



Republic of the Philippines
COMMISSION ON AUDIT
National Government Sector
Cluster 5, Education and Employment
Commonwealth Ave., Quezon City

INDEPENDENT AUDITOR'S REPORT

Honorable TEOFILO S. PILANDO, JR

Chairman

Professional Regulation Commission

P. Paredes St., Sampaloc

Manila

Report on the Audit of the Financial Statements

Qualified Opinion

We have audited the financial statements of the Professional Regulation Commission (PRC), which comprise the Statement of Financial Position as at December 31, 2017, and the Statements of Financial Performance, Statement of Changes in Net Assets/Equity, Statement of Cash Flows, Statement of Comparison of Budget and Actual Amounts for the year then ended, and Notes to the Financial Statements, including a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the PRC as at December 31, 2017, and its financial performance, changes in net assets/equity, cash flows, comparison of budget and actual amounts, for the year then ended and notes to the financial statements, including a summary of significant accounting policies in accordance with Philippine Public Sector Accounting Standards (PPSASs).

Basis for Qualified Opinion

As discussed in detail in Part II of this Report, the following audit observations affected the fair presentation of the financial statements of the PRC, to wit:

1. Unrecovered penalties for late remittances of collections to the National Treasury (NT) amounting to ₱137,349,594.35 excluding interest by the Development Bank of the Philippines - Data Center, Inc. (DBP-DCI) as the service provider of the PRC on its online collection system of fees on annual registration and examination including surcharges due to the failure of DBP-DCI to comply with its obligations as agreed upon in the Memorandum of Agreement (MOA) and an unauthorized collections by Dragonpay Corporation of ₱100,703,643.00 of which ₱12,115,300.00 remained undeposited to the NT.

2. CY 2017 Financial Statements were not restated to reflect prior year errors and adjustments totaling ₱15,055,451.47 which is not in compliance with Sections 42 (b) and 43, Chapter 19 of the Government Accounting Manual (GAM), Volume I.
3. Non-adherence to the provisions under Section 89 of PD No.1445 and COA Circular No. 97-002 dated February 10, 1997 and other pertinent regulations on the granting, utilization and liquidation of cash advances, and the absence of proper monitoring resulted in the accumulation of ₱38,589,508.28 unliquidated or unsettled cash advances, which likewise, misstated the expense and income account as of year-end.
4. The accuracy and existence of the reported balance of Property, Plant and Equipment (PPE) accounts totaling ₱326,323,664.41 are unreliable due to (a) difference of ₱113,149,456.88 between the Report on the Physical Count of PPE and the General Ledgers; (b) previous years negative balances of ₱27,823,577.27 and undetermined forwarded balances of ₱4,664,797.55; (c) items below the ₱15,000.00 capitalization threshold still included in the PPE accounts; (d) no provision for depreciation of some PPE accounts; and (e) understatement of Accumulated Depreciation by ₱196,188,766.34 and Depreciation Expenses of ₱10,374,932.44.
5. The Accounts Payable totaling ₱50,846,260.85 is overstated by ₱14,624,351.24 due to inclusion of payables totaling ₱13,508,047.49 which have been outstanding for more than two years and remained unreverted to Accumulated Surplus/ (Deficit) account contrary to Section 98 of PD No. 1445; and erroneous entries totaling ₱1,116,303.75 which remained unadjusted in the books of accounts.

We conducted our audit in accordance with International Standards of Supreme Audit Institutions (ISSAIs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the agency in accordance with the ethical requirements that are relevant to our audit of the financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the PPSAS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. Those charged with governance are responsible for overseeing PRC's financial reporting process.


Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Our audit involves performing procedures to obtain evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's professional judgment, including the assessment of the risk of material misstatement of the financial statements whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the agency's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the agency's internal control. Our audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management, as well as evaluating the overall presentation of the financial statements.

COMMISSION ON AUDIT

By:


OFELIA A. MONICO
State Auditor V
Supervising Auditor

June 15, 2018