Part I

Executive Summary

INTRODUCTION

The coconut levy fund better known as "coco levy" was established through the passage of Republic Act (RA) No. 6260 on June 19, 1971 and further strengthened by the issuance of various Presidential Decrees (PDs), Executive Orders (EOs) and Letters of Instruction (LOIs) by former President Ferdinand E. Marcos from 1973 to 1982. It refers to various funds generated from levies, taxes, charges, and other fees exacted or imposed to coconut farmers, planters, millers, refiners, processors, exporters, desiccators, and other end-user of copra or its equivalent in coconut products.

The five major coconut levies in the Philippines include the Coconut Investment Fund (CIF) created under RA No. 6260; Coconut Consumers Stabilization Fund (CCSF), later renamed as the Coconut Industry Stabilization Fund (CISF), created under PD 276; the Coconut Industry Development Fund (CIDF) created under PD No. 582; the Coconut Industry Investment Fund (CIIF) created under PD 961 and reiterated under PD 1468; and the Coconut Reserve Fund (CRF) created under PD 1842.

The legal foundation of the coconut levy can be found in RA No. 1145 enacted on June 17, 1954 under President Ramon Magsaysay, which calls for the creation of the Coconut Development Fund. The said Act imposed a levy of a fee of ₱0.10 for every 100 kilos of desiccated coconut, to be paid by the desiccating factory, coconut oil to be paid by the oil mills, and copra to be paid by the exporters, dealers or producers. The proceeds of the levy shall be available exclusively for the use of the Philippine Coconut Administration (PHILCOA).

In 1964, the Philippine Coconut Research Institute (PHILCORIN) was created thru the passage of RA No. 4059 with the purpose of conducting scientific and technological research and investigations on coconut and training people for the development of the coconut industry.

Under RA No. 6260, otherwise known as the "Coconut Investment Act", a corporation known as the "Coconut Investment Company" was created to administer the Coconut Investment Fund (CIF) which was capitalized at ₱100,000,000.00, divided into ten million common shares with a par value of ten pesos each. The capital stock was subscribed by the Government of the Republic of the Philippines for and on behalf of the coconut farmers and was initially paid from the proceeds of the levy imposed on the coconut farmers at ₱0.55 on the first domestic sale of every 100 kilograms of copra, or its equivalent in terms of other coconut products. For every ₱0.55 so collected, ₱0.50 was set aside to constitute the CIF used exclusively to pay the subscription, ₱0.03 was set aside to defray various administrative expenses, and the remaining ₱0.02 was placed at the disposition of the recognized national association of coconut producers. The collection of coco levy commenced in August 1972 and lasted until 1981.

Two months after the enactment of RA No. 6260, EO No. 334 was issued creating the Coconut Coordinating Council (CCC) to supervise, coordinate, and evaluate the implementation of the coconut self-sufficiency program of the government and perform other functions to attain the objectives of RA No. 6260.

However, on June 30, 1973, PD 232 created the Philippine Coconut Authority (PCA) which took over the collection of coco levies and consolidated the powers and functions of the CCC, PHILCOA and PHILCORIN. The Decree was further amended by PD 414 on April 18, 1974 and PD 582 in the same year.

On August 20, 1973, the crisis in the global market for fats and oils prompted the issuance of PD 276. The Coconut Consumers Stabilization Fund (CCSF) was created to subsidize the sale of coconut-based products and mitigate the effect of the crisis. The CCSF was funded by imposing a levy of ₱15.00 per 100 kilograms of copra resecada or its equivalent in other coconut products on every first sale.

On November 14, 1974, PD 582 created the Coconut Industry Development Fund (CIDF) to finance the establishment, operation, and maintenance of a hybrid coconut seednut farm to increase productivity and the coconut farmer's income. Under the CIDF, the PCA was required to pay an initial capital investment of ₱100 million from CCSF and ₱0.20 per kilogram of copra resecada from succeeding collections. The CIDF, unlike the CCSF, is a permanent levy of ₱0.20 for the first sale of every kilogram of copra or its equivalent in terms of other coconut products.

On July 29, 1975, PD 755 allowed the provision of credit facilities to the coconut farmers at preferential rates to address their credit problems through the acquisition of a commercial bank [First Union Bank (FUB), now the United Coconut Planters Bank (UCPB)], for the benefit of the coconut farmers. An agreement was then inked citing some financial obligations upon the coconut farmers. To enable the coconut farmers to comply with their contractual obligations under the said agreement, the PCA was directed to draw and utilize the collections under the CCSF. All collections under the CCSF Levy and 50 percent of the collections under the CIDF were deposited, interest free, with the said bank of the coconut farmers.

On July 14, 1976, PD 961 codified the laws dealing with the development of the coconut and other palm oil industry and was known as the "Coconut Industry Code". It empowered the UCPB to make investments in the form of shares of stock in corporations organized for the purpose of engaging in the establishment and the operation of industries and commercial activities and other allied business undertakings relating to the coconut and other palm oils industry in all its aspects and the establishment of a research into the commercial and industrial uses of coconut and other palm oil industry. Whatever surplus from collections not required to finance the replanting program and other purposes authorized to be charged under CCSF and CIDF was utilized by the bank to finance the said investments.

By virtue of PCA Resolution No. 150-77 and UCPB Resolution No. 262-77, both approved in September 1977, the PCA Governing Board jointly with the UCPB Board of Directors authorized UCPB to form and organize a domestic corporation which shall make investments for the benefit of the coconut farmers pursuant to PD 961, thus, the creation of the Coconut Industry Investment Fund (CIIF). Among the corporations acquired thru CIIF are various oil mills collectively known as CIIF Oil Mills Group (CIIF OMG).

On June 11, 1978, PD 1468 was issued to restructure the provisions of PD 961 such as additional provisions authorizing the use of CCSF to finance the Coconut Farmers Refund which was constituted as the pooled savings of the coconut farmers, to be utilized for their mutual assistance, protection and relief in the form of social benefits, such as life and accident insurance coverage of the farmers. Under Article III, Section 9 thereof, it reiterated the provisions for investments for the benefit of the coconut farmers.

On May 4, 1979, LOI No. 857 was issued to the governing board of the PCA instructing that 25 percent of the CCSF levy intended for the subsidy of essential coconut-based consumer products which may not be needed for the purpose should be allocated to augment the CIIF to be used to finance the establishment and operation of industries and commercial activities relating to the coconut and other palm oil industry, as prescribed under Article III, Section 9, of PD 1468. In the same year, LOI No. 926 was issued to various government agencies/instrumentalities and government-owned/controlled corporations or financial institutions detailing the guidelines of the CIIF and other related matters.

On May 22, 1980, PD 1699 was issued suspending the collection of the CCSF, CIDF and other similar levies. However, to ensure the continuance and viability of the different developmental projects for the benefit of the coconut farmers that are being financed by the CCSF levy, the exporters of coconut products were required to pay such amount as may be necessary or required to assure the adequate and continuous financing of such developmental projects including the cost and expenses incurred in effecting the rationalization of the oil milling industry.

On October 2, 1981, PD 1841 was issued substituting Sections 1 and 2 of PD 1468 dealing with the CCSF and its utilization with some deleted, amended and inserted provisions including the substitution of the terms "levy", "levies" and "CCSF" with the words "assessment", "assessments" and "Coconut Industry Stabilization Fund or CISF," respectively. The law was further amended by PD 1842 on January 16, 1982 which created the Coconut Reserve Fund (CRF).

Then came the 1986 EDSA Revolution. Then President Corazon C. Aquino issued EO No. 1 creating the Presidential Commission on Good Government (PCGG) tasked with the recovery of ill-gotten wealth amassed by former President Marcos, his immediate family, relatives, and close associates both here and abroad. Said ill-gotten assets and properties come in the form of shares of stocks and other kinds of personal and real properties as asserted in EO No. 2, s. 1986. The PCGG then issued numerous orders of sequestration against shares of stocks in UCPB purportedly owned by or registered in the names of more than a million coconut farmers and the CIIF companies, including the San Miguel Corporation (SMC) shares held by the CIIF companies, pursuant to EO No. 14 dated May 7, 1986.

After the downfall of the Marcos regime, the Commission on Audit (COA) conducted a special audit of the coconut levy collections administered by the UCPB and United Coconut Oil Mills, Inc. (UNICOM), including an examination of UCPB relative to its levy-financed acquisition. The audit was aimed at ascertaining whether the levy allocations administered by UCPB and UNICOM were managed, expended and utilized for purposes for which the funds were created.

According to said COA Audit Report, ₱4.7761 billion of the ₱9.6950 billion coconut levies/assessments accumulated from August 1973 to August 1982 was administered by UCPB thru its Trust Department, of which ₱2.5721 billion or 53.85 percent was allocated to CIIF to finance various investments for the benefit of the coconut farmers. The allocatees of the ₱4.7761 billion are as follows:

Allocatees	Amount (In billion pesos)	Percentage
Coconut Industry Investment Fund (CIIF)	₱2.5721	53.85
Coconut Industry Development Fund (CIDF)	1.1472	24.02
Insurance Fund (COCOLIFE)	.9949	20.83
Debt Service Fund	.0389	0.82
Census Committee Fund	.0230	0.48
Total	**₱4.7761**	**100.00**

In July 1987, the PCGG filed Civil Case No. 0033 before the Sandiganbayan against Mr. Eduardo M. Cojuangco, Jr. and 59 other individual defendants pursuant to its mandate to recover the ill-gotten wealth of former President Marcos, his immediate family and associates.

In a Partial Summary Judgment dated May 7, 2004, the Sandiganbayan declared that the six CIIF companies, the 14 CIIF holding companies and the CIIF block of SMC shares totaling 33,133,266 as of 1983, together with all dividends declared, paid and issued thereon as well as any increments thereto arising from, but not limited to, exercise of pre-emptive rights, are declared owned by the government in trust for all the coconut farmers and ordered the reconveyance thereof to the government.

After years of protracted litigation, the Supreme Court (SC) ruled on January 24, 2012 in the case of Philippine Coconut Producers Federation (COCOFED), et al. vs. Republic of the Philippines (ROP), docketed as G.R. Nos. 177857-58, and Danilo S. Ursua vs. ROP, docketed as G.R. No. 178193, that the CIIF oil mills, the CIIF 14 holding companies and the CIIF block of SMC shares are owned by the Philippine Government to be used only for the benefit of all the coconut farmers and for the development of the coconut industry. This was later reaffirmed by the SC on September 4, 2012 when it denied with finality the Motion for Reconsideration filed by COCOFED.

Following the SC decision, EO Nos. 179 and 180, s. of 2015, were issued to provide the administrative guidelines for the reconveyance and utilization of coco levy assets for the benefit of the coconut farmers and the development of the coconut industry. However, the implementation of the said orders was put on hold due to the Temporary Restraining Order (TRO) issued by the SC. Nonetheless, the PCGG endeavored to render its first ever extensive Report on the Inventory and Accounting of Coco Levy Assets in June of the same year. The Report revealed that as of that date, there was an estimated ₱93.7480 billion in cash and other assets available for the benefit of the coconut farmers.

