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

CORPORATE GOVERNMENT SECTOR
Cluster 6 – Social, Cultural, Trading, Promotional and Other Services

June 25, 2019

THE TOURISM BOARD
Tourism Promotions Board
Legaspi Towers 300
Roxas Boulevard, Manila

RECEIVED BY: EDSHI-LEE
06/25/19

Gentlemen/Mesdames:

Pursuant to Section 2, Article IX-D of the Philippine Constitution and Section 43 of Presidential Decree (PD) No. 1445, otherwise known as the Government Auditing Code of the Philippines, we transmit herewith our report on the results of the audit of the accounts and transactions of the **Tourism Promotions Board (TPB)**, for the year ended December 31, 2018.

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

The Auditor rendered a qualified opinion on the fairness of the presentation of the financial statements of the TPB for the years ended December 31, 2018 and 2017 in view of the following:

1. The faithful representation of the balance of Inter-agency Receivables - Due from National Government Agencies (NGAs) account as at December 31, 2018 of P367.732 million was not established due to: (a) fund transfers totaling P307.313 million remained unliquidated even if the purpose for which these were granted had been completed, resulting in unrecognized expenses in prior years of the used funds; (b) unreconciled variance of P60.419 million between the General Ledger (GL)/Subsidiary Ledger (SL) and TPB Status Report of Fund Transfers (with Aging) as of December 31, 2018; (c) variances of P95.746 million between the balances from the different Department of Tourism (DOT) Implementing Offices and the Status Report of Fund Transfers as a result of confirmation; (d) existence of abnormal (negative) balance aggregating P18.709 million; and (e) recording of P6.980 million even when there was no fund transfer made to Philippine DOT China, resulting in the overstatement of Due from NGAs by the same amount.

2. The faithful representation of the balance of Financial Liabilities - Accounts Payable (A/P) account of P306.899 million as at December 31, 2018 was not established due to: (a) adjustments to close the abnormal balances totalling P189.637 million were not supported with pertinent documents/ reports; (b) recorded transactions in the total amount of P30.770 million were not duly supported with contracts and documents; (c) variance of P5.232 million between books and confirmed amount from one of the suppliers. Likewise, the A/P account was misstated in view of: (a) various payments totalling P29.243 million were recorded under Accumulated Surplus/(Deficit) account instead of deductions to A/P account; and (b) non-accrual of various unpaid expenses aggregating P28.289 million which understated the A/P account at year-end by the same amount. These were all contrary to Paragraph 3.10 of the Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities and Paragraph 27 of Philippine Public Sector Accounting Standard (PPSAS) 1.

3. Unsupported bank credits totaling P21.149 million were recognized in the books as Service and Business Income despite of non-submission of documents by the Payees and Project Officers to support the direct deposits made, thus the correctness of the total income for the year ended December 31, 2018 could not be established, contrary to the Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities.

4. The Advertising, Promotional, and Marketing Expenses (APME) account totalling P722.147 million as at December 31, 2018 was misstated due to: (a) transfers of funds to Implementing Agencies totalling P64.315 million were recognized as APME instead of Due from NGAs, contrary to Section 63, Chapter 6 of Government Accounting Manual (GAM), Volume I; (b) set-up of previously reverted A/P amounting to P103.350 million representing expenditures in prior years was debited to APME account instead of adjustment to Accumulated Surplus/(Deficit) account.

For the afore-cited observations, which caused the issuance of a qualified opinion, we recommended that Management:

1.1. Demand from the implementing agencies the liquidation of the fund transfers totaling P307.313 million as the purpose for which these were granted had already been completed to enable the Accounting Department to recognize in the books the utilization from these fund transfers. Henceforth, require the Implementing Agencies to promptly liquidate the fund transfers to prevent accumulation of the outstanding balances on the Due from NGAs.

1.2. Instruct the Accounting Department to:

   a. Determine: (i) the cause(s) of the variances between the balances of GL/SL vis-a-vis Status Report of Fund Transfers vis-a-vis DOT Implementing Offices and (ii) the nature of the negative (abnormal) balances on the Due from NGAs account and effect necessary adjustments/corrections on the books and records;

b. Make necessary adjustment to correct the recording of P6.980 million as there was no fund transfer made to PDOT China;

c. Maintain SL for each PDOT Office/Regional Office and regularly reconcile the SLs with the GL;

d. Furnish the DOT Head Office Accounting with copies of the Journal Entry Vouchers (JEVs) on the grant of the fund transfers and ensure that an Official Receipt (OR) is issued as acknowledgement of receipt of fund;

e. Stop receiving the liquidation reports directly from the PDOT Offices, as these must be coursed through the DOT Head Office Accounting and, coordinate with the latter for the proper handling of the transactions as prescribed in COA Circular No. 94-013; and

f. Conduct regular reconciliation of the balances among books, reports and records of the DOT Head Office Accounting; scrutinize and investigate the variances upon discovery, and effect necessary adjustments accordingly.

1.3. Coordinate with the DOT and other Implementing Agencies to ensure strict compliance/implementation of the guidelines on fund transfers, specifically COA Circular No. 94-013 and the Memorandum of Agreement (MOA).

1.4. Address the problems encountered in the granting of fund transfers to implementing agencies; revisit and update TPB's policies/standard operating procedures in the implementation of projects coursed through DOT and other government agencies/parties, for proper execution by all concerned officers and employees.

1.5. Consider amending the MOA with DOT to include the following provisions:

a. The Secretary of DOT / Chairman of TPB be duly informed on fund transfers by providing copies of: (1) the MOA and evidence of fund transfers for any projects to be implemented coursed through DOT, and (2) Status Report of Outstanding Balances per Accountable Officers, on semestral basis;

b. The DOT shall inform TPB of the Accountable Officers' (PDOT Tourism Attaché/Marketing Representative & Regional Directors) movement (transfer, retirement, resignation, etc.); and

c. The Accountable Officers (PDOT TA/MR & Regional Directors) shall secure Clearance from TPB, in case of transfer, retirement, resignation, etc.

