



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

March 30, 2016

**MS. STELLA ZIPAGAN-BANAWIS**

Executive Director  
Employees' Compensation Commission  
355 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, 2015 and 2014.

The attached report consists of four parts: Part I - Audited Financial Statements, Part II - Observations and Recommendations, Part III - Status of Implementation of Prior Years' Audit Recommendations and Part IV - Annex A on the Status of Disallowances, Suspensions and Charges.

We expressed an unqualified opinion on the fairness of the presentation of the financial statements of the ECC. Notwithstanding our opinion, we observed that the DBM approved annual budget for ECC has exceeded its actual expenditures by a total of P63.793 million or 14.54% over the five-year period from 2011 to 2015. The yearly excess over the years which have accumulated to P388.087 million were placed in time deposits earning minimal interest rather than utilizing them for the increase in member benefits and/or other ECC programs authorized under P.D. No. 626, as amended.

We recommended that Management:

- a. Make an actuarial study and issuance of a specific policy/implementing rules and regulations on:
  - a.1 The utilization of the excess in the loading fund derived from the State Insurance Fund for other ECC benefits, such as but not limited to increase in existing member benefits, introduction of new programs, or the enhancement of existing programs on the rehabilitation of Persons with Work-Related Disability, or the increase in the public awareness through the Employees' Compensation Program information dissemination services;
  - a.2 Use of the twelve (12) per cent loading fund as the ceiling of expenses that may be charged thereto and the return of the excess amount to the SIF at end of the year;

- b. Re-compute for the reasonable amount of cash requirement for at least one year. Utilize the accumulated surplus as the loading fund of ECC for the succeeding years until it has reached the reasonable amount of liquidity. Request for the quarterly remittances of the loading fund from the SSS and GSIS after the fund with the ECC has reached the reasonable amount of cash requirement or liquidity;
- c. Follow the specific guidelines in the preparation of the agency annual budget proposals and other budgetary items as provided in the yearly Budget Calls issued by DBM to conform closely to actual expenditure for prior years.
- d. Formulate implementing rules and guidelines on the proportionate sharing of the loading fund ceiling for SSS, GSIS, ECC and OSHC.

Other observations are discussed in detail in Part II - Observations and Recommendations portion of the report.

We therefore respectfully request that the recommendations contained in the report be implemented and that this Commission be informed of the actions taken thereon by accomplishing and submitting the attached Annex A - Agency Action Plan and Status of Implementation within 60 days from receipt thereof.

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

Very truly yours,

  
MARY S. ADELINO  
Director IV

**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 and Controlled Corporations  
The Presidential Management Staff, Office of the President  
The UP Law Center  
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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  
4<sup>th</sup> & 5<sup>th</sup> Floors, ECC Building  
355 Sen. Gil J. Puyat Avenue, City of Makati

**Report on the Financial Statements**

We have audited the accompanying financial statements of the Employees' Compensation Commission (ECC), which comprise the statements of financial position as at December 31, 2015 and 2014, and the statements of profit and loss, statements of changes in equity and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

*Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with generally accepted accounting principles in the Philippines, 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.

*Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Philippine Public Sector Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks 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 entity'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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### *Opinion*

In our opinion, the financial statements present fairly, in all material respects, the financial position of ECC as at December 31, 2015 and 2014, and its financial performance and its cash flows for the years then ended in accordance with generally accepted accounting principles in the Philippines.

### **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 required under Revenue Regulation Nos. 15-2010 and 19-2011 in Note 15 to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such supplementary information is the responsibility of the Management of ECC. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

### **COMMISSION ON AUDIT**

  
ROCHIE J. FELICES  
Supervising Auditor

March 15, 2016



## STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The Management of the Employees' Compensation Commission (ECC) is responsible for the preparation and fair presentation of all information and representations contained in the Financial Statements for Calendar Years 2015 and 2014. The financial statements have been prepared in conformity with generally accepted state accounting principles and reflect amounts that are based on the best estimates and informed judgment of management with an appropriate considerations to materiality.

In this regard, management maintains a system of accounting and reporting which provides for the necessary internal controls to ensure that transactions are properly authorized and recorded, assets are safeguarded against unauthorized use or disposition and liabilities recognized.

The Board of Commissioners authorizes the issuance of the financial statements to the regulators and other users.

The Commission on Audit has examined the financial statements of the ECC in accordance with the Philippine Standards on Auditing and has expressed its opinion on the fairness of presentation upon completion of such audit in its report to the Board of Commissioners.

  
**MARIA TERESA M. URBANO**  
Chief, Finance Division

  
**STELLA ZIPAGAN-BANAWIS**  
Executive Director

February 1, 2016

**EMPLOYEES' COMPENSATION COMMISSION**  
**STATEMENT OF FINANCIAL POSITION**  
December 31, 2015  
With Comparative Figures for 2014  
(In Philippine Peso)