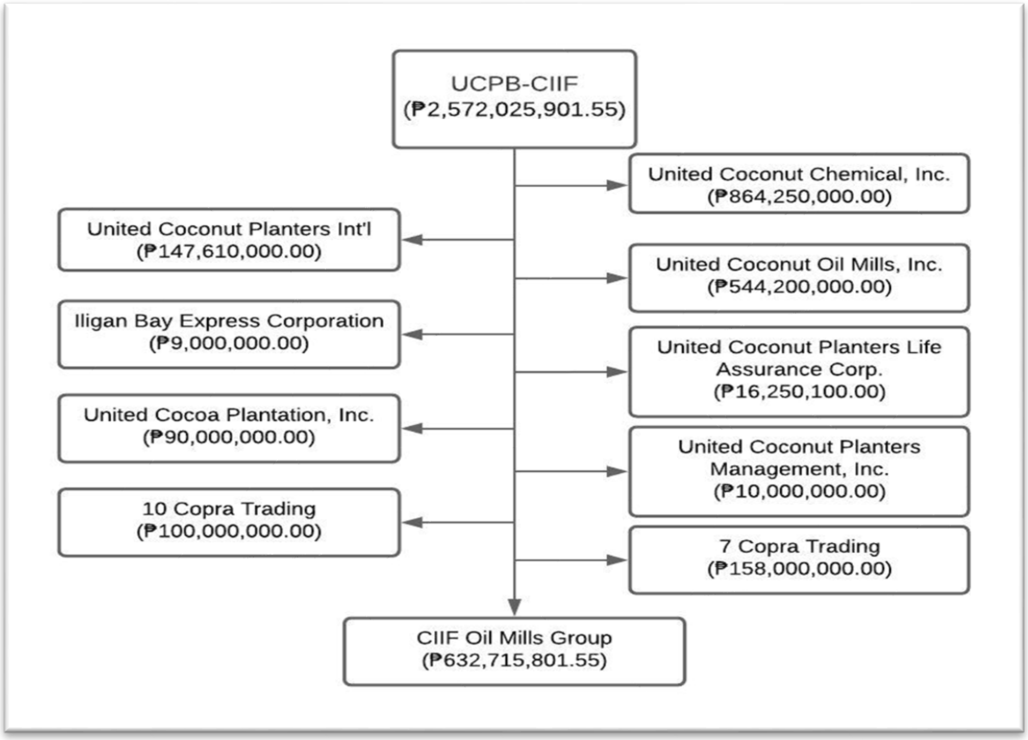
In 2018, the TRO for the reconveyance and utilization of coco levy assets was lifted which paved the way for the creation and establishment of the "Coconut Farmers and Industry Trust Fund Act" under RA No. 11524. The law was enacted on February 26, 2021 under the leadership of President Rodrigo Roa Duterte which mandated the PCGG to conduct a complete accounting and inventory of the coconut levy assets, including the amount, value, description and nature of such funds, properties, assets, records, choses in action, and other rights, claims, or causes of action pertaining thereto, as well as the investments, disbursements and expenditures relating to the coconut levy funds and submit a report to the Office of the President (OP), Trust Fund Management Committee (TFMC), COA, and the Bureau of the Treasury (BTr).

Based on the latest Accounting and Inventory of Coconut Levy Assets as of December 31, 2020 submitted by the PCGG to COA on April 12, 2021, the total coco levy assets is now estimated at ₱113.878 billion, consisting of various physical, financial and investment assets lodged in 57 companies/corporations, excluding those which are no longer operational and/or without available financial data/records with the Securities and Exchange Commission (SEC).

Under RA No. 11524, the COA was given one year within which to audit the PCGG Accounting and Inventory of Coconut Levy Assets upon receipt thereof and shall submit to the TFMC its audit report, together with a complete list of coconut levy assets and their valuation, and the empirical bases and methodologies employed for the said valuation.

THE CIIF OMG AND ITS SUBSIDIARIES

Pursuant to PD 961, as reiterated in PD 1468, CIIF made investments for the benefit of the coconut farmers in various corporations. Out of the ₱9.6950 billion coconut levies/assessments accumulated from August 1973 to August 1982, ₱4.7761 billion was administered by the UCPB of which ₱2.5721 billion or 53.85 percent was allocated to CIIF. As of April 4, 1986, investments made by CIIF amounted to ₱2.5720 billion, broken down as follows:



At present, there are six oil mills collectively known as the CIIF Oil Mills Group (CIIF OMG) composed of the following:

1. Granexport Manufacturing Corporation (GMC)
2. Cagayan de Oro Oil Company, Inc. (CagOil)
3. San Pablo Manufacturing Corporation (SPMC)
4. Southern Luzon Coconut Oil Mill Corporation (SOLCOM)
5. Iligan Coconut Industries Corporation (ILICOCO)
6. Legaspi Oil Corporation (LegOil)

These six companies hold a number of shares in various companies including the following 14 holding companies:

1. ASC Investors, Inc.
2. ARC Investors, Inc.
3. AP Holdings, Inc.
4. Anglo Ventures Corporation
5. Fernandez Holdings, Inc.
6. First Meridian Development, Inc.
7. Randy Allied Ventures, Inc.
8. Rock Steel Resources, Inc.
9. Roxas Shares, Inc.
10. San Miguel Officers Corp, Inc.
11. Te Deum Resources, Inc.
12. Toda Holdings, Inc.

13. Soriano Shares, Inc.
14. Valhalla Properties Limited, Inc.

The creation of the 14 holding companies by the CIIF OMG emanated from the acquisition of the Soriano Shares in SMC sometime in 1983. The Sorianos agreed to sell their SMC shares aggregating 33,133,266 shares to the companies owned by the coconut farmers. The shares were transferred thru the medium of the stock exchange to the 14 holding companies and the shares of these 14 holding companies were acquired by the CIIF OMG. To finance the acquisition, the then five CIIF Oil Mills (ILICOCO, SOLCOM, CagOil, GMC and LegOil) borrowed ₱976 million from UCPB, of which ₱247 million was made as payment for stock acquisition in the 14 holding companies. The balance of ₱729 million was lent by the CIIF Oil Mills to the holding companies and additional ₱680 million was borrowed by the holding companies directly from UCPB. In summary, the total initial fund of the 14 holding companies amounted to as much as ₱1.656 billion. Subsequently, SPMC also acquired equity in the 14 holding companies.

On the other hand, in view of the dissolution of UNICOM in 1985 on which the CIIF Oil Mills had been dependent for their copra requirements, CIIF together with the CIIF Oil Mills organized 10 Copra Trading Companies (CTCs) to operate in strategic copra-producing areas sometime in 1985. The CIIF invested ₱10 million to each of the 10 CTCs, viz:

1. Lamitan Peak Agricultural Commodities, Inc. (Lamitan Peak)
2. Lamon Bay Agricultural Commodities, Inc. (Lamon Bay)
3. Maopay Agricultural Commodities, Inc. (Maopay)
4. Mactan Agricultural Commodities, Inc. (Mactan)
5. Mt. Boribing Agricultural Commodities, Inc. (Mt. Boribing)
6. Mt. Bulusan Agricultural Commodities, Inc. (Mt. Bulusan)
7. Mt. Malipayon Agricultural Commodities, Inc. (Mt. Malipayon)
8. Mt. Mandalangan Agricultural Commodities, Inc. (Mt. Mandalangan)
9. Mt. Tuayan Agricultural Commodities, Inc. (Mt. Tuayan)
10. Sharp Peak Agricultural Commodities, Inc. (Sharp Peak)

Unfortunately, the 10 CTCs are no longer operational since 1988. Apart from these companies, CIIF OMG also established various subsidiaries, as follows:

1. Iligan Bay Express Corporation (IBEC), formerly: Iligan Bay Export Corp.
2. CIIF Management Company, Inc. (CMCI)
3. Silahis Marketing Corporation (Silahis)
4. CIIF Center for Research and Development Foundation, Inc. (CCRDFI)
5. CIIF Agro-industrial Park, Inc. (CiAIPI)
6. CIIF Coconut Farm Development Program, Inc. (CCFDPI), formerly: Niyog Trading Center, Inc.
7. Granex Corporation, USA (GUSA)
8. Minola Corporation (Minola)
9. Manila Refining Corporation (MRC), formerly: Minola Refining Corp.
10. Legaspi Oil Coco Fiber Corp. (LegFiber)

By virtue of the SC decision in GR Nos. 177857-58, the CIIF OMG including their subsidiaries and trading companies were declared as 100 percent owned by the government for the benefit of coconut farmers, thus, subject for audit by the COA pursuant to RA No. 11524.

UCPB-CIIF SUBSIDIARIES

As of December 31, 2020, several other subsidiaries were created under the umbrella of UCPB-CIIF as follows:

1. United Coconut Planters Life Assurance Corporation (COCOLIFE)
2. UCPB General Insurance Company, Inc. (UCPB Insurance)
3. UCPB-CIIF Foundation, Inc. (UCPB Foundation)
4. Cocoplans, Inc. (Cocoplans)
5. Balmoral Resources Corporation (Balmoral)
6. UCPB Leasing and Finance Corp. (ULFC)
7. UCPB Securities, Inc. (USI)
8. Green Homes Development, Inc. (GHDI)
9. UCPB Macaria Homes Corporation (UCPB Macaria)
10. UCPB Savings Bank, Inc. (USB)
11. United Foreign Exchange Corporation (UFEC)
12. UCPB-CIIF Finance & Development Corp. (UCPB Finance)
13. Ultra-Security Services, Inc. (USSI)
14. All Nation Security & Investigation Services, Inc. (ANSISI)
15. United Coconut Chemicals, Inc. (UCCI)
16. Cocochem Agro-Industrial Park, Inc. (CAIPI)
17. United San Pascual Properties, Inc. (USPPI)
18. Anchor Insurance Brokerage Corporation (AIBC)
19. Cocofed Marketing Corporation (Cocomark)
20. Seven Trading Corporations
    - Davao Coconut Planters Trading, Inc. (Davao Trading)
    - Zamboanga Coconut Planters Trading, Inc. (Zamboanga Trading)
    - Leyte Coconut Planters Trading, Inc. (Leyte Trading)
    - Northern Mindanao Planters Trading, Inc. (Northern Mindanao Trading)
    - Visayan Coconut Planters Trading, Inc. (Visayan Trading)
    - Bicol Coconut Planters Trading, Inc. (Bicol Trading)
    - Tagalog Coconut Planters Trading, Inc. (Tagalog Trading)
21. United Coconut Planters International (UCPInt.)
22. United Cocoa Plantation, Inc. (UCPInc.)

Based on the 1986 COA Audit Report, CIIF acquired 51 percent of the equities of the seven trading corporations from one group of incorporators in 1978. The total investments of CIIF in these trading companies was ₱158.00 million and according to a UCPB officer, these companies were not in full operation since 1981. As of this writing, no financial reports/schedules pertaining to these corporations were made available to the Audit Team. According to PCGG, these seven trading corporations are no longer operational and had been dissolved.

AUDIT OBJECTIVES

The audit was conducted in pursuit of the following objectives provided under Section 6 of RA No. 11524:

- Determine the completeness of the PCGG Accounting and Inventory of Coconut Levy Assets;
- Establish the reasonableness of the asset valuation;
- Trace the flow of the Coconut Levy Funds; and
- Determine compliance with pertinent laws, rules and regulations on the reconveyance of the Coconut Levy Assets and/or Fund to the Republic.

