



Republic of the Philippines
COMMISSION ON AUDIT
Commonwealth Ave., Quezon City

ANNUAL AUDIT REPORT

on the

EMPLOYEES' COMPENSATION COMMISSION

For the Years Ended December 31, 2017 and 2016

EXECUTIVE SUMMARY

INTRODUCTION

The Employees' Compensation Commission (ECC) and the State Insurance Fund (SIF) were created by virtue of Presidential Decree (PD) No. 626, dated December 27, 1974, as amended and as embodied in Title II of Book IV of the Labor Code of the Philippines. Said PD took effect on January 1, 1975 and the ECC became fully operational by March 17, 1975. Under PD 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 it for resolution. Cases denied by ECC are appealable to the Court of Appeals.

The governing body of the ECC is the Board of Commissioners composed of (a) six ex-officio members, namely: The Secretary of DOLE, the GSIS General Manager, the SSS President, the Chairman of Philippine Health Insurance Corporation, the Chairman of Civil Service Commission and the Executive Director of ECC; and (b) two appointive members, representing the employees and the employers, to be appointed by the President of the Philippines for a term of six years. The Board is assisted by the ECC Secretariat in discharging its functions.

As at December 31, 2017, ECC has 64 regular employees, 27 casual employees and six co-terminus employees assigned in the Office of the Board of Commissioners.

The registered office of the Commission is located at the 4th and 5th floors of ECC Building, Sen. Gil J. Puyat Avenue, Makati City. It has 13 regional offices throughout the country.

The ECC 2017 Corporate Operating Budget (COB) amounting to P180.481 million as approved by the Department of Budget and Management (DBM) were sourced from the remittances of GSIS and SSS as mandated under PD No. 626 and from its income/retained earnings. The budget utilization of the ECC is shown below:

	DBM Approved Budget	Utilization	Variance
Personal services	66,436,000	64,508,927	1,927,073
Maintenance and other operating expense/Financial cost	83,509,000	75,866,580	7,642,420
Capital outlay	30,536,000	6,481,020	24,054,980
	180,481,000	146,856,527	33,624,473

FINANCIAL HIGHLIGHTS (In Philippine Peso)

I. Comparative Financial Position

	2017	2016	Increase (Decrease)
Assets	474,429,331	485,087,947	(10,658,616)
Liabilities	50,119,746	43,125,334	6,994,412
Equity	424,309,585	441,962,613	(17,653,028)

II. Comparative Results of Operations

	2017	2016	Increase (Decrease)
Income/Finance income	125,962,834	133,537,735	(7,574,901)
Expenses/Finance costs	143,615,862	106,494,316	37,121,546
Net (Deficit)/Surplus	(17,653,028)	27,043,419	(44,696,447)

OPERATIONAL HIGHLIGHTS

Activities	Targets	Accomplishments	Variance
1. Development and Review of Policies and Issuances on the Employees' Compensation Program (ECP)	5	13	8
2. Rehabilitation Services to PWRDs	853	794	(59)
3. ECP Advocacy Seminar	506	815	309
4. Development and Production of IEC Materials	5	4	(1)
5. ECP Dissemination through Quad-Media	50	57	7
6. Disposition of EC Appealed Cases	118	118	-

SCOPE OF AUDIT

Our audits covered the significant accounts and operations of the ECC for calendar years 2017 and 2016. 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 Philippine Public Sector Accounting Standards (PPSAS) 33, *First-time Adoption of Accrual Basis Financial Statements 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, 2017 and 2016.

SUMMARY OF SIGNIFICANT AUDIT OBSERVATIONS AND RECOMMENDATIONS

1. Accounts payable totaling to P817,589 remained dormant for more than five years and not supported with documents to prove the validity of the obligations, contrary to Section 4 (6) of P.D. 1445.

1.1 We recommended that Management:

- a. Strictly comply with Section 4 (6) of P.D. 1445 on recognition of Accounts payable based on valid obligations duly supported with documents;
- b. Require the Accountant to exert best efforts to analyze and review the accounts and to locate the documents to substantiate the accounts payable balance; and
- c. Revert all Accounts payable that are not supported with valid obligations and documents to the Retained earnings.

2. The ECC utilized and attributed P8.829 million or 88.76 per cent of its CY 2017 Gender and Development (GAD) Budget of P9.947 million, which is 5.81 per cent of its original Corporate Operating Budget (COB), making the Commission a gender-responsive agency. The GAD Plan and Budget (GPB) was submitted to the DOLE on October 7, 2015, however, the said GPB was not submitted by DOLE to the Philippine Commission on Women (PCW) on time, hence, not endorsed to the DBM for approval, contrary to Joint Circular No. 2012-01 of PCW-National Economic Development Authority (NEDA)-DBM.

