



Republic of the Philippines
COMMISSION ON AUDIT
Commonwealth Avenue, Quezon City
CORPORATE GOVERNMENT SECTOR
Cluster 3 – Public Utilities

August 5, 2021

GEN. REYNALDO I. BERROYA (ret.)

Administrator

Light Rail Transit Authority

LRTA Compound, Marcos Highway, Santolan, Pasig City

OFFICE OF THE ADMINISTRATOR
DATE: AUG. 05, 2021
TIME: 06:20 P.m.
RECEIVED BY: MARVIN *[Signature]*
LIGHT RAIL TRANSIT AUTHORITY

Dear Gen. Berroya:

Pursuant to Section 2, Article IX-D of the Philippine Constitution and Section 43 of Presidential Decree No. 1445, otherwise known as the Government Auditing Code of the Philippines, we transmit herewith our report on the results of the audit of the accounts and transactions of the **Light Rail Transit Authority (LRTA)** for the years ended December 31, 2020 and 2019.

The report consists of four parts: I - Independent Auditor's Report and Audited Financial Statements, II - Observations and Recommendations, and III - Status of Implementation of Prior Year's Audit Recommendations.

The Auditor rendered a qualified opinion on the fairness of presentation of the financial statements of the LRTA due to the following:

1. The faithful representation of Property Plant and Equipment (PPE) with carrying amount of P47.380 billion as at December 31, 2020 was not established due to the following errors and deficiencies, contrary to paragraph 27 of International Public Sector Accounting Standard (IPSAS) 1: a) unaccounted variance amounting to P5.634 million between the Physical Inventory of PPE against the Property Card Record maintained by the Asset Management Division (AMD); b) PPE sold thru public auction was not derecognized contrary to IPSAS 17, resulting to overstatement of the carrying amount of PPE by P141.459 million; c) land subject for lease with an aggregate cost of P508.584 million was not reclassified to Investment Property contrary to IPSAS 16; and d) abnormal balance of some PPE items costing P4.415 million.
2. The correctness and reliability of Other Assets account amounting to P1.488 billion as at December 31, 2020 was not ascertained due to lack of details and records to support the subsidiary ledger balances contrary to paragraph 27 of IPSAS 1.
3. The accounts Due to Line I North Extension Project (NEP) and Due to Line 2 PMO amounting to P1.283 billion and P77.993 million, respectively, as at December 31, 2020 remained unadjusted to proper accounts due to improper recognition of transactions and lack of supporting documents to substantiate the claims contrary to paragraphs 3.10 and 3.12 of the Conceptual Framework for General Purpose Financial Reporting (GPFR), resulting to misstatement of undetermined amount.

4. The completeness and accuracy of the balance of Cash in Bank (CIB) account with aggregate amount of P5.854 billion as at December 31, 2020 was not established due to the following errors and deficiencies which are contrary to paragraphs 3.10 and 3.12 of IPSAS 1: a) absence of bank reconciliation statements for the 22 CIB accounts with balances totaling P4.452 billion; b) unrecorded book reconciling items amounting to P206.153 million; c) stale checks amounting to P2.641 million were not yet reverted to Cash in Bank; d) dormant foreign currency – savings account with recorded peso equivalent of P3.422 million since 2010 was not translated as of reporting date; and e) time deposit – foreign currency with peso equivalent of P3.137 million was not translated using the closing rate as at December 31, 2020 contrary to paragraph 27 of IPSAS 4.
5. The reliability of Receivables with carrying amount of P1.299 billion as of December 31, 2020 was not ascertained due to: a) unadjusted balance amounting to P399.520 million of Due from Line 1 South Extension Project (SEP) account and unsupported adjustments made amounting to P1.659 billion to close the reciprocal accounts; and b) unreconciled variance amounting to P103.977 million between the books of LRTA and PS-DBM for the account Due from National Government Agencies, contrary to Paragraphs 3.10 and 3.12 of Conceptual Framework for GPF.

For the above-mentioned observations which caused the issuance of a qualified opinion, we recommended that Management:

1. a. Require the AMD and Accounting Division to reconcile the variance between the Physical Inventory Report and the PPE Ledger Card maintained by the Accounting Division;
- b. Require the Accounting Division to prepare the necessary adjustments to derecognize the disposed unserviceable Light Rail Vehicles (LRV) and Conveying System (Escalators and Elevators) with carrying amount P141.459 million;
- c. Require the Accounting Division to reclassify the Land subject for lease amounting to P508.584 million to Investment Property; and
- d. Require the Accounting Division to analyze the negative balances of PPE items and take up the required adjustments.
2. Require the Accounting Division to prepare the necessary schedules on specific nature and type of the Other Assets account, provide sufficient details and records of transactions, and take up the necessary adjustment based on the earliest available records.
3. Strictly implement the 2019 Revised Chart of Accounts in the recognition of transactions, make the necessary adjustments on accounts Due to Line I North Extension Project (NEP) and Due to Line 2 PMO amounting to P1.283 billion and P77.994 million, respectively, provide supporting documents pursuant to Sections 4.6 and 114 of P.D. 1445 and consider seeking an opinion from the Technical Assistance Support Services of the GAS on the proper adjustments or disposition of said balances.
4. Require the Accounting Division to:
 - a. Prepare Bank Reconciliation Statements for the 22 bank accounts and submit the same to the Audit Team for verification;
 - b. Prepare adjusting entries for the identified book reconciling items;