1.6. Consider the possibility that the DOT Secretary be a signatory to the MOA.

1.7. Furnish COA copies of pertinent policies, board resolutions, strategic plans and other relevant supporting documents addressing the issues on fund transfers.

2.1. Designate personnel that would permanently handle and monitor the A/P Account.

2.2. Direct the Accounting Department to:

a. Determine the nature and cause of the abnormal balances in the A/P account and support with pertinent documents/reports the adjustments made to close the abnormal balances totalling P189.637 million; otherwise, reverse the entry made until these are duly substantiated. Henceforth, ensure that transactions are supported with relevant documents before effecting adjustments in the books;

b. Submit to the Audit Team the contracts and documents to support the recorded amount of P30.770 million in the A/P account and, make necessary adjustment on recorded amounts which differed from supporting invoices;

c. Recognize payables in the books only when TPB becomes a party to the contractual provisions of an instrument in accordance with PPSAS 29;

d. Reconcile the variance of P5.232 million between the records of contractor and the amount recorded in the books, and effect adjustment, if warranted;

e. Make necessary adjustment on the various payments totalling P29.243 million which were recorded under Accumulated Surplus/(Deficit) account instead of A/P account. Henceforth, require the personnel in charge in the preparation and maintenance of SLs for A/P account to determine if an A/P was previously set-up to avoid misstatements in the recording of payments of payables; and

f. Accrue all unpaid expenses for the year to avoid restatement of the financial statements due to prior period adjustments.

2.3. Require all Departments to submit to the Accounting Department necessary documents on unpaid expenses incurred during the year to enable the latter to accrue the expenses before the closing of the books of accounts.

2.4. Make necessary adjustment in the books to record the understatement of P1.945 million representing cost of audit services.

3.1 Direct the Accounting Department to demand from the Project Officers concerned to submit the required documents in support of the P21.149 million bank credits and effect necessary adjustments in the books.

3.2 Henceforth, direct the Project Officers to submit regularly to the Accounting Department the registration forms, deposits slips submitted by payee-participants, and other supporting documents to facilitate the recording.

3.3 Review the TPB's Collection process for improvement and devise a policy to ensure that all collections are duly accounted, supported, immediately reported and completely/ properly recorded in the books.

4.1 Direct the Accounting Department to:

a. Take appropriate trainings on government accounting and related topics including PPSASs;

b. Make the necessary correcting entries on the various erroneous entries made under APME and other affected accounts; and

c. Be extra careful in recording the transactions in the books of accounts.

The other significant audit observations and recommendations that need immediate action are as follows:

5. The propriety and legality of expenditures totaling P80.640 million incurred on the "Buhay Carinderia" Project, implemented in CY 2018, were doubtful due to: (a) the total cost of the contract for the project was charged to the CY 2017 budget though it was not included in the Annual Procurement Plan (APP) and Project Procurement Management Plan (PPMP) for CYs 2017 and 2018, contrary to Sections 7.1 and 7.2 of Republic Act (RA) No. 9184 or the Government Procurement Reform Act; (b) no actual savings in CY 2017 budget as the receipts vis-à-vis expenditures registered an overdraft of P256.314 million, but still said Project was charged to the budgetary allocation of said year, contrary to Section 85(1) of Presidential Decree (PD) No. 1445; (c) non-deduction of five (5) per cent Final Value Added Tax (VAT) equivalent to P3.600 million from Marylindbert International, Inc. (MII), in violation of Section 114 of the National Internal Revenue Code (NIRC); and (d) various provisions of the MOA that were disadvantageous to the government.

5.1 We recommended that Management:

a. Strictly comply with Sections 7.1 and 7.2 of RA No. 9184 and Section 85(1) of PD No. 1445;

b. Henceforth, ensure that all projects to be implemented by TPB are included in the APP/PPMP and Corporate Operating Budget (COB);

c. Require the MII to refund the amount for final VAT amounting P3.600 million which was not deducted in the final payment of the contract on Buhay Carinderia Project for remittance to the Bureau of Internal Revenue (BIR); otherwise, a Notice of Disallowance shall be issued;

d. Ensure that the contract entered into with the proponent is not onerous/disadvantageous to the government, exercise due diligence in the utilization of government funds;

e. Require MII to submit: (i) the liquidation reports duly supported with relevant documents of all tranches paid/released by TPB in the total amount of P80.640 million; otherwise, a Notice of Suspension shall be issued, and (ii) details and supporting documents relative to its 20 per cent equity share on total cost of the Project; and

f. Identify the persons liable to this onerous contract and institute appropriate legal action against them, if warranted.

6. The propriety and the reasonableness of the procurement contracts totaling P22.961 million for entertainment production and lease of venues were doubtful due to the following: (a) contracts entered into by and between RRM Entertainment Production (a local company) and PDOT – Frankfurt costing P9.755 million, as performers and other various procurements totaling P9.179 million did not undergo the usual procurement process as required by RA No. 9184 and Annex H of its 2016 Revised Implementing Rules and Regulations; (b) procurements for the lease of venue totaling P4.027 million were not supported with complete documents and did not undergo proper procedures on the procurement of venue for lease as required under Item 9, Lease of Real Property and Venue, Annex H, of the 2016 Revised IRR. Likewise, lease of venue/accommodation to a luxury hotel totaling P1.253 million could be considered extravagant in line with COA Circular No. 2012-003.

6.1. We recommended that Management:

a. Require all concerned to comply strictly with the provisions of RA No. 9184 and its 2016 Revised IRR, COA Circular Nos. 2012 - 001 and 2012 - 003;

b. Henceforth, require the Bids and Awards and Committee (BAC) to undertake the procurement process, if the supplier will be a Philippine Corporation/entity, to ensure that the procurements are in accordance with the requirements of RA No. 9184 and its Revised IRR;

c. Submit the documents to support procurement for lease of venue as enumerated in Annex H, 2016 Revised IRR of RA No. 9184 and COA Circular No. 2012-001 to avoid issuance of a notice of suspension; and

d. Stop the practice of using luxury hotels as venue for meetings and events to avoid disallowance in audit.

