Code (NIRC) of 1997 and
Revenue Memorandum Order (RMO) No. 7-2015, deprived the government of the use of the funds that should have been derived from the collection thereof.

We recommended that Management require the RDOs/Large Taxpayers Collection Enforcement Division (LTCED)/Large Taxpayers District Office (LTDO) to strictly adhere to the provisions of the NIRC of 1997 and other issuances relating to penalties that should be imposed on redeemed DCs and late payment of taxes with the end view of ascertaining that established rules and regulations provide not only guidelines to the BIR personnel implementing them but also as incentives to taxpayers who comply with their tax obligations.

2. Management was unable to enforce the settlement of penalties imposed on Authorized Agent Banks (AABs) for late reporting and remittance of collections totaling ₱2.295 million as at December 31, 2016, thus, depriving the government of the use of the fund to finance its programs and projects.

We reiterated our previous recommendations that Management (a) make representation with the Management of the banks concerned; (b) demand from the concerned AABs the immediate payment of the penalties, and if necessary resort to legal action to facilitate collection; and (c) require the Collection Performance and Monitoring Division (CPMD) and RAD to closely monitor the penalties imposed on AABs so that appropriate action is promptly taken to avoid the accumulation of the unpaid amounts and also to serve as deterrent in delayed remittance.

3. The Management was unable to disclose the aging of the forfeited properties in the Notes to Financial Statements and submit the CISFA on time, contrary to Paragraph 127c, PPSAS 1 and RMO No. 13-2014, respectively.

We recommended that Management require the RAD to disclose in the Notes to Financial Statements the aging schedule of the Forfeited Assets/Property and the Forfeited Assets Management Unit (FAMU) to complete the related information in the CISFA and submit the same within the prescribed deadline under RMO No. 13-2014.

4. The RCOs of RROs 4, 11, 14, 15 and 17 did not deposit their collections intact or within the prescribed period contrary to the Revised Cash Examination Manual (CEM) and other pertinent rules and regulations, thus, exposing the funds to possible loss and misuse.

We recommended that Management require (a) require all RROs to ensure that all collections are remitted intact and daily and impose disciplinary action against erring personnel, if warranted; (b) RRO 11 to make representation with the top Management of BIR to revisit provisions of RMO 21-2014 dated June 2, 2014 specifically on the frequency of deposits and; (c) RRO17 to demand a written explanation to all concerned RCOs for the variances between total checks
collected and deposited; stop the practice of giving special consideration to selected taxpayers; and consider the possible remedies on the RCOs handling multiple municipalities; and implement the reshuffling of the RCOs.

5. Of the total cash shortages and unremitting collections of RCOs as of January 1, 2016 in RROs 1, 7 and 19 amounting to ₱1.779 million, ₱8.290 million and ₱12.318 million, respectively, only ₱200,000.00 was settled by an RCO in RRO 1, leaving the amount of ₱22.187 million unsettled as at year-end, thus, depriving the government of the use of the amount to finance its programs/projects/activities.

We recommended that Management of RROs 1, 7 and 19 (a) take action to fully recover the shortages of the former RCOs notwithstanding any pending legal action filed against them; (b) require the RDOs, the Collection Supervisors and the Regional Finance Division (RFD) to monitor closely the collection and remittances of the RCOs so that any unremitting collection is determined immediately and brought to the attention of the AO concerned to prevent accumulation of the same; (c) see to it that all benefits accruing to the RCOs are withheld upon due notice and demand for the immediate restitution of the shortage without prejudice to the filing of appropriate legal action against the erring accountable officers; (d) ensure that accountabilities of officers and employees are settled before they resign, retire or transfer; (e) advise the Head, Revenue Collection Division, to closely monitor the settlement/collection of the amount and recognize them in the period in which they were collected to fairly present the account balance at any given period; and (f) exhaust all possible legal remedies to compel the concerned RCO to immediately settle his/her cash shortage without prejudice to the filing of appropriate charges against the erring accountable officer.

6. In RROs 14 and 17, the requisition, issuance, sale of loose documentary stamps and remittances thereof were not properly monitored contrary to Section 69 of PD 1445, thus, making government funds vulnerable to loss or misuse.

We recommended that Management: (a) require the RCOs to issue documentary stamps sequentially, maintain the CRR and prepare the Weekly Report on Collection of Sale of Loose Documentary Stamps and the RAAF accurately; (b) instruct the Chief, Collection Section of the concerned RDOs to monitor the report on the requisition, sales and remittances of documentary stamps; and (c) create a policy for the strict monitoring of the requisition, issuance, sale and remittance of the proceeds of the sale of documentary stamps.

Disbursement Books

7. The account, Subsidy to Regional Office/Staff Bureaus of ₱109.911 million did not reconcile with its reciprocal account, Subsidy from Central Office of

We recommended and Management agreed to require the Chief of DAD to:

a. Periodically reconcile the account, Subsidy to Regional Office/Staff Bureaus with the account, Subsidy from Central Office maintained by the RROs;

b. Instruct the NO accounting to regularly provide the RROs with copies of the JEVs for the immediate recognition of the fund transfers; and

c. Require the Chief, RFD to acknowledge the receipt thereof.

8. Payment of Special Counsel Allowance amounting to P2,850 million for BIR-NO, RROs 2, 5, 6, 7 and 8 was erroneously charged to Legal Services account under Maintenance and Operating Expenses (MOOE) instead of Other Personnel Benefits account under Personnel Services (PS) contrary to the General Provisions of the General Appropriations Act (GAA) of CYs 2015 and 2016. Furthermore, taxes were not withheld from payment of SCA amounting to P2,138 million in RROs 4, 5, 6 and 8 in violation of the provisions of Revenue Regulation (RR) No. 02-98, as affirmed by BIR Ruling No. 085-13.

We recommended that Management:

a. In NO, RROs 2, 5, 6 and 7, require the concerned Chief Accountant to recognize all payments of Special Counsel Allowance using Other Personnel Benefits account under the Personnel Services; and

b. In RROs 4, 5, 6 and 8, compute and collect the corresponding tax on the Special Counsel Allowance paid to the concerned lawyer personnel and recognize as Due from Officers and Employees.

9. In RROs 2, 3, 5, 8, 10, 11, 18 and 19, financial reports together with the disbursement vouchers, liquidation reports, and their corresponding supporting documents were not submitted or submitted beyond the prescribed deadlines to the Audit Team, precluding it from conducting timely audit to ascertain the validity and regularity of the transactions.

We recommended that Management direct the Finance and Administrative Division of the concerned RROs to submit the financial reports together with the DVs, ORs, payrolls and their corresponding supporting documents within the prescribed deadline and monitor closely to ensure effective compliance. In case of repeated non-submission of reports or delay in the submission of required reports, an appropriate sanction should be imposed by Management to the officials and employees concerned who are responsible for the submission of such reports and documents.
The foregoing observations together with the corresponding recommendations were discussed with the concerned officials during the exit conference on May 24, 2017. Management views and comments were incorporated in the report, where appropriate.

G. Status of Audit Suspensions, Disallowances and Charges

For CY 2016, BIR has suspensions, disallowances and charges of ₱7.313 million, ₱51.327 million and ₱12.821 million, respectively, which still remained unsettled.

H. Status of Implementation of Prior Years’ Audit Recommendations

Of the 210 audit recommendations embodied in the CY 2015 Consolidated Management Letter, 64 were implemented, 113 were partially implemented, and 33 were not implemented. Details are discussed in Part III of this Report.