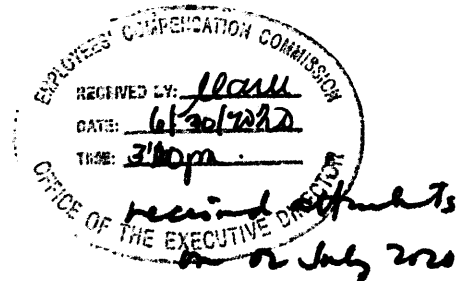




Republic of the Philippines
COMMISSION ON AUDIT
Corporate Government Sector
Cluster 2 – Social Security Services and Housing

June 30, 2020

Ms. Stella Zipagan-Banawis
Executive Director
Employees' Compensation Commission
4th floor, ECC Building, Sen. Gil J. Puyat Avenue,
Makati City



Dear Ms. Banawis:

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 operations of the Employees' Compensation Commission (ECC) for the years ended December 31, 2019 and 2018.

The report consists of the Independent Auditor's Report, the Audited Financial Statements, the Observations and Recommendations and the Status of Implementation of Prior Years' Audit Recommendations.

The Auditor rendered an unmodified opinion on the fairness of the presentation of the financial statements of the Commission as at December 31, 2019 and 2018.

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

1. The existence and validity of the recorded Accounts Receivables as of December 31, 2019 cannot be ascertained due to the presence of dormant, long outstanding receivables from various entities totaling P2.973 million that are not supported with substantial records and documents which is not in conformity with Section 111 (1) of Presidential Decree (P.D.) No. 1445.

We recommended that Management require the Accountant to exhaust all measures to document the said dormant receivables to establish the existence and validity of the receivables and send demand letters to all concerned debtors to enforce collection.

2. The ECC has not yet come up with a Restructuring Plan for approval of the Governance Commission for Government Owned or Controlled Corporations (GCG) to effect the Organizational Structure and Staffing Pattern appropriate for an integrated function and business of both ECC and OSHC which resulted in: (a) redundancy of positions and functions of ECC and OSHC and (b) accountabilities and responsibilities of ECC and OSHC's officials and employees were not properly defined. Such delay in the finalization of the restructuring plan entails higher administrative cost.

We recommended that Management:

- a. Fast track the preparation and submission to GCG of the required Restructuring Plan that considers the proper delineation of the accountabilities and responsibilities of the ECC Executive Director as well as the Center's officials and employees, the Center being a department of ECC, to avoid redundancy of positions and functions; and
- b. In the meantime that the restructuring plan is not yet available, the ECC Board has to revisit the current organizational set up of the ECC Center and to come up with appropriate guidelines to ensure proper check and balance of all its transactions. The same should be considered in the proposed restructuring plan.

The other 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 February 28, 2020, are discussed in Part II of the report.

We respectfully request that the recommendations contained in Parts II and III of the report be implemented and that this Commission be informed of the actions taken thereon by accomplishing the Agency Action Plan and Status of Implementation Form (Annex A) and returning the same to us 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 submission of the report.

Very truly yours,

COMMISSION ON AUDIT

By:

Ma. Lisa P. Inguillo
MA. LISA P. INGUILLO
Director IV
Cluster Director

Copy furnished:

The President of the Republic of the Philippines
The Vice President
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 Presidential Management Staff, Office the President
The UP Law Center
The National Library

EXECUTIVE SUMMARY

INTRODUCTION

The Employees' Compensation Commission (ECC) is a government corporation created by virtue of Presidential Decree (P.D.) No. 626, dated December 27, 1974, as amended and as embodied in Title II of Book IV on Employees' Compensation and State Insurance Fund of the Labor Code of the Philippines. Said P.D. took effect on January 1, 1975 and the ECC became fully operational by March 17, 1975. Under P.D. No. 626, ECC is mandated to provide meaningful and appropriate compensation to workers and their dependents in the event of work-related contingencies such as sickness, injury, disability or death. These benefits are being processed by the Government Service Insurance System (GSIS) and the Social Security System (SSS) for the public and the private sectors, respectively.

The ECC is a quasi-judicial corporate entity attached to the Department of Labor and Employment (DOLE) for policy coordination and guidance. As an appellate body, it decides cases denied by GSIS and SSS which are elevated to the Commission for resolution. Cases denied by ECC are appealable to the Court of Appeals.

The ECC is mandated by law to provide a complete and comprehensive package of benefits and services for workers and their dependents in the event of work-related contingencies. Its mission is to build and sustain among employees and employers a culture of safety and healthful environment in the workplace; ensure at all times that workers are informed of their rights, benefits and privileges under the Employees' Compensation Program; develop and implement innovative policies, programs and projects that meet the needs of workers with work-related contingencies; promptly and fairly resolve all cases brought before it; restore dignity and self-esteem among occupationally disabled workers; and safeguard the integrity of the State Insurance Fund (SIF). All revenues that are not needed to meet the current operational expenses shall be accumulated in a fund to be known as the SIF. Under P.D. No. 626, the GSIS and the Social Security System SSS shall manage the ECC funds.