AUDIT SCOPE AND METHODOLOGIES

Scope

The audit covered the PCGG Accounting and Inventory of Coconut Levy Assets as of December 31, 2020 submitted to COA on April 12, 2021. It focused on the determination as to the completeness of the said accounting and inventory, establishment of the reasonableness of the asset valuation, tracing of the flow of the Coconut Levy Funds, and compliance with pertinent laws, rules and regulations on the reconveyance of the Coconut Levy Assets and/or Fund to the Republic, with respect to the following coco levy financed companies:

No.	Name of Company	Acronym/Abbrev.
1.	All Nation Security & Investigation Services, Inc.	ANSISI
2.	Anchor Insurance Brokerage Corp.	AIBC
3.	Anglo Ventures Corp.	Anglo Ventures
4.	AP Holdings, Inc.	AP Holdings
5.	ARC Investors, Inc.	ARC Investors
6.	ASC Investors, Inc.	ASC Investors
7.	Cagayan de Oro Oil Co., Inc.	CagOil
8.	CIIF Agro-Industrial Park, Inc.	CiAIPI
9.	CIIF Center for Research and Development Foundation, Inc.	CCRDFI
10.	CIIF Coconut Farm Development Program, Inc.	CCFDPI
11.	Coconut Industry Investment Fund Management Company, Inc.	CMCI

No.	Name of Company	Acronym/Abbrev.
12.	CoCoChem Agro Industrial Park, Inc.	CAIPI
13.	Fernandez Holdings, Inc.	Fernandez Holdings
14.	First Meridian Development, Inc.	First Meridian
15.	Granex Corporation, USA	GUSA
16.	Granexport Manufacturing Corp.	GMC
17.	Green Homes Development, Inc.	GHDI
18.	Iligan Bay Express Corporation	IBEC
19.	Iligan Coconut Industries Corp.	ILICOCO
20.	Lamitan Peak Agricultural Commodities, Inc.	Lamitan Peak
21.	Lamon Bay Agricultural Commodities, Inc.	Lamon Bay
22.	Legaspi Oil Coco Fibers Corporation	LegFiber
23.	Legaspi Oil Company, Inc.	LegOil
24.	Mactan Agricultural Commodities, Inc.	Mactan
25.	Malipayon Agricultural Commodities, Inc.	Malipayon
26.	Manila Refining Corporation	MRC
27.	Maopay Agricultural Commodities, Inc.	Maopay
28.	Minola Corporation	Minola
29.	Mt. Boribing Agricultural Commodities, Inc.	Mt. Boribing
30.	Mt. Bulusan Agricultural Commodities, Inc.	Mt. Bulusan
31.	Mt. Mandalangan Agricultural Commodities, Inc.	Mt. Mandalangan
32.	Mt. Tuayan Agricultural Commodities, Inc.	Mt. Tuayan
33.	Randy Allied Ventures, Inc.	Randy Allied
34.	Rock Steel Resources, Inc	Rock Steel
35.	Roxas Shares, Inc.	Roxas Shares
36.	San Miguel Officers Corp.	Sam Miguel Officers
37.	San Pablo Manufacturing Corp.	SPMC
38.	Sharp Peak Agricultural Commodities, Inc.	Sharp Peak
39.	Silahis Marketing Corporation	Silahis
40.	SMC Shares	SMC Shares
41.	Soriano Shares, Inc.	Soriano Shares
42.	Southern Luzon Coconut Oil Mill, Inc.	SOLCOM
43.	Te Deum Resources, Inc.	Te Deum
44.	Toda Holdings, Inc.	Toda Holdings
45.	UCPB Leasing and Finance Corporation	ULFC
46.	UCPB Savings Bank, Inc.	USB
47.	UCPB Securities, Inc.	USI

No.	Name of Company	Acronym/Abbrev.
48.	United Coconut Chemicals, Inc.	UCCI
49.	United Coconut Planters Bank	UCPB
50.	United Foreign Exchange Corp.	UFEC
51.	United San Pascual Properties, Inc.	USPPI
52.	Valhalla Properties Limited, Inc.	Valhalla Properties

Out of the 70 coco levy companies identified by the PCGG as having been created or established thru the coco levy funds (including the SMC shares), 52 were audited while the remaining 18 companies were not covered in audit due to the following:

No.	Name of Company	Acronym/Abbrev.	Reason/s
1.	United Coconut Planters Life Assurance Corporation	COCOLIFE	The Audit Team was able to secure the CY 2019 FS audited by external auditors of COCOLIFE and its subsidiaries and the CY 2020 GIS submitted to the SEC containing the stockholders and key officials from the PCGG. However, the Audit Team failed to audit the transactions and other information as required in RA No. 11524 and corresponding Office Orders issued by the COA. On July 21, 2021, retired Justice Bienvenido L. Reyes, Chairman of the Board of Directors (BOD) of COCOLIFE wrote a letter to COA relative to its invitation to attend the initial conference. He asserted that the attendance to the initial audit conference may be premature due to the following: a) The ownership of 100 percent of the COCOLIFE's capital stock is the subject matter of a pending case before the Sandiganbayan entitled, PCGG v. Eduardo Cojuangco, Jr., COCOLIFE et. al. docketed as Civil Case No. 033-B. Due to pendency of the Sandiganbayan case, unless and until the Supreme Court rules on the issues regarding the company's ownership with finality, the inclusion of the company as part of the Coconut Levy Assets may adversely and
2.	UCPB General Insurance Company, Inc.	UCPB Insurance	
3.	Cocoplans, Inc.	Cocoplans	
4.	Ultra Security Services, Inc.	USSI	

No.	Name of Company	Acronym/Abbrev.	Reason/s
			irreparably prejudice and preempt the decision of the pending Sandiganbayan Case; b) RA No. 11524 or Coconut Farmers and Industry Trust Fund Act (CFITF Act) excluded the company and its shares from the explicit enumeration of the Coconut Levy Assets; and c) UCPB Insurance, Cocoplans and USSI as wholly owned subsidiaries of COCOLIFE may not be covered by the CFITF Act for the same above-reasons and are not explicitly enumerated in the same Act.
5.	United Coconut Planters International	UCPInt.	Based on the 2020 PCGG Accounting and Inventory Report of Coconut Levy Assets, the company is a foreign company organized under French law which is 100 percent owned by the UCPB-CIIF. Its liquidation was reported to have commenced in 2014 due to declining margins and dismal financial performance with registered losses in 2006, 2007, 2008 and 2010. Its remaining assets are as follows: 1.) an office unit in Paris, France; 2.) shares of stock in MRC; and 3.) cash on hand of ₱177,593,000.00. However, the same could not be validated by the Audit Team due to lack of available information and related documents about the company. The PCGG was not able to provide the Audit Team the company's latest FS and GIS, including the results of its liquidation as previously reported. As of 1986, CIIF invested in the company a whopping ₱147,610,000.00, based on the 1986 COA Special Audit Report.
6.	United Cocoa Plantation, Inc.	UCPInc.	The Audit Team was able to secure the CY 1991 and 1999 FS audited by the

No.	Name of Company	Acronym/Abbrev.	Reason/s
			external auditors of UCPInc. from the PCGG and SEC. Based on the CY 1999 FS obtained by the PCGG, the BODs approved the voluntary dissolution of UCPInc. on April 12, 1994. In view thereof, several documents were requested by the Audit Team from PCGG and CIIF OMG but none of which was provided as of date. The company is among the assets sequestered and supervised by the PCGG and the PCGG itself has no available records on the company's operations and current status. Based on the 1986 COA Special Audit Report, CIIF originally invested ₱90,000,000.00 in the company but the recovery of the amount is very unlikely due to unavailability of records, FS and GIS in the last 22 years.
7.	Cocofed Marketing Corporation	Cocomark	The company is a subsidiary of COCOFED. Based on its 1981 GIS, it had ₱8.750 million outstanding shares and majority of which was owned by COCOFED. According to PCGG, the company has no FS/GIS on record per SEC, its SEC registration was revoked in 2003 and it ceased operation in 1990 due to heavy losses per report dated August 29, 1992 of the PCGG Asset Monitor. Hence, the Audit Team was not able to gather pertinent financial information from the PCGG relative to this company.
8.	Davao Coconut Planters Trading, Inc.	Davao Trading	No available FS, GIS and other financial schedules provided to the Audit Team According to PCGG, these corporations are already dissolved
9.	Zamboanga Coconut Planters Trading, Inc.	Zamboanga Trading	
10.	Leyte Coconut Planters Trading, Inc.	Leyte Trading	
11.	Northern Mindanao Planters Trading, Inc.	Northern Mindanao Trading	

No.	Name of Company	Acronym/Abbrev.	Reason/s
12.	Visayan coconut Planters Trading, Inc.	Visayan Trading	Per 1986 COA Special Audit Report, CIIF invested ₱158.00 million in these seven corporations in 1978 and the recovery of the amount could not be validated and accounted for as of this writing due to lack of available data/records.
13.	Bicol Coconut Planters Trading, Inc.	Bicol Trading	
14.	Tagalog Coconut Planters Trading, Inc.	Tagalog Trading	
15.	Balmoral Resources Corp.	Balmoral	Balmoral was included in the Accounting and Inventory of Coconut Levy Assets as of December 31, 2020 submitted by the PCGG. However, in the letter dated August 3, 2021 of Balmoral to COA Audit Team, we were informed that Balmoral was acquired by UCPB in CY 1999 as payment of loan by Villar Group of Companies (VGC) thru dacion en pago. In 2017, Balmoral was reacquired by VGC through "asset swap". The UCPB, in consideration of the "asset swap", received the amount of ₱500.00 million and ₱1.70 billion worth of properties such as condominium units, parking lots, house and lot, among others, which are presumed to be recorded in the books of UCPB.
16.	UCPB Properties Macaria Homes Corp.	UCPB Macaria	As of December 31, 2020, UCPB Macaria is still in the process of dissolution. The BODs of UCPB Properties Inc. – Macaria Homes approved its dissolution by shortening its corporate term up to April 30, 2018.
17.	UCPB-CIIF Finance & Development Corporation	UCPB Finance	No available reports as of December 31, 2020
18.	UCPB-CIIF Foundation, Inc.	UCPB Foundation	

In addition, three additional companies namely: United Coconut Oil Mills, Inc. (UNICOM), United Coconut Planters Management, Inc. (UCPMI) and Philippine Coconut Producers Federation (COCOFED) were no longer included in the PCGG Accounting and Inventory of Coconut Levy Assets as of December 31, 2020, thus, not subjected to audit. As mentioned in the 1986 COA Special Audit Report, UNICOM and UCPMI received allocation from CIIF in the amount of ₱544,200,000.00 and ₱10,000,000.00, respectively.

This Report was limited only to the documents provided by the PCGG, SEC and the coco levy companies covered by the audit such as Financial Statements (FS), General Information Sheets (GIS) and other financial schedules/reports/records, confirmations letter replies from individuals/agencies/companies involved and the results of inspection and appraisal conducted by the COA Technical Services Office Special Audit Team (COA TSO-SAT), with due reference to the 1986 COA Special Audit Report.

Further, various accounts of the following companies were not validated and verified by the Audit Team due to non-submission of financial reports/schedules such as Subsidiary Ledgers, Bank Statements, and Bank Reconciliation Statements, to wit:

Company		Accounts Affected	CY	Account Balance*	Total
a)	CCFDPI	Cash	2019	₱59,591.88	₱541,011.95
		Other Assets		223,295.72	
		Accounts Payable		9,339.00	
		Accrued Expenses		248,785.35	
b)	CCRDFI	Accrued Expenses and Other Current Liabilities	2017	167,204.01	167,204.01
c)	GUSA	Cash	2020	12,221,037.11	17,231,084.61
		Accounts Payable and Other Current Liabilities		5,010,047.50	
d)	CiAIPI	Cash in Bank	2020	166,308.73	1,274,442.08
		Fixed Assets		11,467.76	
		Prepaid Expense		30,000.00	
		Accounts Payable		892,178.09	
		Accrued Expenses		174,487.50	
e)	MRC	Trade and Other Receivables	2020	2,560,000.03	111,660,298.03
		Other Current Assets		41,452,872.00	
		Available-for-Sale Financial Assets		550,000.00	
		Accrued and Other Liabilities		67,097,426.00	
f)	Minola	Accrued Expenses	2020	75,206.96	75,206.96
g)	Silahis	Cash	2020	477,545.22	3,532,393.22
		Advances to Officers and Employees		81,668.00	
		Prepayments and Other Current Accounts		1,897,169.00	
		Deferred Tax Assets		455,002.00	
		Refundable Deposits		476,196.00	
		Trade Payables		144,813.00	
Total				**₱134,481,640.86**	**₱134,481,640.86**

Methodology

To achieve the audit objectives, the Audit Team performed the following audit procedures/methodologies, among others:

- Obtained and reviewed existing laws, rules and regulations relative to the establishment, assessments, collections and flow of coco levy funds;
- Obtained, reviewed and examined documents/records/reports/schedules such as Articles of Incorporation, FS, GIS, and Subsidiary Ledgers (SLs);
- Analyzed the FS and traced the flow of assets from the date of incorporation up to present;
- Confirmed the existence and completeness of the accounts presented in the latest available FS of the companies and reconcile the same with the FS of its related parties;
- Interviewed and administered enquiry with concerned PCGG and company officials/personnel;
- Conducted inspection, validation and appraisal of real and personal properties belonging to the coco levy companies; and
- Issued Audit Query Memoranda (AQMs) and Audit Observation Memoranda (AOMs) to PCGG and coco levy companies.