- c. Revert stale checks amounting to P2.641 million to the respective Cash in Bank accounts;
 - d. Make representation with the foreign banks or with the appropriate foreign office (Embassy) to determine the current bank balances and real status of the Foreign Currency – Savings Account and Time Deposit – Foreign Currency Account; and
 - e. Translate the latest foreign currency balance of Time Deposit – Foreign Currency Account using the closing rate as at last banking day of December and accordingly prepare adjusting entries in accordance with IPSAS 4.
5. Require the Accounting Division to:
- a. Submit pertinent supporting documents on the adjustment of the reciprocal accounts amounting to P1.659 billion and consider seeking an opinion from the Technical Assistance Support Services of the Government Accountancy Sector (GAS) on the proper disposition of the remaining balance of reciprocal account – Due from Line 1 SEP amounting to P399.520 million; and
 - b. Reconcile the variance amounting to P103.977 million of the Due from National Government Agencies account with the records of PS-DBM and make the necessary adjustments where necessary.

The other significant observations and recommendations that need immediate action are as follows:

1. Despite completion of 10 projects thru the Procurement Service of Department of the Budget and Management (PS-DBM), the Procuring Agent tapped by LRTA, submission of Liquidation Report and refund of unexpended balance were not enforced by LRTA from PS-DBM as required under COA Circular No. 94-013 and the pertinent provisions of the Memorandum of Agreement between LRTA and PS-DBM. Also, out of the total fund transfer of P707.997 million, only 10 out of 16 projects or 62.50 percent with total cost of P397.821 million were completed by Light Rail Transit Authority (LRTA) thru the PS-DBM.

Recommendation:

Require the Procuring Agent (PS-DBM) to render Liquidation Report and to refund the unexpended/unutilized balance amounting to P27.853 million including interest earned for the 10 completed projects pursuant to the provisions of the MOA and COA Circular No. 94-013.

2. The Quarterly Concession Payments payable to Government (DOTr and LRTA) amounting to P333.932 million for Manila LRT 1 Extension, Operation and Maintenance Project, classified as due and demandable was not paid by the Concessionaire as of December 31, 2020, contrary to Sections 20.5 and 20.6 a to d of the Concession Agreement.

Recommendation:

Formally request DOTr to demand payment by the Concessionaire of the outstanding balance of the Concession Payments of P333.932 million as of December 31, 2020.

The foregoing audit observations, together with the recommended courses of action which were discussed by the Audit Team with concerned Management officials and staff during the exit conference conducted on June 02, 2021, are discussed in detail in Part II of the report.

We respectfully request that the recommendations contained in Parts II and III of the report, be fully implemented and that this Commission be informed of the actions taken thereon by accomplishing the Agency Action Plan and Status of Implementation form (copy attached) within 60 days from the date of receipt hereof.

We acknowledge the support and cooperation that the Management extended to the Audit Team, thus facilitating the completion of the report.

Very truly yours,

COMMISSION ON AUDIT

By:


MA. LYDIA F. DE JOYA
Director IV

Copy furnished:

The President of the Republic of the Philippines
The Vice President
The President of the Senate
The Speaker of the House of Representatives
The Chairperson – Senate Finance Committee
The Chairperson – Appropriations Committee
The Secretary of the Department of Budget and Management
The Governance Commission for Government-Owned or Controlled Corporations
The UP Law Center
The National Library

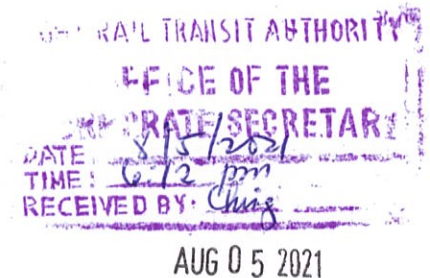


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The foregoing audit observations, together with the recommended courses of action which were discussed by the Audit Team with concerned Management officials and staff during the exit conference conducted on June 02, 2021, are discussed in detail in Part II of the report.

In a letter of even date, we requested the LRTA Administrator to implement the recommendations contained in Parts II and III of the report and to inform this Commission of the actions taken thereon within 60 days from the date of receipt.

We acknowledge the support and cooperation that the Management extended to the Audit Team, thus facilitating the completion of the report.

Very truly yours,

COMMISSION ON AUDIT

By:


MA. LYDIA F. DE JOYA
Director IV

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The Chairperson – Appropriations Committee
The Secretary of the Department of Budget and Management
The Governance Commission for Government-Owned or Controlled Corporations
The UP Law Center
The National Library