The ECC is exempted from levy and other taxes pursuant to Article 204 of P.D. No. 626 as amended on December 27, 1974.

On November 4, 1987, President Corazon C. Aquino issued Executive Order (EO) No. 307, establishing an Occupational Safety and Health Center (OSHC) in the ECC. The OSHC is envisioned as the national authority for research and training on matters pertaining to safety and health at work. It provides the expertise and intervention mechanism to improve workplace conditions in the Philippines.

The Center has a dual mandate of protecting Filipino workers against accidents and illnesses and promoting worker's welfare through effective programs that enhance productivity, worker's well-being and affording social protection to its client sector. It adopts a multi-sectoral strategy with its partners – business sector, worker's group, other Government Organizations (GOs) and Non-Government Organizations (NGOs) and the academe, to fulfill its mandate.

In July 1991, the OSHC has been designated as the national CIS or Centre International d'Informations de Securite et de Sante au Travail (International Occupational Safety and Health Information Center) for the Philippines to become the focal agency which receives information matters from the CIS Center in Geneva and the Asia-Pacific Regional Program on Occupational Safety and Health based in Bangkok, which is under the International Labor Organization (ILO), and disseminates these matters of the inter-agency committee and the other data users in the Philippines. This is consistent with its critical responsibility to provide access and improve the quality of occupational safety and health information in the Philippine workplace. CIS Center is the knowledge management arm of the InFocus Programme on Safety and Health at Work and the Environment (SafeWork).

The programmed activities of OSHC's Regional Extension Units (REUs) include learning sessions on Developing Occupational Safety and Health Services, Risk Assessment for the Prevention of Sexual Harassments, Industrial Hygiene, Work Environment Measurement, Mandatory Safety Trainings, and Safety Audits.

ECC's registered office address is at the 4th and 5th floors of ECC Building, Sen. Gil J. Puyat Avenue, Makati City, while the registered office of the OSHC is at North Avenue corner Agham Road, Diliman, Quezon City.

The governing body of the ECC is the Board of Commissioners composed of five ex-officio members, namely: the Secretary of Labor and Employment as Chairman, the GSIS General Manager, the SSS Administrator, the Chairman of the Philippine Medical Care Commission, and the Executive Director of the ECC Secretariat, and two appointive members, one of whom shall represent the employees and the other, the employers, to be appointed by the President of the Philippines for a term of six years.

The ECC's corporate operating budget is chargeable against the State Insurance Fund (SIF), which shall not exceed four per cent of the 12 per cent loading fund based on the total of the SIF and its earnings as at December 31 of the preceding year, to be shared by the SSS and GSIS on a 70 per cent and 30 per cent basis, respectively. The SSS and GSIS shall advance on a quarterly basis the remittances of allotment of the loading fund.

The ECC 2019 Corporate Operating Budget (COB) amounting to P609.834 million as approved by the Department of Budget and Management (DBM) were sourced from the remittances of GSIS and SSS as mandated under P.D. No. 626 and from its income/retained earnings. The budget utilization of the ECC is shown below:

	DBM Approved Budget	Utilization	Variance
Personal services	161,056,000	161,379,149	(323,149)
Maintenance and other operating expense/Financial expenses	341,997,000	213,479,831	128,517,169
Capital outlay	106,781,000	19,688,058	87,092,942
	609,834,000	394,547,038	215,286,962

FINANCIAL HIGHLIGHTS (In Philippine Peso)

I. Comparative Financial Position

	2019	2018	Increase (Decrease)
Assets	948,823,781	915,552,233	33,271,548
Liabilities	141,997,435	101,462,462	40,534,973
Equity	806,826,346	814,089,771	(7,263,425)

II. Comparative Results of Operations

	2019	2018	Increase (Decrease)
Income/Finance income	390,063,941	309,857,721	80,206,220
Expenses/Finance costs	397,327,366	319,630,460	77,696,906
Net (Deficit)/Surplus	(7,263,425)	(9,772,739)	2,509,314

OPERATIONAL HIGHLIGHTS

Activities	Targets	Accomplishments	Variance
I. ECC			
1. Development and Review of Policies and Issuances on the Employees' Compensation Program (ECP)	5	5	0
2. Rehabilitation Services to PWRDs	721	892	171
3. ECP Advocacy Seminar	693	752	59
4. Development and Production of IEC Materials	5	10	5
5. ECP Dissemination through Quad- Media	48	48	0
6. Disposition of EC Appealed Cases	75	75	0
II. OSHC			
1. Capacity building thru training and information activities:			
a. Conduct of occupational safety and health (OSH) trainings	145 batches	284 batches	(139) batches
b. Develop information materials for dissemination to partners	8	8	0
2. Technical assistance and services: work environment measurement and personnel protective equipment	Demand driven	86,027 workers; 6,489 tests; 3,358 specimen; 546 requests	
3. Research completed	3	3	0
4. Organize summits/conferences	6	7	(1)
5. Conduct of 11th Gawad Kaligtasan at Kalusugan (GKK)	1	1	0

SCOPE OF AUDIT

Our audits covered the significant accounts and operations of the ECC for the calendar years 2019 and 2018. Our audits were aimed to ascertain the accuracy of financial records and reports and the fairness of the presentation of the financial statements in accordance with the provisions of International Public Sector Accounting Standards (IPSASs) and were also made to assess the propriety of the financial transactions and compliance of ECC with laws, rules and regulations.