The AQMs and AOMs containing the results of audit were forwarded to the Office of the Chairperson, PCGG, and the concerned key officials of the companies under audit on various dates for comments/justifications which were evaluated and incorporated in this Report, where appropriate.

LEGAL BASIS/ AUTHORITY

The audit was conducted from July 7, 2021 to March 21, 2022 pursuant to COA Office Order Nos. 2021-437 dated July 7, 2021, 2021-457 dated July 22, 2021, 2021-471 dated July 27, 2021 and 2021-515 to 516 dated August 24, 2021, signed by former COA Chairperson Michael G. Aguinaldo on the creation of special audit team relative to the audit of the coconut levy assets under RA No. 11524 entitled "An Act Creating the Coconut Farmers and Industry Trust Fund, Providing for Its Management and Utilization, Reconstituting for the Purpose the Philippine Coconut Authority Board, and for Other Purposes".

SUMMARY OF AUDIT OBSERVATIONS AND RECOMMENDATIONS

The audit concluded that the total assets, liabilities and equity accounts of the coco levy companies presented in the PCGG Accounting and Inventory of Coconut Levy Assets as of December 31, 2020 were, to some extent, incomplete. Moreover, several properties, specifically those belonging to MRC, CAIPI, UCCI, USPPI and the CTCs, were not reasonably valued in the PCGG Report and at least 18 companies have significant doubts to continue as a going concern. Below is the summary of the audit observations and their corresponding recommendations, which are discussed in detail in Part III of this Report:

A. MISSTATEMENTS/ERRORS AND OMISSIONS - ₱3,536,986,223.20 (net)

1. The PCGG Accounting and Inventory of Coconut Levy Assets as of December 31, 2020 was overstated by a net amount of ₱4,525,971,709.63 due to accounting errors and omissions caused by: a) unreported net assets/equity deficit of two companies totaling ₱40,548,624.29; b) unrecognized asset of MRC amounting to ₱110,880.00; c) accounting errors on various assets and liabilities of four companies totaling ₱162,487,300.00; d) adoption of prior year's Financial Statements (FS) of 36 companies by the PCGG instead of the latest available FS and unaccounted cash coco levy assets deposited with the BTr causing a net understatement of ₱52,763,502.83; e) overstated government interest in LegFiber by 25 percent or ₱19,413,060.75; f) double recording of net assets of AIBC already recorded in the books of investors, adjustment in fair market value of shares based on investee's latest FS and unrecorded stock dividends resulting in a net overstatement of ₱2,433,754.00; g) overstated valuation of San Miguel Corporation (SMC) shares by ₱1,806,839,905.62; h) misclassified investment account of Minola; i) loan collections of UCPB applied to Other Liabilities instead of the borrowers' loan/receivable accounts; j) misclassified UCPB's dormant deposit liability accounts; k) understatement of UCPB's accounts payable due for reversal by ₱2,966,996.96; and l) double entry of investment in subsidiary/associate accounts and subsidiary/associate's equity accounts resulting in the overstatement of the total coco levy assets by ₱2,991,050,006.00.

   a) Unreported net assets/equity deficit of CCFDPI and CCRDFI - ₱40,548,624.29

      We recommended that the PCGG CLTF include in the PCGG Accounting and Inventory of Coconut Levy Assets the unreported net assets/equity deficit of CCFDPI and CCRDFI totaling ₱40,548,624.29 in order to come up with a complete and reliable accounting and inventory report.

   b) Unrecognized current account of MRC - ₱110,880.00

      We recommended that the PCGG CLTF, in coordination with CIIF OMG management, prepare without further delay the necessary adjustment to reflect the correct balance of the affected accounts.

   c) (Over)/understatement of various assets and liabilities of SPMC, LegOil, ULFC and USB - ₱162,487,300.00 (net overstatement)

- Understated PPE of SPMC due to various reasons - ₱69,537,300.00

  We reiterated our recommendation that the SPMC management cause the appraisal of the six parcels of land of the company located in San Pablo City, Laguna, along with the other parcels of land recorded in its books, and instruct the AD to record their fair values based on the appraisal report. We further recommended that the SPMC management: (a) Instruct the IAD, in coordination with the AD and Property Unit, to prepare the guidelines to strengthen the physical and financial controls to verify the existence, condition, custody, and value of the PPE, such as, but not limited to, disposal of properties that are unserviceable, damaged, dismantled, and obsolete, pursuant to COA Circular No. 89-296 dated January 27, 1989, to avoid further deterioration of properties and diminish their values; (b) Require the Property Unit to prepare an Inventory and Inspection Report of Unserviceable Property (IIRUP) based on the RPCPPE and to take appropriate action to dispose the unserviceable property; (c) Enjoin the IAD to conduct investigation and determine the person/s liable for the loss of properties reported as non-existing in the fixed asset validation report; and (d) Direct the AD to: (d.1.) Recognize an allowance for impairment loss for the unserviceable, dismantled, or obsolete assets which are beyond economical repair and where no future economic benefit may be expected, as determined; (d.2.) Derecognize from the PPE account the tangible items with a carrying amount of ₱491,700.00 as at December 31, 2019 which are below the capitalization threshold of ₱15,000.00 and are already issued to end-users; and (d.3.) Stop the practice of recognizing as PPE the tangible items which are below the capitalization threshold of ₱15,000.00.

- Understated PPE and IP accounts of LegOil - ₱92.950 million

  We recommended and the LegOil management agreed to direct the: (a) IAD, in coordination with the AD and the Property Unit, to prepare guidelines that will strengthen the physical and financial controls to verify the existence, condition, custody, and value of the PPE, such as, but not limited to the disposal of properties that are unserviceable, damaged, dismantled, and obsolete, pursuant to COA Circular No. 89-296 dated January 27, 1989, to avoid further deterioration of properties and diminishment of their recoverable/salvage values; (b) Property Unit to prepare IIRUP based on the RPCPPE and to take appropriate action to dispose the unserviceable property; (c) AD to: (c.1) Expedite the analysis of the land account and coordinate with the Legal Department to secure documents that will be the basis for recording the 0.885 million sq. m. of land with zonal value of ₱92.950 million; and (c.2) Recognize an allowance for impairment loss for the unserviceable properties and derecognize the non-existing properties based on the IIRUP.

- Overstated Accounts Payable and Receivables account of ULFC - ₱14.752 million

  We recommended and the ULFC management agreed to: (a) Apply the long outstanding payables to customers amounting to ₱14.752 million to the proper accounts to faithfully represent the balance of Accounts Payable and other affected accounts in the FS as at December 31, 2020; and (b) Consider re-visiting the ULFC Manual to include specific timelines for the reversal and disposition of long outstanding payables.

- Overstated Accounts Payable and Receivables account of USB - ₱27.703 million

  We recommended and the USB management agreed to: (a) Apply the long outstanding payables to customers amounting to ₱27.703 million to the loans and receivables and other appropriate accounts to faithfully represent the balance of Accounts Payable and other affected accounts as at December 31, 2020; and (b) Strictly comply with the USB Guidelines on the application and reversal of Accounts Payable.

d) Adoption of the 36 companies' prior year's audited FS instead of the latest available FS as the basis of PCGG CLTF in the computation of the total coconut levy assets caused an overstatement of ₱75,563,470,112.14. Moreover, cash deposits to BTr amounting to ₱75,616,233,614.97 was not accounted for separately in the PCGG Report, thereby causing a net understatement of the total coconut levy assets by ₱52,763,502.83.

   We recommended that the PCGG CLTF make the necessary adjustments, if warranted, in order to reflect the companies' most recent financial condition. We further recommended that the PCGG CLTF account separately in the Report the cash deposited with the BTr to effect the net adjustment noted amounting to ₱52,763,502.83.

e) Overstated government interest in LegFiber by 25 percent resulting in the understatement of the reported total net coconut levy assets as of December 31, 2020 by ₱19,413,060.75

   We recommended and the PCGG CLTF agreed to make necessary adjustment in the computation of total net coconut levy assets as of December 31, 2020 to reflect the correct percentage of government interest in LegFiber from 100 percent to just 75 percent as evidenced by related documents.

f) Double recording of net assets of AIBC already recorded in the books of investors as Available for Sale Securities, adjustment in fair market value of shares based on investee's latest FS and unrecorded stock dividends - ₱2,433,754.00

We recommended that the: (a) PCGG CLTF adjust the Accounting and Inventory Report of Coconut Levy Assets by excluding the 20.19 percent total net assets of AIBC and instead reflect the fair market value of AIBC shares in the corresponding CIIF OMG companies' net assets based on reconciled balances; and (b) CIIF OMG management record the stock dividends previously declared by AIBC; request supporting documents as basis for recording and secure copies of stock certificates with AIBC.

g) Overstated valuation of SMC shares - ₱1,806,839,905.62

- Premature inclusion of the 4 percent SMC treasury shares[1] without legal basis or proof of ownership - ₱3,057,054,000.00
- Non-inclusion of SMC cash dividends remitted to BTr under CARP fund
- Non-inclusion of SMC cash dividends remitted to the BTr under SAGF and Escrow account
- Error in footing - ₱1,435,000.00

We recommended that the PCGG CLTF: (a) Exclude from the Consolidated Financial Report of Coconut Levy Assets the four percent SMC treasury shares amounting to ₱3,057,054,000.00 in the absence of legal basis or proof of ownership and ensure adequate disclosure pertaining thereto in the said report for the benefit and information of the intended users; (b) Include in the computation of total coconut levy assets as of December 31, 2020 the total SMC cash dividends remitted by PCGG to BTr under CARP fund; and SAGF and Escrow account totaling ₱150,126,022.19 and ₱1,101,523,072.19, respectively, including its interest earned; and (c) Prepare the necessary adjustment to correct the mathematical error in footing amounting to ₱1,435,000.00.

h) Investment in Subsidiaries account of Minola inadvertently misclassified as Investment in Properties – ₱9,836,591.00

We recommended that the PCGG CLTF reclassify the reported balance of *Investment in Properties* account to *Investment in Subsidiaries* account amounting to ₱9,836,591.00 in the PCGG Accounting and Inventory of Coconut Levy Assets as of December 31, 2020 to reflect the correct classification of account.

i) Loan collections applied by UCPB to Other Liabilities instead of the borrowers' loan/receivable accounts – ₱323.037 million

We recommended that the UCPB management: (a) Facilitate the application of collections to loans and receivable and other appropriate accounts to faithfully represent the balances of Other liabilities and related accounts in the FS as at December 31, 2020; and (b) Strictly comply with Bank's Accounting Manual on the application of amount advanced by clients to the next amortization period.

[1] G.4, Page 25 of Main Report, Volume I

j) Dormant deposit liability accounts of UCPB not reclassified to Unclaimed Balances – ₱23.684 million

We recommended and the UCPB management agreed to reclassify the dormant accounts amounting to ₱23.684 million to Unclaimed balances account in compliance with the Bank's Branch Manual, FRP and Unclaimed Balances Act, as amended.

k) Accounts payable of UCPB due for reversal not applied to proper accounts – ₱3.052 million

We recommended and the UCPB management agreed to require the concerned departments to apply all long outstanding payables due for reversal to the proper accounts.

l) Double entry of investment in subsidiary/associate accounts and subsidiary/associate's equity accounts in the computation of the total coco levy assets - ₱2,991,050,006.00 (overstatement)

We recommended and the PCGG CLTF agreed to: (a) Eliminate the *Investment in Subsidiary* account in the parent company's books of accounts prior to inclusion in the computation of Consolidated Coconut Levy Assets to fairly present the effects of transactions and flow of funds; and (b) In coordination with the Coco Levy Companies, reconcile/verify the discrepancies noted between the *Investment in Subsidiary* account as reported in the parent company's books of accounts and net assets of the corresponding subsidiary.

B. ACCOUNTING DEFICIENCIES AND OTHER SIGNIFICANT OBSERVATIONS

Discrepancies between the paid-up capital of 14 companies per GIS and its shareholders' investment accounts - ₱149,384,460.00

2. Discrepancies aggregating ₱149,384,460.00 were noted between the GIS of 14 coco levy companies and the *Investment in Subsidiary/Associate* accounts presented in the Notes to FS of their respective shareholders affecting the consolidation of net assets in the PCGG Accounting and Inventory of Coconut Levy Assets as of December 31, 2020, contrary to Section 15 of PAS 1.