The other observations together with the recommended courses of action which were discussed by the Audit Team with concerned Management officials and staff during the exit conference conducted on May 21, 2019 are discussed in detail in Part II of the report. We also invite your attention to the prior year's partially and unimplemented audit recommendations embodied in Part III of the report.

In our transmittal letter of even date, we request the Chief Operating Officer of TPB to implement the recommendations contained in the report and to inform this Commission of the actions taken thereon within 60 days from receipt of the report.

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

Very truly yours,

COMMISSION ON AUDIT

By:

C. M. R

CLEOTILDE M. TUAZON
Director IV
Cluster Director

Copy furnished:

The President of the Republic of the Philippines
The Vice President
The President of the Senate
The Speaker of the House of Representatives
The Chairperson – Senate Finance Committee
The Chairperson – Appropriations Committee
The Secretary of the Department of Budget and Management
The Governance Commission for Government-Owned or Controlled Corporations
The Presidential Management Staff, Office of the President
The UP Law Center
The National Library
The COA Central Library

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

CORPORATE GOVERNMENT SECTOR
Cluster 6 – Social, Cultural, Trading, Promotional and Other Services

June 25, 2019

TOURISM PROMOTIONS BOARD
Office of the Chief Operating Officer
RECEIVED
Date: 25 June 2019
Received by: Anno

Ms. MARIE VENUS Q. TAN
Chief Operating Officer
Tourism Promotions Board
Legaspi Towers 300
Roxas Boulevard, Manila

Dear COO Tan:

Pursuant to Section 2, Article IX-D of the Philippine Constitution and Section 43 of Presidential Decree (PD) No. 1445, otherwise known as the Government Auditing Code of the Philippines, we transmit herewith our report on the results of the audit of the accounts and transactions of the **Tourism Promotions Board (TPB)**, for the year ended December 31, 2018.

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2. The faithful representation of the balance of Financial Liabilities - Accounts Payable (A/P) account of P306.899 million as at December 31, 2018 was not established due to: (a) adjustments to close the abnormal balances totalling P189.637 million were not supported with pertinent documents/ reports; (b) recorded transactions in the total amount of P30.770 million were not duly supported with contracts and documents; (c) variance of P5.232 million between books and confirmed amount from one of the suppliers. Likewise, the A/P account was misstated in view of: (a) various payments totalling P29.243 million were recorded under Accumulated Surplus/(Deficit) account instead of deductions to A/P account; and (b) non-accrual of various unpaid expenses aggregating P28.289 million which understated the A/P account at year-end by the same amount. These were all contrary to Paragraph 3.10 of the Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities and Paragraph 27 of Philippine Public Sector Accounting Standard (PPSAS) 1.

3. Unsupported bank credits totaling P21.149 million were recognized in the books as Service and Business Income despite of non-submission of documents by the Payees and Project Officers to support the direct deposits made, thus the correctness of the total income for the year ended December 31, 2018 could not be established, contrary to the Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities.

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For the afore-cited observations, which caused the issuance of a qualified opinion, we recommended that Management:

1.1. Demand from the implementing agencies the liquidation of the fund transfers totaling P307.313 million as the purpose for which these were granted had already been completed to enable the Accounting Department to recognize in the books the utilization from these fund transfers. Henceforth, require the Implementing Agencies to promptly liquidate the fund transfers to prevent accumulation of the outstanding balances on the Due from NGAs.

1.2. Instruct the Accounting Department to:

a. Determine: (i) the cause(s) of the variances between the balances of GL/SL vis-a-vis Status Report of Fund Transfers vis-a-vis DOT Implementing Offices and (ii) the nature of the negative (abnormal) balances on the Due from NGAs account and effect necessary adjustments/corrections on the books and records;

b. Make necessary adjustment to correct the recording of P6.980 million as there was no fund transfer made to PDOT China;

c. Maintain SL for each PDOT Office/Regional Office and regularly reconcile the SLs with the GL;

d. Furnish the DOT Head Office Accounting with copies of the Journal Entry Vouchers (JEVs) on the grant of the fund transfers and ensure that an Official Receipt (OR) is issued as acknowledgement of receipt of fund;

e. Stop receiving the liquidation reports directly from the PDOT Offices, as these must be coursed through the DOT Head Office Accounting and, coordinate with the latter for the proper handling of the transactions as prescribed in COA Circular No. 94-013; and

f. Conduct regular reconciliation of the balances among books, reports and records of the DOT Head Office Accounting; scrutinize and investigate the variances upon discovery, and effect necessary adjustments accordingly.

1.3. Coordinate with the DOT and other Implementing Agencies to ensure strict compliance/implementation of the guidelines on fund transfers, specifically COA Circular No. 94-013 and the Memorandum of Agreement (MOA).

1.4. Address the problems encountered in the granting of fund transfers to implementing agencies; revisit and update TPB's policies/standard operating procedures in the implementation of projects coursed through DOT and other government agencies/parties, for proper execution by all concerned officers and employees.

1.5. Consider amending the MOA with DOT to include the following provisions:

a. The Secretary of DOT / Chairman of TPB be duly informed on fund transfers by providing copies of: (1) the MOA and evidence of fund transfers for any projects to be implemented coursed through DOT, and (2) Status Report of Outstanding Balances per Accountable Officers, on semestral basis;

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b. Submit to the Audit Team the contracts and documents to support the recorded amount of P30.770 million in the A/P account and, make necessary adjustment on recorded amounts which differed from supporting invoices;

c. Recognize payables in the books only when TPB becomes a party to the contractual provisions of an instrument in accordance with PPSAS 29;

d. Reconcile the variance of P5.232 million between the records of contractor and the amount recorded in the books, and effect adjustment, if warranted;

e. Make necessary adjustment on the various payments totalling P29.243 million which were recorded under Accumulated Surplus/(Deficit) account instead of A/P account. Henceforth, require the personnel in charge in the preparation and maintenance of SLs for A/P account to determine if an A/P was previously set-up to avoid misstatements in the recording of payments of payables; and

f. Accrue all unpaid expenses for the year to avoid restatement of the financial statements due to prior period adjustments.

