

REPUBLIC OF THE PHILIPPINES
COMMISSION ON AUDIT
Quezon City

December 27, 1973

His Excellency
The President of the Philippines
Malacañang, Manila.

Sir:

As an integral part of the annual financial report of the Government, this consolidated report on the financial condition and results of operations of 70 government-owned and/or controlled corporations, self-governing boards, commissions and agencies is being submitted in accordance with Section 2, Article XII-D of the new Constitution of the Philippines. The attached report gives a comparative analysis of the financial position of 7 government financing corporations, 5 government public utilities, 39 government developmental and other corporations, and 19 self-governing boards, commissions and agencies individually and as a whole as of the end of fiscal years 1971-72 and 1972-73, as well as the results of their operations for the years then ended. This is the first consolidated report on these governmental bodies submitted pursuant to the new Constitution. Said report is separate from the individual annual reports being submitted by each of the 70 institutions.

In view of the material differences in their account classifications, said corporations, boards and commissions are grouped into four categories, namely: government financing corporations, government public utility corporations, developmental and other government corporations, and self-governing boards, commissions and agencies for ease of consolidation and comparability. Allotments from the National Government to some government corporations and self-governing boards, commissions and agencies are likewise included in the annual report for the National Government insofar as they affect the national accounts.

It is hoped that the synthesized statistics on the financial status of government-owned and/or controlled corporations and other similar institutions would enable our policy-making bodies to have a broader perspective in their analysis and understanding thereof.

As of June 30, 1973, the assets of these 70 institutions taken as a whole amounted to ₱38,264.39 million as compared to ₱28,505.90 million as of June 30, 1972, or an increase of ₱9,758.49 million. Their liabilities totaled ₱29,950.58 million as of June 30, 1973 and ₱22,828.24 million as of June 30, 1972, or an increase of ₱7,122.34 million. Their overall net-

worth increased by ₱2,636.15 million from ₱5,677.66 million as of the end of fiscal year 1972 to ₱8,313.81 million at the end of fiscal year 1973.

During fiscal year 1973, these institutions realized a total gross income of ₱3,940.24 million (including allotments of ₱633.62 million from the National Government) as compared to ₱3,339.46 million in 1972 (including allotments of ₱415.99 million, or an increase of ₱600.78 million. Their over-all expenses, on the other hand, surged to ₱3,377.03 million in 1973 from ₱2,869.42 million in 1972, or an increase of ₱507.61 million. Resultant net income of these 70 institutions, therefore, increased by ₱93.17 million from ₱470.04 million in 1972 to ₱563.21 million in 1973. Paid-up capital of these institutions as of June 30, 1973 amounted to ₱4,905.08 million of which ₱4,897.97 million represented government subscriptions and ₱7.11 million represented subscriptions from the private sector.

An analysis of the consolidated statement and reports submitted by these corporations revealed the following:

1. The total expenditures for personal services (salaries and fringe benefits of these 70 institutions amounted to ₱541.49 million, representing 16.03% of their total expenditures. Personal services constituted the biggest expenditure item in the consolidated income statement although there was a decrease from ₱543.36 million in 1972 to ₱541.49 million in 1973, or by ₱1.87 million taking the 70 institutions as a whole. Based on past observations and experience, excesses in expenditures were usually aberted by excessive money resolutions passed covering unnecessary and excessive appropriations for additional personnel and unprogrammed projects.
2. Many of these institutions, particularly the developmental and other corporations, showed apparent lack of working capital and reflected losses in their financial statements.
3. Foreign loans constituted the bulk of total long-term liabilities, amounting to ₱3,352.53 million as of June 30, 1973 and ₱2,181.63 million on June 30, 1972. These do not include amounts due to foreign banks carried under current liabilities. Concomitant with the highly inflationary character of huge loans for infrastructure and economic programs and projects of the government is the problem of debt management. Debts of the nature discussed could have adverse effects on the economy of the country as a whole particularly when foreign loans mature simultaneously.
4. Much capital is tied up in current as well as long-term accounts and loans receivable, totaling ₱8,446.25 million at the end of fiscal year

1973 and ₱7,705.92 million at the end of fiscal year 1972. These exclude loans and discounts appearing in the balance sheets of government financing institutions. Collections of said accounts, particularly the current accounts, could go a long way in improving the cash position of these corporations.

5. The cost of audit of these institutions totaled roughly ₱29.64 million for both fiscal years 1971-72 and 1972-73, or approximately 3/10 of ₱0.01 for every peso of income and expenditure. For fiscal year 1972-73, there was a saving of ₱1.51 million in budgetary outlay.

In view of the disadvantageous position of the Government brought about by the adverse findings previously mentioned, it is recommended that immediate and appropriate action be made to:

1. Set up limits on expenses for personal services (salaries and fringe benefits, including bonuses and allowances).
2. Regulate the powers of various governing boards and commissions particularly in budget execution and program implementation with a view to maximizing use of funds and property for the realization of the objectives of the government corporations, self-governing boards, commissions and agencies.
3. Restudy debt-management policies to minimize interest expenses and direct such policies towards strengthening the banks' equity bases.
4. Intensify collection of accounts and loans receivable to bail out many of these institutions from financial difficulties.

We assure you, Mr. President, of our cooperation in the implementation of the fiscal reforms of your Administration.

Very truly yours,

ISMAEL MATHAY, SR.

Acting Chairman