   We recommended that the PCGG CLTF, in coordination with CIIF OMG management, review the submitted GIS and reconcile the noted discrepancies of ₱149,384,460.00 and update its Accounting and Inventory Report of Coconut Levy Assets as of December 31, 2020 accordingly to reflect the reconciled/corrected amount.

Doubtful financial accounts due to unreconciled balances and remote collectability of CCFDPI and GUSA's receivables - ₱1,891,877,559.88

3. Various financial accounts of 11 coco levy companies with a total balance of ₱1,891,877,559.88 are doubtful and unreliable due to unreconciled balances between financial reports/schedules and confirmed balances aggregating ₱1,110,759,655.03 and remote collectability of CCFDPI and GUSA's receivables amounting to ₱210,509,325.33.

   a) Unreconciled and Uncollectible Accounts Receivable account of CCFDPI - ₱40,691,065.05

      We recommended that the PCGG CLTF, in coordination with CIIF OMG, reconcile the noted difference of ₱1,077,991.05; assess the collectability of the receivables account amounting to ₱40,691,065.05; and update the Accounting and Inventory of Coconut Levy Assets as of December 31, 2020 accordingly to reflect the reconciled/ adjusted amount.

   b) Unreconciled and Uncollectible Trade and Other Receivables account of GUSA - ₱169,818,260.28

      We recommended that the PCGG CLTF, in coordination with CIIF OMG/GUSA, reconcile the noted difference of ₱29,857,796.80, assess the collectability of the receivables from GMC amounting to $3,536,186.00 or ₱169,818,260.28, and update the Accounting and Inventory of Coconut Levy Assets as of December 31, 2020 accordingly to reflect the reconciled/ adjusted amount.

   c) Unreconciled Due to Related Parties account of LegFiber - ₱76,806,547.00

      We recommended that the PCGG CLTF, in coordination with CIIF OMG management, expedite the reconciliation of the variance in the related party transactions between LegFiber and LegOil records for CY 2017 and update accordingly the PCGG Accounting and Inventory of Coconut Levy Assets as of December 31, 2020 to reflect the reconciled/corrected amount.

   d) Unreconciled Inventories and Investment Properties accounts of MRC - ₱501,686,985.30

   - Unreconciled Inventories of MRC - ₱3,746,279.00

     We recommended that the PCGG CLTF, in coordination with CIIF OMG management, expedite the immediate reconciliation of the noted variance of ₱2,036,027.78 between the reported balance per books and Inventory Report in CY 2016.

   - Unreconciled Investment in Properties account of MRC - ₱497,940,706.30 (gross)

We recommended that the PCGG CLTF, in coordination with CIIF OMG management, expedite the immediate reconciliation of the noted variance on the acquisition cost between the PPE Lapsing Schedule and PCGG/MRC PIF, both as of December 31, 2020 amounting to ₱90,185,233.06.

e) Unreconciled Due to Related Parties account of Minola - ₱2,906,594.54

We recommended that the PCGG CLTF, in coordination with CIIF OMG, expedite the reconciliation of the variances in the related party transactions between Minola, SPMC and GMC records and update accordingly the PCGG Accounting and Inventory of Coconut Levy Assets as of December 31, 2020 to reflect the reconciled/corrected amount.

f) Unreconciled Due from Related Parties and Accrued Expenses accounts of Silahis - ₱16,340,151.58

- Unreconciled Due from Related Parties account of Silahis - ₱13,961,877.58

We recommended that the PCGG CLTF, in coordination with CIIF OMG management, expedite the reconciliation of the noted variances between the related party records of Silahis and SPMC in CY 2017 to CY 2019 and update accordingly the PCGG Accounting and Inventory of Coconut Levy Assets as of December 31, 2020 to reflect the reconciled/corrected amount.

- Unreconciled Accrued Expenses account of Silahis - ₱2,378,274.00

We recommended that the PCGG CLTF, in coordination with CIIF OMG management, expedite the reconciliation of the noted variance of ₱1,539,804.16 as of December 31, 2020 between the submitted Tentative FS and SLs for *Accrued Expenses* as of even date.

g) Unreconciled Accounts Receivable and Trade Payables accounts of CAIPI - ₱26,397,176.00

- Unreconciled Accounts Receivable account of CAIPI - ₱14,968,044.00

We recommended that the PCGG Chairperson instruct the Assets and Records Inventory Team in coordination with the CAIPI to reconcile the noted differences and update the Accounting and Inventory Report of Coconut Levy Assets as of December 31, 2020 accordingly to reflect the reconciled/adjusted amount in accordance with Chapter IV Section 6 of RA No. 11524.

- Unreconciled Trade Payables account of CAIPI - ₱11,429,132.00

We recommended that the PCGG Chairperson instruct the Assets and Records Inventory Team in coordination with the CAIPI to include all liabilities in the Accounting and Inventory Report of Coconut Levy Assets, as of December 31, 2020 to present the total net worth of the CAIPI in accordance with Chapter IV Section 6 of RA No. 11524.

h) Unreconciled Accounts Receivable, Financial Assets at Fair Value through Other Comprehensive Income, Property, Plant and Equipment, and Capital Stock accounts of UCCI - ₱797,684,130.13

- Unreconciled Accounts Receivable account of UCCI - ₱18,931,463.00

  We recommended that the PCGG Chairperson instruct the Assets and Records Inventory Team in coordination with the UCCI to reconcile the noted differences and update the Accounting and Inventory Report of Coconut Levy Assets as of December 31, 2020 to reflect the reconciled/adjusted amount in accordance with Chapter IV Section 6 of RA No. 11524.

- Unreconciled Financial Assets at Fair Value through Other Comprehensive Income account of UCCI - ₱1,140,953.00

  We recommended that the PCGG Chairperson instruct the Assets and Records Inventory Team in coordination with the UCCI to reconcile the noted variance and update the Accounting and Inventory Report of Coconut Levy Assets as of December 31, 2020 to reflect the reconciled/adjusted amount, in compliance with Chapter IV, Section 6 of RA No. 11524.

- Unreconciled Property, Plant and Equipment account of UCCI - ₱43,126,150.13

  We recommended that the PCGG CLTF, in coordination with UCCI: (a) Instruct the Assets and Records Inventory Team to reconcile the noted differences and update the Accounting and Inventory Report of Coconut Levy Assets as of December 31, 2020 accordingly to reflect the reconciled/adjusted amount in accordance with Chapter IV Section 6 of RA No. 11524; (b) Continuously coordinate with the Land Registration Authority (LRA) to facilitate the immediate transfer of sold parcels of land to San Pablo Manufacturing Corp. (SPMC); and (c) Reconcile the items of TCTs listed in the PCGG Accounting and Inventory Report with the UCCI records relative to variances noted on eight parcels of land.

- Unreconciled Capital Stock account of UCCI - ₱734,485,564.00

  We recommended that the PCGG CLTF, in coordination with UCCI: (a) Reconcile the noted discrepancies in the issued number of shares and inconsistencies in Stock Certificate numbers between records of STB, PCGG Accounting and Inventory Report and details reported in GIS and audited FS, and if necessary, prepare a memo entry to reflect the correct number of shares and stock certificate numbers;

and (b) Administer monitoring measures over sequestered UCCI assets such as regular ocular inspection of physical assets and verification of financial and investment assets, in accordance with the mandate of PCGG.

i) Unreconciled Accounts Receivable and Capital Stock accounts of USPPI - ₱100,424,138.00

- Unreconciled Accounts Receivable account of USPPI - ₱424,144.00

We recommended that the PCGG Chairperson instruct the Assets and Records Inventory Team in coordination with the USPPI to reconcile the noted differences and update the Accounting and Inventory Report of Coconut Levy Assets as of December 31, 2020 to reflect the reconciled/adjusted amount in accordance with Chapter IV Section 6 of RA No. 11524.

- Unreconciled Capital Stock account of USPPI - ₱99,999,994.00

We recommended that the PCGG CLTF, in coordination with USPPI, reconcile the noted discrepancies in the amount of paid-up capital and number of shares subscribed of ₱900 million and 900 million shares, respectively. We also recommended that the PCGG CLTF instruct the USSPI to make an amendment on the erroneous information filed with the SEC.

j) Unreconciled Parts and supplies, and Fuel and oil inventories accounts of LegOil amounting to ₱57.205 million and ₱17.532 million, respectively, as of December 31, 2019

We recommended that the LegOil management instruct the: (a) AD to: (a.1) Reconcile the discrepancy between the balances reported in the TB and GL as of December 31, 2019; (a.2) Maintain complete SLs or inventory lists for Parts and supplies and Fuel and oil inventory accounts for both Arimbay and Davao Plants, that should be reconciled with the GL balance; and (a.3) In coordination with the store custodian and Operations Department, to identify/ match the items with unknown item code that were physically counted with the items with code in the computerized accounting system; (b) IAD to investigate the variance between the fuel and oil per physical count against the recorded balance; and (c) Inventory Committee to henceforth conduct physical count of stock inventories semi-annually and reconcile the results with the AD and property custodian records.

k) Unreconciled Non-Current Assets Held for Sale (NCAHS) account of USB as of December 31, 2020 - ₱84.386 million

We recommended and the USB management agreed to: (a) Reconcile the variance between the balance on NCAHS per books and Inventory Report ; and (b) Effect necessary adjustments to faithfully represent the balance of NCAHS as at December 31, 2020.

Unreliable various accounts of eight companies due to various reasons - ₱1,143,352,584.00

4. The reliability of various accounts of eight companies totaling ₱1,143,352,584.00 cannot be established due to various reasons as detailed in the succeeding discussions.

   a) Unreliable PPE account of CagOil - ₱354.093 million

      We recommended that the CagOil management: (a) Instruct the IAD, in coordination with the AD and Property Unit, to prepare the guidelines to strengthen the physical and financial controls over the PPE, such as, but not limited to: (i) the creation of inventory committee to conduct the complete annual physical count of the PPE; (ii) the preparation of the RPCPPE and its reconciliation with the records of AD and Property Unit; (iii) the conduct of an investigation of the variance between the AD record and the actual count, if any, to establish the person/persons liable over the missing assets; (b) Direct the AD to: (i) Comply with PAS 16 and 36 in the presentation of the PPE accounts in the FS and provide an allowance for impairment on unserviceable property and derecognize from the books the missing PPE items. Investigate, file appropriate charges and recognize the receivable against and from the person responsible for the loss; (ii) Reconcile the difference between the area of the PPE-Land appraised and revalued in the FS with the actual area of the Land owned by CagOil, and accordingly adjust the books to fairly present the revalued PPE-Land in the FS; and (iii) Secure Tax Declaration to support payment of the Real Property Tax payments; and (c) We further recommended that management cause the disposal of properties that are found to be unserviceable, damaged, dismantled, and obsolete in compliance with Section 79 of PD No. 1445 and COA Circular No. 86-264 to avoid further deterioration of properties and diminishment of their recoverable values.

   b) Unreliable PPE account of GMC - ₱308.293 million

      We recommended and the GMC Management agreed to direct the: (a) IAD, in coordination with the AD and Property Unit (PU), to prepare the guidelines to strengthen the physical and financial controls to verify the existence, condition, custody, and value of the PPE, such as, but not limited to, the following: (a.1) Creation of an Inventory Committee who will conduct the physical count of PPE; (a.2) Maintenance of complete PPELCs by the AD and complete PCs by the PU, as well as the reconciliation of said records; (a.3) Preparation of RPCPPE by the Inventory Committee; (a.4) Reconciliation of the RPCPPE with the records of AD and PU and thereafter, the investigation on the difference, if any; and (a.5) Preparation of IIRUP and disposal of properties that are unserviceable, damaged, dismantled, and obsolete, pursuant to COA Circular No. 89-296 dated January 27, 1989, to avoid further deterioration of properties and diminish their value; (b) AD to maintain the PPELCs, and the PU to maintain the PCs and to reconcile their records regularly; (c) Inventory Committee to conduct the physical count of PPE, prepare RPCPPE, reconcile the result of physical count with the PPELCs maintained by the AD, and investigate difference noted; and (d) PU, based on the RPCPPE, prepare the IIRUP and cause the immediate disposal of the unserviceable assets.