2.3. Require all Departments to submit to the Accounting Department necessary documents on unpaid expenses incurred during the year to enable the latter to accrue the expenses before the closing of the books of accounts.

2.4. Make necessary adjustment in the books to record the understatement of P1.945 million representing cost of audit services.

3.1 Direct the Accounting Department to demand from the Project Officers concerned to submit the required documents in support of the P21.149 million bank credits and effect necessary adjustments in the books.

3.2 Henceforth, direct the Project Officers to submit regularly to the Accounting Department the registration forms, deposits slips submitted by payee-participants, and other supporting documents to facilitate the recording.

3.3 Review the TPB's Collection process for improvement and devise a policy to ensure that all collections are duly accounted, supported, immediately reported and completely/ properly recorded in the books.

4.1 Direct the Accounting Department to:

a. Take appropriate trainings on government accounting and related topics including PPSASs;

b. Make the necessary correcting entries on the various erroneous entries made under APME and other affected accounts; and

c. Be extra careful in recording the transactions in the books of accounts.

The other significant audit observations and recommendations that need immediate action are as follows:

5. The propriety and legality of expenditures totaling P80.640 million incurred on the "Buhay Carinderia" Project, implemented in CY 2018, were doubtful due to: (a) the total cost of the contract for the project was charged to the CY 2017 budget though it was not included in the Annual Procurement Plan (APP) and Project Procurement Management Plan (PPMP) for CYs 2017 and 2018, contrary to Sections 7.1 and 7.2 of Republic Act (RA) No. 9184 or the Government Procurement Reform Act; (b) no actual savings in CY 2017 budget as the receipts vis-à-vis expenditures registered an overdraft of P256.314 million, but still said Project was charged to the budgetary allocation of said year, contrary to Section 85(1) of Presidential Decree (PD) No. 1445; (c) non-deduction of five (5) per cent Final Value Added Tax (VAT) equivalent to P3.600 million from Marylindbert International, Inc. (MII), in violation of Section 114 of the National Internal Revenue Code (NIRC); and (d) various provisions of the MOA that were disadvantageous to the government.

5.1 We recommended that Management:

a. Strictly comply with Sections 7.1 and 7.2 of RA No. 9184 and Section 85(1) of PD No. 1445;

b. Henceforth, ensure that all projects to be implemented by TPB are included in the APP/PPMP and Corporate Operating Budget (COB);

c. Require the MII to refund the amount for final VAT amounting P3.600 million which was not deducted in the final payment of the contract on Buhay Carinderia Project for remittance to the Bureau of Internal Revenue (BIR); otherwise, a Notice of Disallowance shall be issued;

d. Ensure that the contract entered into with the proponent is not onerous/disadvantageous to the government, exercise due diligence in the utilization of government funds;

e. Require MII to submit: (i) the liquidation reports duly supported with relevant documents of all tranches paid/released by TPB in the total amount of P80.640 million; otherwise, a Notice of Suspension shall be issued, and (ii) details and supporting documents relative to its 20 per cent equity share on total cost of the Project; and

f. Identify the persons liable to this onerous contract and institute appropriate legal action against them, if warranted.

6. The propriety and the reasonableness of the procurement contracts totaling P22.961 million for entertainment production and lease of venues were doubtful due to the following: (a) contracts entered into by and between RRM Entertainment Production (a local company) and PDOT – Frankfurt costing P9.755 million, as performers and other various procurements totaling P9.179 million did not undergo the usual procurement process as required by RA No. 9184 and Annex H of its 2016 Revised Implementing Rules and Regulations; (b) procurements for the lease of venue totaling P4.027 million were not supported with complete documents and did not undergo proper procedures on the procurement of venue for lease as required under Item 9, Lease of Real Property and Venue, Annex H, of the 2016 Revised IRR. Likewise, lease of venue/accommodation to a luxury hotel totaling P1.253 million could be considered extravagant in line with COA Circular No. 2012-003.

6.1. We recommended that Management:

a. Require all concerned to comply strictly with the provisions of RA No. 9184 and its 2016 Revised IRR, COA Circular Nos. 2012 - 001 and 2012 - 003;

b. Henceforth, require the Bids and Awards and Committee (BAC) to undertake the procurement process, if the supplier will be a Philippine Corporation/entity, to ensure that the procurements are in accordance with the requirements of RA No. 9184 and its Revised IRR;

c. Submit the documents to support procurement for lease of venue as enumerated in Annex H, 2016 Revised IRR of RA No. 9184 and COA Circular No. 2012-001 to avoid issuance of a notice of suspension; and

d. Stop the practice of using luxury hotels as venue for meetings and events to avoid disallowance in audit.

The other observations together with the recommended courses of action which were discussed by the Audit Team with concerned Management officials and staff during the exit conference conducted on May 21, 2019 are discussed in detail in Part II of the report. We also invite your attention to the prior year's partially and unimplemented audit recommendations embodied in Part III of the report.

We request that appropriate actions be taken on the observations and recommendations contained in the report and that we be informed of the action(s) taken thereon by submitting the duly accomplished Agency Action Plan and Status of Implementation form (copy attached) within 60 days upon receipt hereof.