2.1 We recommended and Management agreed to coordinate with DOLE for the submission of GAD Plan and Budget to PCW within the deadline for its approval and endorsement to DBM, in order to comply with the guidelines of Joint Circular No. 2012-01 of PCW-NEDA-DBM.

STATUS OF IMPLEMENTATION OF PRIOR YEARS' AUDIT RECOMMENDATIONS

Out of the six prior years' audit recommendations, three were fully implemented, two were partially implemented and one was not implemented. Details are presented in Part III of this Report.

PART I

AUDITED FINANCIAL STATEMENTS

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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 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, 2017 and 2016, 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 financial statements present fairly, in all material respects, the financial position of the ECC as at December 31, 2017 and 2016, and its financial performance and its cash flows for the years then ended in accordance with Philippine Public Sector Accounting Standards (PPSAS).

Basis for Opinion

We conducted our audits in accordance with International Standards of Supreme Audit Institutions (ISSAIs). Our responsibilities under those standards are described in the *Auditor's Responsibilities for the Audit of Financial Statements* section of our report. We are independent of the ECC in accordance with the Code of Ethics for Government Auditors in the Philippines (Code of Ethics) together 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 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 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. In preparing the financial statements, Management is responsible for assessing the 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 the ECC or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the 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 the 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 the 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 communicated 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.

Report on Other Legal and Regulatory Requirements

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information for the year ended December 31, 2017 required by the Bureau of Internal Revenue as disclosed in Note 25 to the financial statements is presented for purposes of additional analysis and is not a required part of the basic financial statements prepared in accordance with PPSAS. Such supplementary information is the responsibility of Management. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements.

COMMISSION ON AUDIT


ELIZABETH M. SAVELLA
Supervising Auditor

June 25, 2018



STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS


The management of EMPLOYEES' COMPENSATION COMMISSION (ECC) is responsible for the preparation and fair presentation of the financial statements, including the schedules attached therein, for the years ended December 31, 2017 and December 31, 2016 in accordance with the prescribed financial reporting framework indicated therein, 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 the EMPLOYEES' COMPENSATION COMMISSION'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 EMPLOYEES' COMPENSATION COMMISSION or to cease operations, or has no realistic alternative to do so.


The Board of Commissioners is responsible for overseeing the EMPLOYEES' COMPENSATION COMMISSION's financial reporting process.

The Board of Commissioners reviews and approves the financial statements, including the schedules attached therein, and submits the same to the stockholders or members.

The Commission on Audit, through its authorized representative, has examined the financial statements of the ECC pursuant to Section 2, Article IX-D of the Philippine Constitution and Section 28 of the Presidential Decree No. 1445, otherwise known as the Government Auditing Code of the Philippines. The audit was conducted in accordance with the International Standards of Supreme Audit Institutions and the auditor, in its report to the stockholders or members, has expressed its opinion on the fairness of presentation upon completion of such audit.


CIRIACO A. LAGUNZA III
Chairperson – Designate
Department of Labor and Employment


STELLA ZIPAGAN-BANAWIS
Executive Director


MARIA TERESA M. URBANO
Chief, Finance Division

Signed this 22nd day of June 2018

EMPLOYEES' COMPENSATION COMMISSION
STATEMENTS OF FINANCIAL POSITION
As at December 31, 2017 and 2016
(In Philippine Peso)

	Note	2017	2016 (As restated)	Jan. 1, 2016 (As restated)
ASSETS				
Current Assets				
Cash and cash equivalents	4	11,881,874	26,039,342	392,027,962
Other investments	5	405,607,324	411,954,246	-
Receivables - net	6	15,985,520	9,366,977	19,025,062
Inventories	7	217,273	222,832	298,400
Other current assets	8	1,324,156	1,332,030	1,333,055
		435,016,147	448,915,427	412,684,479
Non-current Assets				
Investment property	10	167,483	167,483	167,483
Property and equipment - net	11	36,529,649	33,288,985	37,491,420
Other non-current assets - net	9	2,716,052	2,716,052	3,380,395
		39,413,184	36,172,520	41,039,298
TOTAL ASSETS		474,429,331	485,087,947	453,723,777
LIABILITIES				
Current Liabilities				
Financial liabilities	12	24,928,100	28,052,699	28,939,770
Inter-agency payables	13	661,894	1,082,783	78,822
Trust liabilities	14	186,433	186,433	272,573
Other payables	15	6,886,163	-	-
		32,662,590	29,321,915	29,291,165
Non-current Liabilities				
Financial liabilities	12	17,457,156	13,803,419	13,361,258
		17,457,156	13,803,419	13,361,258
TOTAL LIABILITIES		50,119,746	43,125,334	42,652,423
TOTAL ASSETS LESS TOTAL LIABILITIES		424,309,585	441,962,613	411,071,354
NET ASSETS/EQUITY				
Government equity				
Government equity		441,962,613	414,919,194	396,299,689
Add: Net surplus/(deficit)		(17,653,028)	27,043,419	14,771,665
TOTAL NET ASSETS/EQUITY		424,309,585	441,962,613	411,071,354

The Notes on pages 10 to 47 form part of these financial statements.