AUDITOR'S OPINION

We rendered an unmodified opinion on the fairness of the presentation of the financial statements of the ECC for the years ended December 31, 2019 and 2018.

SUMMARY OF SIGNIFICANT AUDIT OBSERVATIONS AND RECOMMENDATIONS

A. Financial Audit

1. The existence and validity of the recorded Accounts Receivables as of December 31, 2019 cannot be ascertained due to the presence of dormant, long outstanding receivables from various entities totaling P2.973 million that are not supported with substantial records and documents which is not in conformity with Section 111 (1) of Presidential Decree (P.D.) No. 1445.

We recommended that Management require the Accountant to exhaust all measures to document the said dormant receivables to establish the existence and validity of the receivables and send demand letters to all concerned debtors to enforce collection.

B. Others

2. The ECC has not yet come up with a Restructuring Plan for approval of the Governance Commission for Government Owned or Controlled Corporations (GCG) to effect the Organizational Structure and Staffing Pattern appropriate for an integrated function and business of both ECC and OSHC which resulted in: (a) redundancy of positions and functions of ECC and OSHC and (b) accountabilities and responsibilities of ECC and OSHC's officials and employees were not properly defined. Such delay in the finalization of the restructuring plan entails higher administrative cost.

We recommended that Management:

- a. Fast track the preparation and submission to GCG of the required Restructuring Plan that considers the proper delineation of the accountabilities and responsibilities of the ECC Executive Director as well as the Center's officials and employees, the Center being a department of ECC, to avoid redundancy of positions and functions; and

- b. In the meantime, that the restructuring plan is not yet available, the ECC Board has to revisit the current organizational set up of the ECC Center and to come up with appropriate guidelines to ensure proper check and balance of all its transactions. The same should be considered in the proposed restructuring plan.
3. Occupancy for free of half of the floor of ECC building by the Employers' Confederation of the Philippines (ECOP), a private organization, since 1996, resulted in lost opportunity for ECC to earn income from rent.

We recommended that Management:

- a. Strictly comply with Section 4 (2) of P.D. No. 1445. Accordingly, terminate the agreement of ECC with ECOP that granted the free occupancy of ECC's office space; and
- b. Offer the space to tenants through public bidding.

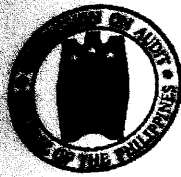
The other audit observations together with the recommendations are discussed in Part II of this report.

STATUS OF SUSPENSIONS, DISALLOWANCES AND CHARGES AS AT DECEMBER 31, 2019

As at December 31, 2019, audit disallowances and charges amounted to P3.588 million and P434,400, respectively. All audit suspensions were settled during the year.

STATUS OF IMPLEMENTATION OF PRIOR YEARS' AUDIT RECOMMENDATIONS

Out of the 30 audit recommendations embodied in the prior years' Annual Audit Report, 21 were fully implemented, seven were partially implemented and two were not implemented. Details are presented in Part III of this Report.



Republic of the Philippines
COMMISSION ON AUDIT
Commonwealth Avenue, Quezon City

INDEPENDENT AUDITOR'S REPORT

THE BOARD OF COMMISSIONERS
Employees' Compensation Commission
355 Sen. Gil J. Puyat Avenue, Makati City

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Employees' Compensation Commission (ECC), which comprise the statements of financial position as at December 31, 2019 and 2018, and the statements of financial performance, statements of changes in net assets/equity, statements of cash flows, statement of comparison of budget and actual amounts for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of ECC as at December 31, 2019 and 2018, and its financial performance and its cash flows for the years then ended in accordance with International Public Sector Accounting Standards (IPSASs).

Basis for Opinion

We conducted our audits 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 Financial Statements* section of our report. We are independent of ECC in accordance with the Code of Conduct and Ethical Standards for COA Officials and Employees (Code of Ethics) together with the ethical requirements that are relevant to our audit of the financial statements in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IPSASs, 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.

In preparing the financial statements, management is responsible for assessing ECC's ability to continue as a going concern, disclosing, as applicable, matters related to going

concern and using the going concern basis of accounting unless management either intends to liquidate ECC or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing ECC'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.

As part of an audit in accordance with ISSAIs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 ECC's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- Conclude on the appropriateness of the Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on ECC's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the ECC to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.