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

Very truly yours,

COMMISSION ON AUDIT

By:

CLEOTILDE M. TUAZON
Director IV
Cluster Director

Copy furnished:

The President of the Republic of the Philippines
The Vice President
The President of the Senate
The Speaker of the House of Representatives
The Chairperson – Senate Finance Committee
The Chairperson – Appropriations Committee
The Secretary of the Department of Budget and Management
The Governance Commission for Government-Owned or Controlled Corporations
The Presidential Management Staff, Office of the President
The UP Law Center
The National Library
The COA Central Library

Annex A

Name of the Agency and Address

AGENCY ACTION PLAN AND STATUS OF IMPLEMENTATION
Audit Observations and Recommendations
For the Calendar Year 20____
As of ________________

Ref.	Audit Observations	Audit Recommendations	Agency Action Plan				Status of Implementation	Reason for Partial/Delay/Non-Implementation, if applicable	Action Taken/ Action to be Taken
			Action Plan	Person/Dept. Responsible	Target Implementation Date				
					From	To			

Agency sign-off:

________________________________ Name and Position of Agency Officer

________________ Date

Note: Status of Implementation may either be (a) Fully Implemented, (b) Ongoing, (c) Not Implemented, (d) Partially Implemented, or (e) Delayed.
This template shall be used for Current Year's audit recommendations and Prior Years' recommendations as contained in the Parts II and III, respectively, of the Annual Audit Report.

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

ANNUAL AUDIT REPORT

on the

TOURISM PROMOTIONS BOARD

For the Years Ended December 31, 2018 and 2017

TOURISM PROMOTIONS BOARD
NOTES TO FINANCIAL STATEMENTS
(All amounts in Philippine Peso, unless otherwise stated)

1. GENERAL INFORMATION

The Tourism Promotions Board (TPB), a Government-Owned and Controlled Corporation (GOCC) and an attached agency of the Department of Tourism (DOT), was created by virtue of Republic Act (RA) No. 9593, otherwise known as the Tourism Act of 2009 and its Implementing Rules and Regulations (IRR) provided for the reorganization of the Philippine Convention and Visitors Corporation (PCVC). The Tourism Board under Resolution No.16, series of 2010, also confirmed during its June 21, 2010 meeting, the reorganization of the PCVC into the TPB.

TPB is responsible for marketing and promoting the Philippines domestically and internationally as a major global tourism destination, highlighting the uniqueness and assisting the development of its tourism products and services, with the end in view of increasing tourist arrivals and tourism investments; marketing the Philippines as a major Meetings, Incentives, Conventions and Exhibitions (MICE) destination; attracting, promoting, facilitating and servicing large scale events, international fairs and conventions, congresses, sports competitions, expositions and the like; ensuring the regular local and international advertisement of the country's major tourism destinations and other tourism products, including Tourism Enterprise Zones (TEZs); and providing incentives to travel agencies, tour operators, wholesalers and investors abroad capable of drawing a sizeable number of tourists and tourism investments to the country.

The TPB shall have all the general powers of a corporation as provided under the Corporation Code. In addition, it shall have the following functions:

(a) Organize the Philippine TPB (PTPB) in a manner most efficient and economical for the conduct of its business and the implementation of its mandate;

(b) Develop and implement a plan to market the Philippines as a premier tourist destination;

(c) Direct and coordinate the resources and efforts of the government and the private sector in the tourism and allied fields for the full realization of the tourism marketing plans and programs;

(d) Develop and promote the Philippines as a center for international meetings, incentive programs, conventions, exhibitions, sports and wellness, medical tourism and other special events;

(e) Engage in the business of tourism and perform acts in consonance therewith, such as, but not limited to, creating subsidiaries in support of its marketing functions in partnership with the private sector; as well as attending conventions and other events abroad in representation of the country, encouraging sales promotions and advertising, and implementing programs and projects with the objective of promoting the country and enticing tourists to visit its tourism destinations and to enjoy its tourism products;

(f) Contract loans, indebtedness and credit, and issue commercial papers and bonds, in any local or convertible foreign currency from international financial institutions, foreign government entities, and local or foreign private commercial banks or similar institutions under terms and conditions prescribed by law, rules and regulations;

(g) Execute any deed of guarantee, mortgage, pledge, trust or assignment of any property for the purpose of financing the programs and projects deemed vital for the early attainment of its goals and objectives, subject to the provisions of the Constitution (Article VII, Section 20 and Article XII, Section 2, paragraphs 4 and 5);

(h) Receive donations, grants, bequests and assistance of all kinds from local and foreign governments and private sectors and utilize the same;

(i) Extend loans through government banks and financial assistance for manpower training, heritage preservation, infrastructure development and other programs of the Department;

(j) Obtain the services of local and foreign consultants and enter into contracts locally and abroad in the performance of its functions; and

(k) Perform all other powers and functions of a corporation.

The agency's office is located at Fourth Floor, Legaspi Towers 300, Roxas Boulevard corner Vito Cruz, Manila.

The financial statements of TPB were authorized for issue on May 21, 2019 as shown in the Statement of Management's Responsibility for Financial Statements signed by Marie Venus Q. Tan, the Chief Operating Officer of the Agency.

2. STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION OF FINANCIAL STATEMENTS

The financial statements have been prepared in compliance with the Philippine Public Sector Accounting Standards (PPSASs) prescribed for adoption by the Commission on Audit (COA) in COA Resolution No. 2014-003 dated January 24, 2014.

The financial statements are prepared by fund cluster in compliance to the requirements of COA Circular No. 2016-006.

These are the TPB's first financial statements prepared in accordance with PPSASs and PPSAS 33 *First-time Adoption of Accrual Basis PPSAS* has been applied. The full time adoption of PPSASs was made on January 1, 2018. The accounting policies have been consistently applied throughout the year presented.

The financial statements have been prepared under the historical cost, unless stated otherwise. The Statement of Cash Flows is prepared using the direct method.

The financial statements are presented in Philippine Peso, the TPB's functional and presentation currency and amounts are rounded off to the nearest peso, unless otherwise stated.

The preparation of financial statements in compliance with the adopted PPSASs requires the use of certain accounting estimates. It also requires the entity to exercise judgment in applying the entity's accounting policies.