c) Unreliable PPE and IP accounts of LegOil amounting to ₱107.308 million and ₱16.275 million, respectively, as of December 31, 2019

   We recommended and the LegOil management agreed to direct the: (a) IAD, in coordination with the AD and the Property Unit, to prepare guidelines that will strengthen the physical and financial controls to verify the existence, condition, custody, and value of the PPE, such as, but not limited to the following: (a.1.) Creation of an Inventory Committee who will conduct the physical count of PPE; (a.2.) Maintenance of PPELCs by the AD and PCs by the Property Unit with complete information including property number and reconciliation of these two records; (a.3.) Reporting of the results of physical count thru the preparation of RPCPPE and IIRUP; (a.4.) Reconciliation of the RPCPPE with the records of AD and investigation on the difference, if any; (a.5.) Issuance of PAR to accountable official/employee; (a.6.) Adoption of PPE tagging system to facilitate inventory identification and establish accountability; (b) Inventory Committee to immediately conduct the physical count of PPE, prepare RPCPPE, and reconcile the RPCPPE with the PPELCs maintained by the AD; (c) Unit concerned to: (c.1.) Exert all efforts to secure documents to support the recorded land of ₱2.109 million, land located at Batangas measuring 11,495 sq. m.; (c.2.) Act with dispatch to transfer the TCTs of the land in the name of the company; and (d) Legal Department to pursue ownership rights over those properties occupied by the illegal settlers.

d) Abnormal Trade Payables account of LegOil - ₱45.137 million

   We recommended and the LegOil management agreed to direct the: (a) AD to: (a.1) Refrain from recording various transactions in lump sum amount under a common account name/code. Instead, post the details indicated in each CPV in recording the payable and the payments thereof in the AP (Aging) SL subsystem; and (a.2) Analyze, verify, and validate accounts with abnormal balances to correct errors in postings in the SLs or the GL, and accordingly prepare and post the necessary adjusting entries; and (b) Information Technology Group (ITG) to address the incomplete processing of the aging of Accounts Payable in the AP (Aging) SL subsystem.

e) Unreliable Available-for-Sale financial assets account of LegOil as of December 31, 2019 and 2018 amounting to ₱1.411 million and ₱1.289 million, respectively

   We recommended and the LegOil management agreed to require the AD to make a representation with the issuing entity to secure a copy of the stock certificates and to obtain the actual number of shares owned by the company and adjust the books of accounts accordingly.

f) Unreliable PPE account of SOLCOM - ₱49.998 million

We recommended that the SOLCOM management: (a) Direct the Office concerned to secure the TCTs relative to the land recorded and held by the company; (b) Create an Inventory Committee to account for all remaining properties in the plant and prepare a Report on the Physical Count of PPE (RPCPPE) and IIRUP; (c) Direct the Accounting Division to prepare the PPELCs based on the RPCPPE; (d) Cause the immediate disposal of the unserviceable items in accordance with Section 79 of PD No. 1445 to prevent them from further deterioration; and (e) Upon disposal or condemnation, instruct the Accounting Division to prepare a journal entry voucher to drop from the books of accounts the sold/condemned properties.

g) Unreliable Available-for-Sale (AFS) securities account of SOLCOM - ₱401,600.00

We recommended that the SOLCOM management require the Accounting Division to make a representation with the investee to secure a copy of the stock certificates and to confirm the actual number of shares owned by the company and adjust the books of account accordingly.

h) Unreliable PPE account of SPMC with carrying amounts of ₱213.385 million and ₱221.337 million as of December 31, 2019 and 2018, respectively

We recommended that the SPMC management: (a) Instruct the IAD, in coordination with the AD and Property Unit, to prepare the guidelines to strengthen the physical and financial controls to verify the existence, condition, custody, and value of the PPE, such as, but not limited to, the following: (a.1.) Creation of an Inventory Committee who will conduct the physical count of PPE; (a.2.) Preparation of RPCPPE for properties owned by the company and segregate the PPE items of the Subsidiary; (a.3.) Reconciliation of the RPCPPE with the records of AD and investigation on the difference, if any; and (b) Direct the Inventory Committee to conduct immediately the physical count of PPE, prepare RPCPPE, and reconcile the RPCPPE with the PPELCs maintained by the AD.

i) Unreliable Available-for-Sale (AFS) securities account of SPMC - ₱400,000.00

We recommended and the SPMC management agreed to require the AD to make a representation with AIBC to secure a copy of the stock certificates and to obtain the actual the number of shares owned by the company and adjust the books of account accordingly.

j) Undisposed unserviceable properties of ULFC and USB - ₱46,650,984.00

- Undisposed unserviceable properties of ULFC - ₱427,984.00

We recommended and the ULFC management agreed to properly dispose the unserviceable assets and derecognize these from the books.

- Undisposed unserviceable properties of USB - ₱46.223 million

  We recommended and the USB management agreed to: (a) Properly dispose the unserviceable assets and derecognize these from the books; and (b) Consider revisiting the existing provision of the USB ROPA Manual on disposal of unserviceable properties and align with PD 1445.

k) Non-issuance of PARs to end-users and non-assignment of property numbers to UCPB's PPE to impose property accountability

We recommended and the UCPB management agreed to: (a) Issue Property Acknowledgment Receipt (PAR) to end-users of the FFEs; in compliance with COA Circular No. 80-124; and (b) Include in the Bank's policy the issuance of PAR aligned with COA Circular No. 80-124.

l) Various properties of UCPB with similar property numbers

We recommended and the UCPB management agreed to assign separate property numbers to all Furniture, Fixture and Equipment of the Bank in accordance with the Bank's Administrative Manual and COA Circular No. 2020-006.

Unreconciled and unverified assets and liabilities of ANSISI

5. The completeness and validity of the PCGG's Accounting and Inventory Report of All Nation Security & Investigation Services, Inc. (ANSISI's) Assets and Liabilities totaling ₱61,318,000.00 and ₱36,969,000.00, respectively, as of December 31, 2019 could not be ascertained due to noted discrepancies amounting to ₱6,168,814.00 against ANSISI's audited FS, contrary to Chapter IV, Section 6 of RA No. 11524.

   We recommended that the PCGG CLTF reconcile the noted differences and update the Accounting and Inventory Report of Coconut Levy Assets accordingly to reflect the reconciled/adjusted amount in accordance with Chapter IV Section 6 of RA No. 11524.

Doubtful identity of and government ownership in ANSISI

6. The representation of COCOLIFE that ANSISI is not a recognized subsidiary of the former creates doubt on the identity of the latter as a coco levy company and the inclusion of its net assets of ₱24,349,000.00 in the PCGG Accounting and Inventory Report as of December 31, 2020. Likewise, the reported percentage of government ownership in ANSISI cannot be ascertained pending verification of its real identity by the PCGG CLTF.

We recommended that the PCGG CLTF revalidate the previously reported identity of ANSISI including the percentage of government ownership in the company, and consequently adjust the figures presented in the PCGG Accounting and Inventory Report based on the result thereof.

Dormant receivable and payable accounts of Lamon Bay - ₱91,227,567.00

7. The remaining receivable and payable accounts of Lamon Bay reflected in its latest Statement of Financial Position as of December 31, 2020 have been outstanding for over 10 years. The collectability of its receivables could not be ascertained and its capacity to pay its long outstanding payables is very unlikely.

   We recommended that the CIIF OMG assess the collectability of the receivables account amounting to ₱63,129,145.00 and the capacity of the company to pay its long outstanding payables totaling ₱28,098,422.00, in order to reflect the true value of the company in the PCGG Accounting and Inventory of Coconut Levy Assets as of December 31, 2020.

Unsubstantiated write-off of Trade Receivables of Silahis - ₱3,587,192.51

8. Trade Receivables of Silahis Marketing Corporation totaling ₱3,587,192.51 were written-off in CY 2017 despite the possibility of collection since said receivables were aged from one to five years only at the time of write-off; hence, disadvantageous on the part of the government.

   We recommended that the CIIF OMG management reassess the collectability of the receivables aged one to five years previously written-off.

Questionable interest income account of GUSA - $1.00 or ₱48.02

9. The interest earned by Granex Corporation, USA (GUSA) on its receivables from Granexport Manufacturing Corporation (GMC) recognized in the Statement of Comprehensive Income (SCI) in CY 2020 amounting to $1.00 is questionable and highly improbable.

   We recommended that the CIIF OMG/GUSA investigate the questionable interest income taking into consideration the terms and conditions set forth in the alleged loan contract which was not submitted to the Audit Team.

Incurrence of questionable expenses out of borrowed funds by CiAIPI - ₱1,647,175.00

10. Several questionable general and administrative expenses were incurred by CIIF Agro-Industrial Park, Inc. (CiAIPI) out its borrowed funds from its stockholders from CY 2008 to 2020 but no revenues were generated during the said period. Worse, the expenses do not support the financial accounts of the company such as incurrence of expenses for contract labor and outside services when it is no longer operational, utility

expenses when it has no reported office space nor rented workspace to utilize, payment for repair and maintenance when it has no reported assets other than cash and in five cases, the amount spent for repairs and maintenance was way beyond the total cost of fixed assets reported during the period. All these combined rendered the company's Statements of Income doubtful and questionable.

We recommended that CIIF OMG/CiAIPI investigate the reasonableness and propriety of the expenses reported by CiAIPI and disclose accordingly in the Accounting and Inventory of Coconut Levy Assets the results thereof to make the Report more reliable and complete.

Two parcels of land of SPMC not yet transferred under its name - ₱73.609 million

11. The two parcels of land of SPMC, with carrying amount of ₱73.609 million, acquired through deeds of absolute sale, were not yet transferred and registered under the company's name, thus, exposing the company to risk of loss of right and ownership over the assets.

    We recommended and the SPMC management agreed to demand from the vendor the transfer and registration of the parcels of land in the name of the company as provided in the deeds of absolute sale dated October 3, 2013 and December 28, 2012.

Non-presentation of original TCTs of LegOil and SPMC to the Audit Team

12. Original copies of Transfer Certificates of Title (TCTs) pertaining to various real properties of LegOil and SPMC were not made available to the Audit Team for verification. Thus, it could not be determined whether material adjustments in the books of accounts of the companies and/or additional disclosures in the Notes to FS are necessary to present fairly the affected financial assets accounts in the FS.

    a) Non-presentation of original TCTs for one parcel of land of LegOil – 76.314 sq.m.

       We recommended that the LegOil management instruct the: (a) Finance Department to provide, through the AD, the certified true copies of the aforementioned TCTs their respective REMs, and information/status of the related receivables; and (b) AD to evaluate the documents and information obtained in Item a, and adjust the books of accounts and/or provide additional disclosures as required under PFRS 7 to present fairly the affected financial assets accounts in the FS.

    b) Non-presentation of original TCTs for nine parcels of land and original CCT for one condominium unit of SPMC measuring 15,672 sq.m. and 93.28 sq.m., respectively

       We recommended that the SPMC management instruct the: (a) Finance Department to provide the AD and the Audit Team with certified true copies of the aforementioned TCTs/CCT, their respective REMs, and information/status of the related receivables; and (b) AD to evaluate the documents and information obtained in Item (a), and adjust the books of accounts of the company or provide additional disclosures as required under PFRS 7 to present fairly the affected financial assets accounts in the FS.