	Note	2015	2014
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and cash equivalents	3	392,027,962	364,427,283
Receivables	4	9,214,298	9,416,064
Other current assets	5	1,631,455	625,853
		<b>402,873,715</b>	<b>374,469,200</b>
<b>Non-current Assets</b>			
Receivables, net	4	9,810,764	10,826,759
Investment property	6	167,483	167,483
Property and equipment, net	7	37,491,420	36,180,299
Other assets, net	8	3,380,395	3,088,564
		<b>50,850,062</b>	<b>50,263,105</b>
<b>TOTAL ASSETS</b>		<b>453,723,777</b>	<b>424,732,305</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Current Liabilities</b>			
Accounts payable - trade	9	11,686,187	6,306,322
Due to officers and employees		476,260	833,494
Inter-agency payables		78,821	65,713
Other liabilities		7,859,880	7,074,239
		<b>20,101,148</b>	<b>14,279,768</b>
<b>Non-current Liabilities</b>			
Leave benefits payable	9	13,361,258	12,124,269
Accounts payable - trade		1,518,390	1,165,833
Due to officers and employees		359,077	202,442
Other liabilities		7,312,550	25,014,383
		<b>22,551,275</b>	<b>38,506,927</b>
<b>TOTAL LIABILITIES</b>		<b>42,652,423</b>	<b>52,786,695</b>
<b>EQUITY</b>		<b>411,071,354</b>	<b>371,945,610</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>453,723,777</b>	<b>424,732,305</b>

The Notes on pages 8 to 20 form part of these financial statements.

**EMPLOYEES' COMPENSATION COMMISSION**  
**STATEMENT OF PROFIT AND LOSS**  
For the Year Ended December 31, 2015  
With Comparative Figures for 2014  
(In Philippine Peso)

	Note	2015	2014
<b>INCOME</b>			
Other service income	10	101,643,563	99,823,000
Rent income	11	8,701,715	7,323,827
Interest income	12	3,906,001	2,779,773
Miscellaneous income		57,813	15,373
		<b>114,309,092</b>	<b>109,941,973</b>
<b>EXPENSES</b>			
<b>Personal Services</b>			
Salaries and wages		30,331,008	27,190,962
Other compensation		20,746,336	15,629,238
Personnel benefits contribution		4,265,191	3,848,615
Other personnel benefits		4,074,585	4,922,477
		<b>59,417,120</b>	<b>51,591,292</b>
<b>Maintenance and Other Operating Expenses</b>			
Professional/other services		17,126,278	12,123,453
Training expenses		5,477,334	6,003,009
Depreciation expense		3,119,866	5,169,553
Travelling expenses		2,546,208	2,940,261
Communications expenses		2,422,996	2,077,573
Supplies and materials expenses		1,924,578	1,760,056
Utilities expenses		1,505,810	3,322,134
Repairs and maintenance		1,127,252	1,531,399
Representation expenses		987,210	890,133
Advertising expenses		885,118	838,274
Printing and binding expenses		671,384	585,195
Extraordinary and miscellaneous expenses		626,668	427,054
Rent expense		173,900	446,400
Subsidies and donations		115,300	53,499
Membership dues and contribution to organizations		100,000	115,500
Taxes, insurance premiums and other fees		94,454	91,459
Transportation and delivery expenses		87,797	104,767
Subscription expenses		42,742	42,302
Bad debt expense		-	544,382
Other maintenance and other operating expenses		1,085,412	721,928
		<b>40,120,307</b>	<b>39,788,331</b>
<b>TOTAL EXPENSES</b>		<b>99,537,427</b>	<b>91,379,623</b>
<b>NET PROFIT</b>		<b>14,771,665</b>	<b>18,562,350</b>

The Notes on pages 8 to 20 form part of these financial statements.

**EMPLOYEES' COMPENSATION COMMISSION**  
**STATEMENT OF CHANGES IN EQUITY**  
For the Year Ended December 31, 2015  
With Comparative Figures for 2014  
(In Philippine Peso)

	Note	2015	2014
<b>ACCUMULATED SURPLUS</b>			
Balance, January 1		<b>371,945,610</b>	343,910,690
Prior period adjustments	13	<b>24,354,079</b>	9,472,570
Net income		<b>14,771,665</b>	18,562,350
<b>Balance, December 31</b>		<b>411,071,354</b>	371,945,610

The Notes on pages 8 to 20 form part of these financial statements.

**EMPLOYEES' COMPENSATION COMMISSION**  
**STATEMENT OF CASH FLOWS**  
For the Year Ended December 31, 2015  
With Comparative Figures for 2014  
(In Philippine Peso)

	Note	2015	2014
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Receipt of loading fund from the SSS and GSIS		101,507,021	101,238,025
Collection of receivables from tenants		14,774,273	13,190,967
Cash receipts from International Labor Organization		1,636,624	-
Return of cash advance		733,012	939,197
Cash receipts from overpayments/disallowance		250,794	43,803
Cash receipts from bidders		160,140	231,620
Collection from sale of bid forms		57,500	15,000
Rebates from remittance NHMFC		313	313
Miscellaneous cash receipts		13,742	151,421
Payments to suppliers and employees		(90,667,123)	(78,461,776)
Net cash provided by operating activities		28,466,296	37,348,570
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Interest earned on time deposits		3,890,239	2,762,773
Interest earned on savings deposits		15,762	17,000
Collection of receivables - LOI 1318		-	11,186
Purchase of furniture, fixture and equipment		(3,300,020)	(4,997,261)
Purchase of motor vehicle		(1,471,598)	(1,445,533)
Net cash used in investing activities		(865,617)	(3,651,835)
<b>NET INCREASE IN CASH</b>		<b>27,600,679</b>	<b>33,696,735</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>		<b>364,427,283</b>	<b>330,730,548</b>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	3	<b>392,027,962</b>	<b>364,427,283</b>

The Notes on pages 8 to 20 form part of these financial statements.