EMPLOYEES' COMPENSATION COMMISSION
STATEMENTS OF FINANCIAL PERFORMANCE
For the Years Ended December 31, 2017 and 2016
(In Philippine Peso)

	Note	2017	2016
REVENUE	16		
Transfer from other government entities		110,566,000	118,749,000
Other revenue		11,048,491	10,502,298
		121,614,491	129,251,298
CURRENT OPERATING EXPENSES			
Personal services	17	64,508,927	53,729,090
Maintenance and other operating expenses	18	75,856,356	48,792,761
Non-cash expenses	19	3,240,355	3,972,465
		143,605,638	106,494,316
SURPLUS FROM CURRENT OPERATION		(21,991,147)	22,756,982
FINANCE INCOME (COSTS)			
Finance income	20	4,348,343	4,286,437
Finance costs	21	(10,224)	-
		4,338,119	4,286,437
NET SURPLUS/(DEFICIT) FOR THE PERIOD		(17,653,028)	27,043,419

The Notes on pages 10 to 47 form part of these financial statements.

EMPLOYEES' COMPENSATION COMMISSION
STATEMENTS OF CHANGES IN NET ASSETS/EQUITY
For the Years Ended December 31, 2017 and 2016
(In Philippine Peso)

		Accumulated Surplus/(Deficit)	
	Note	2017	2016
BALANCE AT JANUARY 1		441,962,613	411,071,354
Prior period adjustments	22	-	3,847,840
ADJUSTED BALANCE AT JANUARY 1		441,962,613	414,919,194
Add:			
Changes in Net Assets/Equity for the Calendar Year			
Surplus/(Deficit) for the period		(17,653,028)	27,043,419
BALANCE AT DECEMBER 31		424,309,585	441,962,613

The Notes on pages 10 to 47 form part of these financial statements.

EMPLOYEES' COMPENSATION COMMISSION
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2017 and 2016
(In Philippine Peso)

	Note	2017	2016 (As restated)
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipt of loading fund from the SSS and GSIS		102,273,550	126,372,267
Collection of receivables from tenants		16,392,653	14,333,260
Return of cash advance		1,379,582	1,448,791
Cash receipts from International Labor Organization		613,418	-
Cash receipts from overpayments/disallowances		128,492	157,385
Collection from sale of bid forms		23,000	20,000
Interest earned on savings deposits		20,727	17,730
Rebates from remittance NHMFC		313	313
Miscellaneous cash receipts		59,982	143,662
Payments to suppliers and employees		(139,262,519)	(99,774,570)
Net cash flows from operating activities		(18,370,802)	42,718,838
CASH FLOWS FROM INVESTING ACTIVITIES			
Transfer from investment in time deposit		434,922,589	-
Interest earned on time deposits		3,268,311	4,166,254
Collection of receivables - LOI 1401		-	148,452
Transfer to investment in time deposit		(427,496,546)	(411,954,246)
Purchase of furniture, fixture and equipment		(6,481,020)	(1,067,918)
Net cash used in investing activities		4,213,334	(408,707,458)
NET INCREASE IN CASH		(14,157,468)	(365,988,620)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		26,039,342	392,027,962
CASH AND CASH EQUIVALENTS AT END OF YEAR	4	11,881,874	26,039,342

The Notes on pages 10 to 47 form part of these financial statements.

EMPLOYEES' COMPENSATION COMMISSION
STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS
For the Year Ended December 31, 2017
(In Philippine Peso)

	Note	Budgeted Amounts		Actual Amounts on Comparable Basis	Difference Final Budget and Actual
		Original	Final		
SOURCES OF FUNDS					
Corporate Funds	23				
State Insurance Fund		114,695,000	114,695,000	110,566,000	4,129,000
Income/Retained Earnings		76,527,000	92,518,000	69,915,000	22,603,000
		191,222,000	207,213,000	180,481,000	26,732,000
USES OF FUNDS					
Personal Services	23				
State Insurance Fund		57,057,000	57,057,000	57,057,000	-
Retained Earnings		-	9,379,000	7,451,927	1,927,073
		57,057,000	66,436,000	64,508,927	1,927,073
Maintenance and Other Operating Expenses/Finance Costs	23				
State Insurance Fund		83,509,000	53,509,000	46,495,003	7,013,997
Retained Earnings		-	30,000,000	29,371,577	628,423
		83,509,000	83,509,000	75,866,580	7,642,420
Capital Outlays	23	30,536,000	30,536,000	6,481,020	24,054,980
		171,102,000	180,481,000	146,856,527	33,624,473
NET FUND SOURCES/USES		20,120,000	26,732,000	33,624,473	(6,892,473)

The Notes on pages 10 to 47 form part of these financial statements.