Various assets of CagOil, ULFC and USB either not insured or not properly insured - ₱1.446 billion

13. Various assets of CagOil, ULFC and USB totaling ₱1.139 billion were not insured, contrary to Section 5 of RA No. 656, otherwise known as the Property Insurance Law, as amended by PD No. 245 dated July 13, 1973, and COA Circular No. 2018-002.

    a) Uninsured PPE of CagOil - ₱388.719 million

       We recommended and the CagOil management agreed to require the Archemicals Corp. to insure the Property being leased with the General Insurance Fund (GIF) administered by GSIS in compliance with RA No. 656 as amended by PD No. 245 to protect the properties from risk in case of damage or loss.

    b) Assets of ULFC not properly insured - ₱65.233 million

       We recommended and the ULFC management agreed to: (a) Insure all acquired assets in accordance with the provisions of RA No. 656 and COA Circular No. 2018-002; and (b) Include policy/guidelines on the insurance of acquired assets in the ULFC's Manual of Operations, aligned with RA No. 656 and COA Circular No. 2018 – 002.

    c) Non-Current Assets Held for Sale and Investment Property of USB not properly insured - ₱991.662 million

       We recommended and the USB management agreed to: (a) Properly insure all acquired assets in accordance with RA No. 656 and COA Circular No. 2018 – 002; and (b) Consider revisiting the existing guidelines and align its provision on the basis in determining insurance coverage of ROPA with RA No. 656 and COA Circular No. 2018 – 002.

Non-compliance with tax laws by CagOil, GMC, LegOil, SOLCOM, SPMC and UCPB - ₱82,886,664.00

14. Six companies were not compliant with existing tax laws such as failure to withhold Final VAT of five percent, non-withholding of creditable withholding tax (CWT), incurrence of unnecessary expenditures of SPMC due to late filing and/or non-remittance of appropriate amounts of Output VAT and Expanded Withholding Tax and Compensation Withholding Tax, unsettled Documentary Stamps Tax and Recalled SSS Pension (SSS Recall), and discrepancy between BIR Form 2550-Q and the balance of the remaining creditable Input VAT in the Notes to FS.

a) Failure of CagOil to withhold Final VAT of five percent - ₱136,805.00

We recommended and the CagOil management agreed that, to avoid exposure of the company and its employees from any tax liabilities and penalties for offenses of not complying with BIR RR, management instruct the Finance Department to formally coordinate with the SEC and BIR and seek advice relative to non-updating of the company's registration resulting in non-imposition of withholding taxes on government payments pending the final disposition of the DDEs to privatize/ dispose the company as prescribed in the recently enacted RA No. 11524. We also recommended that management send to seminars on tax updates the AD Personnel responsible for: (i) analyzing and recording transactions relating to taxes, and (ii) filing of tax returns.

b) Discrepancy of ₱149,054 between BIR Form 2550-Q and the balance of the remaining creditable Input VAT in the Notes to FS of CagOil

We recommended and the CagOil management agreed to trace the discrepancy and adjust the books or file amended VAT return, whichever is applicable, and henceforth ensure that the amounts indicated in the VAT return tally with the recorded amounts.

c) Non-withholding of creditable withholding tax (CWT) on purchases from copra suppliers in CY 2018 by GMC amounting to ₱16.329 million and unnecessary expenditures totaling ₱3.545 million due to late filing and remittance

We recommended that the GMC management require the: (a) Suppliers concerned, as well as the responsible/accountable officials and employees to pay the amount of ₱16.329 million representing the CWT paid and shouldered by the GMC but not withheld from the payment of copra purchases, and the interest and penalties of ₱3.545 million due thereof; (b) Officers and employees concerned to strictly adhere with the provisions of BIR RR No. 11- 2018 by withholding and remitting CWT from copra suppliers in excess of the cumulative amount of P300,000 within the taxable year; and (c) IAD, in coordination with the Information Technology Group, to install monitoring system to ensure that all purchases from non-exempt suppliers are subjected to one percent CWT and the exempted purchases are duly supported with complete documents.

d) Non-withholding of creditable withholding tax (CWT) on purchases from copra suppliers in CY 2019 by LegOil amounting to ₱14.538 million and incurrence of unnecessary expenses due to late filing and/or remittance totaling ₱1.347 million

We recommended that the LegOil management require the: (a) Suppliers concerned, as well as the responsible/accountable officials and employees to pay the CWT paid by the company but not withheld from the payment of copra purchases of ₱14.538 million, and the interest and penalties of ₱1.347 million due thereof; (b) Officers and employees concerned to strictly adhere with the provisions of BIR RR No. 11- 2018 by withholding and remitting CWT from copra suppliers in excess of the cumulative amount of ₱300,000.00 within the taxable year; and (c) IAD, in coordination with the ITG, to install monitoring system to ensure that all purchases from non-exempt suppliers are subjected to one per cent CWT and the exempted purchases are duly supported with complete documents.

e) Failure of LegOil to withhold Final VAT of five percent - ₱12.880 million

We recommended and the LegOil management agreed to instruct the Finance Department to: (a) Coordinate with the BIR and request advice relative to non-imposition of withholding taxes on government payments in CY 2019, in view of the non-updating then of change of registration status from a private corporation to GOCC. This is to avoid exposure of the company and its employees from any tax liabilities and penalties for offenses of not complying with BIR RR; and (b) Comply with the BIR RR No. 4-2007 and BIR RMC No. 23-2007 by withholding the final VAT from payments.

f) Failure of SOLCOM to withhold Final VAT of five percent - ₱36,805.00

We recommended and the SOLCOM management agreed that, in order to avoid exposure of the company and its employees from any tax liabilities and penalties for offenses of not complying with BIR RR, management instruct the Finance Department to formally coordinate with the SEC and BIR and request advise relative to non-updating of the company's registration resulting in non-imposition of withholding taxes on government payments pending the final disposition of the DDE to privatize/dispose the company as prescribed in the recently enacted RA 11524. We also recommended that the management send to seminars on tax updates the Accounting Personnel responsible for: (i) analyzing and recording transactions relating to taxes, and (ii) filing of tax returns.

g) Unnecessary expenditures of SPMC due to late filing and/or non-remittance of appropriate amounts of Output VAT and Expanded Withholding Tax and Compensation Withholding Tax - ₱1.416 million

We recommended that the SPMC management strictly comply with the BIR regulations to avoid paying penalties and direct the Unit concerned to determine the persons responsible for the incurrence of penalty charges totaling ₱1.416 million and take appropriate action to collect from them the said penalties paid to BIR.

h) Failure of SPMC to withhold Final VAT of five percent - ₱28.954 million

We recommended and the SPMC management agreed to instruct the Finance Department to formally coordinate with the SEC and BIR and request advise relative to non-updating of the company's registration resulting in non-imposition of withholding taxes on government payments pending the final disposition of the Designated Disposition Entities to privatize/dispose the company, as prescribed in the recently enacted RA No. 11524 to avoid exposure of the company and its employees from any tax liabilities and penalties for offenses of not complying with BIR RR.

i) Unsettled Documentary Stamps Tax and Recalled SSS Pension (SSS Recall) of UCPB from six months to two years resulting to possible charges - ₱3.555 million

We recommended and the UCPB management agreed to: (a) Settle the Documentary Stamps Tax amounting to ₱3.333 million to BIR through the eDST system; and (b) Return to SSS the pensions amounting to ₱222,487.00 credited against the SSS Pensioners' Savings Account that were recalled.

Non-collection by UCPB of past due loans beyond past due target as of December 31, 2020 - ₱26.326 billion

15. Past due loans amounting to ₱26.326 billion as at December 31, 2020, which increased by ₱19.226 billion or 270.79 per cent from the last year's balance were beyond past due target, of which non-collection of the loans affected the amount of resources for the lending and investment operations of the Bank that could have generated additional income.

We recommended that the UCPB management: (a) Undertake measures to improve efficiency in collections, and exhaust all possible actions to collect past due accounts; and (b) Address the identified root causes of the accumulation of past due loans by closely monitoring loans, revisiting the credit packaging including borrower evaluation process, compliance with documentary requirements and closer coordination among the concerned units of the Bank.

Cash in Vault (CIV) balance of 11 USB branches exceeded their approved CIV benchmark by ₱1,352.00 to ₱19.026 million

16. The Cash in Vault (CIV) balance of 11 USB branches exceeded their approved CIV benchmark by ₱1,352.00 to ₱19.026 million or 0.03 to 925.34 percent for the period January 1 to December 31, 2020, contrary to the provisions of the Branch Operations Manual which exposes the Bank to possible risk of loss.

We recommended and the USB management agreed to: (a) Strictly comply with the Bank policy that CIV level is maintained within the branch's benchmark and should not exceed the branch's CIV insurance coverage; and (b) Regularly assess the maximum CIV benchmark of branches.

No established and approved accounting policies and procedures for GHDI

17. The GHDI does not have established and approved accounting policies and procedures which poses internal control risk on the accountability and consistency in accounting and recording of the daily transactions and financial reporting.

    We recommended and the GHDI management agreed to establish written accounting policies and procedures to be approved by the GHDI Board of Directors, to ensure accountability and consistency in the accounting and recording of the daily transactions and financial reporting.

Undocumented policies on the recognition, measurement, classification and derecognition of financial assets of USI

18. USI classification of its Financial Assets at FVOCI is not in accordance with the provisions of PFRS 9 and management's representation in the Notes to FS due to the absence of policies on the recognition, measurement, classification and de-recognition of financial assets.

    We recommended that the USI management document the policies and procedures on the initial recognition, subsequent measurement, classification and derecognition of Financial Assets in accordance with PFRS 9.

C. RESULTS OF INSPECTION AND VALUATION OF PROPERTIES

Overvaluation of MRC's spare parts inventory by ₱2,649,409.78

19. The entire inventory of Manila Refining Corporation (MRC) as of December 31, 2020 with acquisition cost of ₱4,089,411.99 has an appraised value of ₱1,440,002.21 only as of valuation date[2] or overvalued by ₱2,649,409.78.

    We recommended that the PCGG CLTF make the necessary adjustments and/or appropriate disclosures pertaining to the result of inspection and appraisal conducted by COA TSO-SAT relative to the *Inventory* accounts of MRC in the PCGG Accounting and Inventory of Coconut Levy Assets as of December 31, 2020.

Result of Inspection and Appraisal of MRC's Investment in Properties

20. Various properties, equipment and buildings/land improvements comprising the *Investment in Properties* account of Manila Refining Corporation (MRC) with total acquisition cost of ₱391,857,214.50[3] as of December 31, 2020 have an appraised value

[2] October 1, 2021
[3] Excluding Other Small Value items

of ₱207,852,518.45 only as of valuation date[4]. Moreover, out of the 11 buildings/land improvements listed in the MRC PIF with total area of 3,458 sq.m., only three have Tax Declaration of Real Property (TDRP) obtained from the Municipal Assessor of San Pascual, Batangas covering 337.75 sq. m. or merely 10 percent of the reported total area.

We recommended that the PCGG CLTF: (a) Explain the absence of Tax Declaration of Real Property (TDRP) for the eight buildings/land improvements and/or the mismatching of information in the three available TDRPs with the MRC PIF in terms of building floor area; and (b) Make the necessary adjustments and/or appropriate disclosures pertaining to the result of inspection and appraisal conducted by COA TSO-SAT relative to the *Investment in Properties* account in the PCGG Accounting and Inventory of Coconut Levy Assets as of December 31, 2020.

Undervaluation of PPE and Investment Properties of UCCI, CAIPI and USSPI by ₱2,100,739,991.92 (net)

21. Based on ocular inspection and valuation of PPE and Investment Properties of UCCI, CAIPI and USSPI, it was found out that the properties were undervalued by ₱2,100,739,991.92 in comparison to the reported book value of the properties in the PCGG Accounting and Inventory of Coconut Levy Assets as of December 31, 2020.

We recommended that the PCGG CLTF, in coordination with UCCI, CAIPI and USPPI: (a) Consider the appraised values provided by the COA TSO-SAT for some of the PPE items presented in the PCGG Accounting and Inventory of Coconut Levy Assets as of December 31, 2020 to reflect the material difference of ₱2,100,739,991.92; and (b) Administer monitoring measures over sequestered coconut levy assets such as regular ocular inspection of physical assets and verification of financial and investment assets, in accordance with the mandate of PCGG.