3. ADOPTION OF PHILIPPINE PUBLIC SECTOR ACCOUNTING STANDARDS (PPSASs)

COA Resolution No. 2014-003 dated January 24, 2014 prescribed the adoption of 25 Philippine Public Sector Accounting Standards (PPSASs) effective January 1, 2014 by non-government business enterprises (Non-GBEs), as amended by COA Resolution No. 2015-040 dated December 1, 2015, on the effectivity of the adoption of the PPSASs from May 22, 2015 to January 1, 2016. These PPSASs were based on the International Public Sector Accounting Standards (IPSASs) which were published in the 2012 Handbook of International Public Sector Accounting Pronouncements (HIPSAP) of the International Public Sector Accounting Standards Board. COA Resolution No. 2017-006 dated April 26, 2017 prescribed the adoption of additional six PPSASs and updates on the PPSASs prescribed in COA Resolution No. 2014-003 in accordance with the 2016 Edition of the HIPSAP.

3.1 <u>Effective in 2018 that are Relevant to the TPB</u>

Below is a list of PPSASs issued as at December 31, 2018 that are adopted by the TPB in preparing the financial statements for the year ended December 31, 2018, the comparative information presented in these financial statements for the year ended December 31, 2017.

- PPSAS 1, *Presentation of Financial Statements* (effective for periods beginning January 1, 2014)

  This Standard sets overall considerations for the presentation of financial statements, guidance for their structure, and minimum requirements for the content of financial statements prepared under the accrual basis of accounting.

  There is no material difference in recognition and measurement with the previous standard upon application of this PPSAS.

- PPSAS 2, *Cash Flows Statements* (effective for periods beginning January 1, 2014)

  This Standard requires the provision of information about the historical changes in cash and cash equivalents of an entity by means of a cash flow statement that classifies cash flows during the period from operating, investing, and financing activities.

  There is no material difference in recognition and measurement with the previous standard upon application of this PPSAS.

- PPSAS 3, *Accounting Policies, Changes in Accounting Estimate and Errors* (effective for periods beginning January 1, 2014)

This Standard prescribes the criteria for selecting and changing accounting policies, together with the accounting treatment and disclosure of changes in accounting policies, changes in accounting estimates, and corrections of errors.

In accordance with COA Circular No. 2016-006 dated December 29, 2016, the P15,000 capitalization threshold for property, plant and equipment (PPE) was applied. A total of P2,964,705 were reclassified and booked as adjustment in the prior year financial statements.

- PPSAS 4, *The Effects of Changes in Foreign Exchange Rates* (effective for periods beginning January 1, 2014)

This Standard prescribes the standards in including foreign currency transactions and foreign operations in the financial statements, and translating financial statements into a presentation currency. In the Philippine public sector except GBE, the applicability of this Standard is limited to accounting of foreign currency transactions and the corresponding effects of changes in exchange rates.

There is no material difference in recognition and measurement with the previous standard upon application of this PPSAS.

- PPSAS 9, *Revenue from Exchange Transactions* (effective for periods beginning January 1, 2014)

This Standard prescribes the standards for identification, measurement and disclosure of revenues of public sector entities derived from exchange transactions. An exchange is one in which the entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value to the other party in exchange. These transactions are rendering of services, sale of goods and use by other entity assets yielding interest, royalties, and dividends.

There is no material difference in recognition and measurement with the previous standard upon application of this PPSAS.

- PPSAS 12, *Inventories* (effective for periods beginning January 1, 2014)

This Standard sets out the accounting treatment for inventories. A primary issue in accounting for inventories is the amount of cost to be recognized as an asset and carried forward until the related revenues are recognized. This Standard provides guidance on the determination of cost and its subsequent recognition as an expense, including any write down to net realizable value. It also provides guidance on the cost formulas that are used to assign costs to inventories.

There is no material difference in recognition and measurement with the previous standard upon application of this PPSAS.

- PPSAS 13, *Leases* (effective for periods beginning January 1, 2014)

This Standard prescribes, for lessees and lessors, the appropriate policies and disclosures to apply in relation to finance and operating leases. It also prescribes specific identifications of transactions which are considered as lease agreement and those which are not. Also, it presents the two specific classifications of lease agreements and how they are presented in the financial statements.

There is no material difference in recognition and measurement with the previous standard upon application of this PPSAS.

- PPSAS 14, *Events After the Reporting Date* (effective for periods beginning January 1, 2014)

This Standard prescribes the circumstances in which adjustments for events after the reporting period are required. It also prescribes the disclosure requirements regarding the date of authorization for issue and information received after the reporting period.

It requires that an entity should not prepare its financial statements on going concern basis if events after the reporting date indicate that the going concern assumption is not appropriate.

Upon assessment, TPB has no relevant event, which needs necessary adjustments and/or disclosure that occurred after the reporting date but before the issuance of this report.

- PPSAS 17, *Property, Plant and Equipment* (effective for periods beginning January 1, 2014)

This Standard prescribes the standards on the recognition, measurement at recognition, measurement after recognition, depreciation, impairment, derecognition and disclosure requirements dealing with transactions and events affecting PPE of the Philippine public sector. The principal issues in accounting for PPE are (a) the recognition of the assets, (b) the determination of their carrying amounts, and (c) the depreciation charges and impairment losses to be recognized in relation to them.

In accordance with COA Circular No. 2016-006 dated December 29, 2016, the P15,000 capitalization threshold for PPE was applied. Tangible items below the capitalization threshold of P15,000 were accounted as semi-expendable property (if not yet issued to end-user), expense accounts (if issued within the year), or accumulated surplus/(deficit) (if issued in prior years). A total of P2,964,705 were reclassified and booked as adjustments in the accumulated surplus/(deficit).

- PPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets* (effective for periods beginning January 1, 2014)

This Standard defines provisions, contingent liabilities and contingent assets, and identifies the circumstances in which provisions should be recognized, how they should be measured, and the disclosures that should be made about them. It also requires that certain information be disclosed about contingent liabilities and contingent assets in the notes to the financial statements to enable users to understand their nature, timing and amount.

Upon assessment, TPB has no transaction that transpired during the year in which provision, contingent liability or contingent asset should be recognized or disclosed.

- PPSAS 20, *Related Party Disclosures* (effective for periods beginning January 1, 2014)

This Standard sets out the requirement of the disclosure of the existence of related party relationships where control exists, and the disclosure of information about transactions between the entity and its related parties in certain circumstances. This information is required for accountability purposes, and to facilitate a better understanding of the financial position and performance of the reporting entity. The principal issues in disclosing information about related parties are (a) identifying which parties control or significantly influence the reporting entity, and (b) determining what information should be disclosed about transactions with those parties.

The TPB has provided additional disclosures on key management personnel and key management personnel compensation as required by this Standard.

- PPSAS 21, *Impairment of Non-Cash-Generating Assets* (effective for periods beginning January 1, 2014)

This Standard sets out the procedures in determining whether a non-cash-generating asset is impaired; recognition and measurement of impairment losses; reversal of impairment loss; redesignation of assets and disclosures.

There is no material difference in recognition and measurement with the previous standard upon application of this PPSAS.

- PPSAS 23, *Revenue from Non-Exchange Transactions* (Taxes and Transfers) (effective for periods beginning January 1, 2014)

This Standard prescribes requirements for the financial reporting of revenue arising from non-exchange transactions, other than non-exchange transactions that give rise to an entity combination. This Standard deals with issues that need to be considered in recognizing and measuring revenue from non-exchange transactions, including the identification of contributions from owners.

There is no material difference in recognition and measurement with the previous standard upon application of this PPSAS.

- PPSAS 24, *Presentation of Budget Information in Financial Statements* (effective for periods beginning January 1, 2014)

This Standard prescribes a comparison of budget amounts and the actual amounts arising from execution of the budget to be included in the financial statements of entities. This Standard also requires disclosure of an explanation of the reasons for material differences between the budget and actual amounts.

The Statement of Comparison of Budget and Actual Amount (SCBAA) and the disclosure of an explanation of the reasons for material differences between the budget and actual amounts were prepared in accordance with this Standard.

- PPSAS 28, *Financial Instruments: Presentation* (effective for periods beginning January 1, 2014)

This Standard establishes principles for presenting financial instruments as liabilities or net assets/equity and for offsetting financial assets and financial liabilities. It applies to the classification of financial instruments, from the perspective of the issuer, into financial assets, financial liabilities and equity instruments; the classification of related interest, dividends or similar distribution, losses and gains; and circumstances in which financial assets and financial liabilities should be offset.

This Standard compliments the principles for recognizing and measuring financial assets and financial liabilities in PPSAS 29, "*Financial Instruments: Recognition and Measurement*", and for disclosing information about them in PPSAS 30, "*Financial Instruments: Disclosures.*"

There is no material difference in recognition and measurement with the previous standard upon application of this PPSAS.

- PPSAS 29, *Financial Instruments: Recognition and Measurements* (effective for periods beginning January 1, 2014)

This Standard prescribes the accounting principles for recognizing and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. It complements the principles for presenting information about financial instruments in PPSAS 28 "*Financial Instruments: Presentation*" and for disclosing information about them in PPSAS 30, "*Financial Instruments: Disclosures.*"

The TPB's financial instruments were recognized, measured and classified in accordance with PPSAS 29.

- PPSAS 30, *Financial Instruments: Disclosures* (effective for periods beginning January 1, 2014)

This Standard requires entities to provide disclosures in their financial statements that enable users to evaluate: (a) the significance of financial instruments for entity's financial position and financial performance; and (b) the nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the end of the reporting period, and how the entity manages those risks.

The principles in this Standard complement the principles for presenting and recognizing and measuring financial assets and financial liabilities in PPSAS 28, "*Financial Instruments: Presentation*" and PPSAS 29, "*Financial Instruments: Recognition and Measurement.*"

- PPSAS 31, *Intangible Assets* (effective for periods beginning January 1, 2014)

This Standard prescribes the accounting treatment for intangible assets that are not dealt with specifically in another Standard. It prescribes the principle for its recognition and measurement as well as its disclosure requirements.

There is no material difference in recognition and measurement with the previous standard upon application of this PPSAS.

- PPSAS 33, *First-time Adoption of Accrual Basis PPSASs* (effective for periods beginning January 1, 2014)

This Standard provides guidance to a first-time adopter that prepares and presents financial statements following the adoption of accrual basis PPSASs, in order to present high quality information:

(a) That provides transparent reporting about a first-time adopter's transition to accrual basis PPSASs;

(b) That provides a suitable starting point for accounting in accordance with accrual basis PPSASs irrespective of the basis of accounting the first-time adopter has used prior to the date of adoption; and

(c) Where the benefits are expected to exceed the costs.

The TPB did not adopt any of the transitional exemptions in PPSAS 33 that may impact fair presentation of the financial statements.

3.2 <u>Effective in 2018 that are Not Relevant to the TPB</u>

The following Standards are mandatorily effective for annual periods beginning January 1, 2018 but are not relevant to the TPB's financial statements:

PPSAS 5	:	Borrowing Costs
PPSAS 6	:	Consolidated and Separate Financial Statements
PPSAS 8	:	Interest in Joint Ventures
PPSAS 16	:	Investment Property
PPSAS 26	:	Impairment of Cash-Generating Assets
PPSAS 27	:	Agriculture
PPSAS 32	:	Service Concession Arrangements: Grantor
PPSAS 34	:	Separate Financial Statements

PPSAS 35	:	Consolidated Financial Statements
PPSAS 36	:	Investments in Associates and Joint Ventures
PPSAS 37	:	Joint Ventures
PPSAS 38	:	Disclosure of Interests in Other Entities

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

4.1 Basis of Accounting

The TPB's financial statements are prepared on an accrual basis in accordance with the PPSASs.