Failure to recognize impairment losses on the net assets of 10 copra trading companies (CTCs) totaling ₱341,875,821.00 due to significant doubt on the CTCs' ability to collect and settle related party accounts and continue as a going concern

22. The PCGG Accounting and Inventory of Coconut Levy Assets is overvalued by ₱341,875,821.00 in view of the following: a) CTCs have no trading operations since 1988; b) Board of Directors (BODs) and stockholders' intention to liquidate the company; c) the CTCs have no source of revenue and its assets and liabilities consist mainly of related party transactions between the same group of companies; d) investing companies under the CIIF OMG umbrella have assessed that their investments in the CTCs were impaired due to CTCs' inactivity, thus, impairment losses were recognized.

We recommended that the PCGG CLTF recognize impairment losses amounting to ₱341,875,821.00 which is equivalent to the total net assets of the 10 copra trading companies in the PCGG Accounting and Inventory of Coconut Levy Assets.

[4] October 1, 2021

Available-for-Sale financial assets account of LegOil not valued at fair value as of December 31, 2019 and 2018

23. The Available-for-sale (AFS) financial assets account with year-end balances of ₱1.411 million and ₱1.289 million as of December 31, 2019 and December 31, 2018, respectively, was not fairly presented in the Statements of Financial Position (SFP) due to non-presentation of the account balance at fair value, as required under PFRS 9 *Financial Instruments.*

    We recommended and the LegOil management agreed to require the AD to: (a) Present the AFS financial assets account at fair value using the fair value hierarchy provided in PFRS 13 *Fair Value Measurement*; and (b) Disclose in the Notes to FS the valuation technique used and computation to arrive at the fair values of the financial assets.

Available-for-Sale (AFS) securities account of SOLCOM not presented at fair value as of December 31, 2019 and 2018

24. The valuation, completeness, and accuracy of the Available-for-Sale (AFS) securities account of SOLCOM amounting to ₱401,600.00 could not be ascertained due to not presenting the equity instruments in its fair value and not disclosing its new classification either as financial asset at fair value through other comprehensive income (FVOCI) or financial asset at fair value through profit or loss (FVTPL), as required by Section 58 of Presidential Decree (PD) No. 1445 and Philippine Financial Reporting Standards (PFRS) 9 - *Financial Instruments.*

    We recommended and the SOLCOM management agreed to require the Accounting Division to: (a) Present the AFS securities account at fair value using the fair value hierarchy provided in PFRS 13 - *Fair Value Measurement*; and (b) Disclose in the Notes to FS the new classification of the AFS securities after the initial adoption of PFRS 9, the valuation technique used, and the computation to arrive at the fair values of the financial assets.

Available-for-Sale (AFS) securities account of SPMC not measured at fair value as of December 31, 2019 and 2018

25. The financial assets - Available-for-sale (AFS) securities account with year-end balance of ₱400,000.00 was not fairly presented in the Statements of Financial Position due to non-presentation of the account at fair value, as required by Section 58 of Presidential Decree (PD) No. 1445 and PFRS 9 *Financial Instruments*.

    We recommended and the SPMC management agreed to require the AD to: (a) Present the AFS securities account at fair value using the fair value hierarchy provided in PFRS 13 *Fair Value Measurement*; and (b) Disclose in the Notes to FS the valuation technique used and computation to arrive at the fair values of the financial assets.

D. STATUS OF OPERATIONS AND ABILITY TO CONTINUE AS A GOING CONCERN

Inactivity and non-operation of 18 coco levy funded companies

26. Eighteen coco levy financed companies reported in the PCGG Accounting and Inventory of Coconut Levy Assets as of December 31, 2020 are no longer operational and except for the 10 CTCs, no such disclosure was provided by the PCGG. Likewise, the reason/s for the 10 CTCs' non-liquidation despite their inactivity since 1988 was not provided by the PCGG for the benefit and understanding of the intended readers of the Report.

a) Inactivity of 10 CTCs since 1988

In view of the foregoing, we recommended that the PCGG CLTF fully disclose in the Accounting and Inventory Report the reason/s for the companies' non-liquidation despite their inactivity since 1988 and to include a comprehensive list of inactive and non-operational coco levy companies in the Main Report for the benefit and understanding of the intended readers of the Report.

b) Non-operation and inactivity of CCFDPI

We recommended that the PCGG CLTF fully disclose in the Accounting and Inventory Report the reason/s for the company's inactivity/non-operation and the status of its remaining assets.

c) Inactivity of CCRDFI

We recommended that the PCGG CLTF, in coordination with CIIF OMG, establish the status of the company and disclose the same in the Accounting and Inventory Report, including the reason/s for its non-operation/inactivity. Moreover, given the failure of the company to establish its alleged closure/dissolution, we reiterate our recommendation for the PCGG to include in the Accounting and Inventory report the negative net assets of the company amounting to ₱167,204.01.

d) Inactivity and non-operation of GUSA since 2016

We recommended that the PCGG CLTF discuss with the CIIF OMG, assess and resolve the issues regarding the company's ability to continue as a going concern and disclose accordingly in the PCGG Accounting and Inventory of Coconut Levy Assets as of December 31, 2020 the results thereof.

e) Significant doubt on CiAIPI's ability to continue as a going concern

We recommended that the PCGG CLTF fully disclose in the Accounting and Inventory Report the foregoing circumstances such as the company's inactivity and the significant doubt on the company's ability to continue as a going concern.

f) LegFiber's non-operation and inactivity since 2011

We recommended that the PCGG CLTF provide appropriate disclosures in the PCGG Accounting and Inventory Report of Coconut Levy Assets as of December 31, 2020 on the company's actual date of cessation of operations and the reason/s thereof as well as its current status for the benefit and understanding of the intended users.

g) Minola's non-operation and inactivity since 2009

We recommended that the PCGG CLTF provide appropriate disclosures in the PCGG Accounting and Inventory Report of Coconut Levy Assets as of December 31, 2020 on the company's actual date of cessation of operations and the reason/s thereof as well as its current status for the benefit and understanding of the intended users and in coordination with CIIF OMG management, submit explanation/clarification on the BOD's approved plan to retain Minola and pursue the proposed five-year Business Plan despite the company's non-operation and inactivity since 2009 as well as the results of the implementation of the five-year Minola Business Plan, if any.

h) Inactivity of MRC since 2015

We recommended that the PCGG CLTF provide appropriate and full disclosures in the PCGG Accounting and Inventory Report of Coconut Levy Assets as of December 31, 2020 on the company's actual date of cessation of operations and the reason/s thereof as well as its current status for the benefit and understanding of the intended users.

i) Inactivity of Silahis since 2017

We recommended that the PCGG CLTF provide appropriate disclosure in the PCGG Accounting and Inventory Report of Coconut Levy Assets as of December 31, 2020 on the company's actual date of cessation of operations and the reason/s thereof as well as its current business status for the benefit and understanding of the intended users.

Preparation of FS by 14 CIIF Holding Companies on a going concern basis instead of liquidation basis

27. The 14 CIIF Holding Companies' FS and the accompanying Notes to FS were still prepared on a going concern basis instead of liquidation basis, as required under Paragraph 4.1 of the Conceptual Framework for Financial Reporting (Framework) and Philippine Interpretations Committee (PIC) Question and Answer (Q&A) No. 2009-01 on the interpretation of Paragraph 25 of PAS 1, notwithstanding the existence of the order for the dissolution of the 14 CIIF Holding Companies provided under Executive Order (EO) No. 180 dated March 18, 2015.

We recommended and the management of the 14 Holding Companies agreed to comply with PIC Q&A No. 2009-01 on the interpretation of Paragraph 25 of PAS 1 and Paragraph 4.1 of the Framework and prepare the FS on a basis other than going concern basis – liquidation basis, specifically by: (a) Evaluating the collectability of the receivables and assessing the ability of the companies to pay the liabilities and adopting the applicable PFRS in the measurements of said assets including its liabilities to present the accounts in the FS at their recoverable and settlement amounts; and (b) Providing the required disclosures in the Framework and PIC Q&A No. 2009-01 on the interpretation of Paragraph 25 of PAS 1 in the Notes to FS relative to the basis of its preparation.

Preparation of FS by UFEC on a going concern basis instead of liquidation basis

28. UFEC continuously prepares its FS on a going concern basis despite the suspension of its primary commercial operations since 2004 and without an assessment of its ability to continue as a going concern, contrary to PAS 1.

    We recommended and the UFEC management agreed to: (a) Reconsider the previous plan of dissolution of UFEC; (b) Coordinate with the SEC on the status of Joint Affidavit of Cessation of Operations; and (c) Present the FS on a basis other than going concern.

Liquidation plans and preliminary liquidation activities of the 14 Holding Companies not yet in place notwithstanding orders to liquidate

29. The Plan of Liquidation for the 14 CIIF Holding Companies was not yet prepared as required under GCG Memorandum Circular (MC) No. 2015-03 dated April 8, 2015 which prescribes the guidelines on the merger or abolition/dissolution of GOCCs. Moreover, the activities for the dissolution and liquidation of the said companies such as the application of the cancellation of the companies' registration before the Securities and Exchange Commission and the Bureau of Internal Revenue, and the preparation of reports required under Commission on Audit (COA) Circular No. 92-375 dated March 9, 1992 in the closing of the books of the companies were not yet accomplished to date.

    We recommended and the management of the 14 CIIF Holding Companies agreed to: (a) Coordinate with the GCG to inquire on the creation of TWG that will handle the liquidation of affairs of the 14 CIIF Holding Companies and the preparation of the Plan of Liquidation, in compliance with GCG MC No. 2015-03; and (b) Prepare and submit the financial reports necessary for the closing of the books of the companies as required by COA Circular No. 92-375.

Non-disclosure of redemption of Class C shares of UCCI

30. Details of redemption of Class C shares of United Coconut Chemicals, Inc. (UCCI) totaling 138,888,889 and 43,375,547 shares in CYs 1992 and 1995, respectively, were not disclosed in the PCGG Accounting and Inventory Report. Likewise, redemption of the remaining matured shares of 592,735,564 was not exercised, hence depriving the Philippine government of funds that would have been used exclusively for the benefit of the coconut farmers and for the development of the coconut industry.

    We recommended that the PCGG CLTF, in coordination with UCCI: (a) Include in the PCGG Accounting and Inventory of Coconut Levy Assets as of December 31, 2020 the details of redeemed Class C shares in CYs 1992 and 1995 and the flow of funds for the redeemed shares totaling ₱300 million; (b) Come up with a resolution on how the UCCI will be able to redeem the remaining matured Class C shares of 592,735,561; and (c) Administer monitoring measures over sequestered coconut levy assets such as regular ocular inspection of physical assets and verification of financial and investment assets, in accordance with PCGG's mandate.

E. RESULT OF COMPLIANCE AUDIT ON THE RECONVEYANCE OF THE COCONUT LEVY ASSETS TO THE REPUPLIC

Shares of stocks not yet reconveyed and transferred in the name of the Republic of the Philippines - ₱247,000,000.00

31. The titles over the shares of stocks of the 14 Holding Companies amounting to ₱247,000,000.00 were not yet reconveyed and transferred to the Republic of the Philippines (ROP) as of audit date, contrary to EO No. 180 dated March 18, 2015 and Sandiganbayan Resolution dated August 7, 2018.

    We recommended and the management of the 14 Holding Companies agreed, in coordination with the PCGG, BTr, GCG, and OSG, to implement the reconveyance and transfer of title to the ROP over their shares of stocks amounting to ₱247,000,000.00, pursuant to Section 4 of EO No. 180, s. 2015, and Sandiganbayan Resolution dated August 7, 2018.

SUMMARY OF AUDIT ADJUSTMENTS, MISSTATEMENTS/ERRORS AND ACCOUNTING DEFICIENCIES

Based on the results of audit and after considering the effects of the foregoing audit observations and other audit limitations and exclusions as above-mentioned, the total audit adjustments to be made amounted to ₱2,626,074,699.53 (net) representing an overstatement in the total reported coconut levy assets of ₱113.878 billion as of December

31, 2020. Thus, the total audited amount of coconut levy assets as of even date is only **₱111.252 billion**.

The summary of audit adjustments per company, including the summary of misstatements, errors, omissions and accounting deficiencies are detailed in ***Annexes A, A.1, and A.2*** hereof.