4.2 Financial Instruments

a. Financial assets

i. Initial recognition and measurement

Financial assets within the scope of PPSAS 29 *Financial Instruments: Recognition and Measurement* are classified as financial assets at fair value through surplus or deficit, held-to-maturity investments, loans and receivables or available-for-sale financial assets, as appropriate. The TPB determines the classification of its financial assets at initial recognition.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace (regular way trades) are recognized on the trade date, i.e., the date that the TPB commits to purchase or sell the asset.

The TPB's financial assets include: cash, receivables from employees and other agencies, and investments.

ii. Subsequent measurement

The subsequent measurement of financial assets depends on their classification.

1. Financial assets at fair value through surplus or deficit

Financial assets at fair value through surplus or deficit include financial assets held for trading and financial assets designated upon initial recognition at fair value through surplus or deficit. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term.

Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets at fair value through surplus or deficit are carried in the Statement of Financial Position at fair value with changes in fair value recognized in surplus or deficit.

2. Receivables

Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortized cost using the effective interest method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. Losses arising from impairment are recognized in the surplus or deficit.

3. Held-to-maturity

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held-to-maturity when the TPB has the positive intention and ability to hold it to maturity.

Held-to-maturity investments, which consist of special contingency fund deposited at a government short-term high-yield savings account, are initially measured at principal amount and adjusted for any interest income that accrues thereon. Upon maturity of high-yield savings account, the principal amount plus the interest are redeposited for another term.

iii. Derecognition

The TPB derecognizes a financial asset or where applicable, a part of a financial asset or part of TPB of similar financial assets when:

1. the contractual rights to the cash flows from the financial asset expired or waived; and

2. the TPB has transferred its contractual rights to receive the cash flows of the financial assets, or retains the contractual rights to receive the cash flows of the financial assets but assumes a contractual obligation to pay the cash flows to one or more recipients in an arrangement that meets the conditions set forth in PPSAS 29 *Financial Instruments: Recognition and Measurement*; and either the entity has:

   - transferred substantially all the risks and rewards of ownership of the financial asset; or

   - neither transferred nor retained substantially all the risks and rewards of ownership of the financial asset, but has transferred the control of the asset

iv. Impairment of financial assets

The TPB assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Evidence of impairment may include the following indicators:

1. The debtors or a group of debtors are experiencing significant financial difficulty;

2. Default or delinquency in interest or principal payments;

3. The probability that debtors will enter bankruptcy or other financial reorganization; and

4. Observable data indicate a measurable decrease in estimated future cash flows (e.g. changes in arrears or economic conditions that correlate with defaults).

v. Financial assets carried at amortized cost

For financial assets carried at amortized cost, the TPB first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the TPB determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in surplus or deficit. Receivables together with the associated allowance are written off when there is no realistic prospect of future recovery and all collaterals have been realized or transferred to TPB. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. The request for write-off of accounts is based on the guidelines prescribed in COA Circular No. 2016-005 dated December 19, 2016. If a future write-off is later recovered, the recovery is credited in surplus and deficit.

b. Financial liabilities

i. Initial recognition and measurement

Financial liabilities within the scope of PPSAS 29 are classified as financial liabilities at fair value through surplus or deficit, or loans and borrowings, as appropriate. The entity determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings, plus directly attributable transaction costs.

The TPB's financial liabilities include payables to supplier, employees and other contractors, inter-agency payables, and trust liabilities such as guarantee deposits and retention fees.

ii. Subsequent measurement

The measurement of financial liabilities depends on their classification.

- Financial liabilities at fair value through surplus or deficit -

  Financial liabilities at fair value through surplus or deficit include financial liabilities held for trading and financial liabilities designated upon initial recognition at fair value through surplus or deficit.

  Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term.

  This category includes derivative financial instruments that are not designated as hedging instruments in hedge relationships as defined by PPSAS 29.

- Loans and borrowings

  After initial recognition, interest bearing loans and borrowings are subsequently measured at amortized cost using the effective interest method. Gains and losses are recognized in surplus or deficit when the liabilities are derecognized as well through the effective interest method amortization process.

  Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate.

iii. Derecognition

A financial liability is derecognized when the obligation under the liability expires or is discharged or cancelled.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in surplus or deficit.

c. Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

d. Fair value of financial instruments

The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

4.3 Cash and Cash Equivalents

Cash and cash equivalents comprise cash on hand and cash in bank, high-yield savings account with an original maturity of six months, which are readily convertible to known amounts of cash and are subject to insignificant risk of changes in value. Dollar collections are translated into the local currency based on the Bangko Sentral ng Pilipinas daily rate.

4.4 Inventories

Inventory is measured at cost upon initial recognition. After initial recognition, inventory is measured at the lower of cost and net realizable value.

Net realizable value is the estimated selling price in the ordinary course of operations, less the estimated costs of completion and the estimated costs necessary to make the sale, exchange, or distribution.

Inventories are recognized as an expense when deployed for utilization or consumption in the ordinary course of operations of the TPB.

4.5 Property, Plant and Equipment

a. Recognition

An item is recognized as PPE if it meets the characteristics and recognition criteria as a PPE.

The characteristics of PPE are as follows:

i. tangible items;

ii. are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and

iii. are expected to be used during more than one reporting period.

An item of PPE is recognized as an asset if:

i. it is probable that future economic benefits or service potential associated with the item will flow to the entity;

ii. the cost or fair value of the item can be measured reliably; and

iii. the cost is at least P15,000.

b. Measurement at recognition

An item recognized as PPE is measured at cost.

A PPE acquired through non-exchange transaction is measured at its fair value as at the date of acquisition.

The cost of the PPE is the cash price equivalent or, for PPE acquired through non-exchange transaction, its cost is its fair value as at recognition date.

Cost includes the following:

i. Its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates;

ii. Expenditure that is directly attributable to the acquisition of the items; and

iii. Initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an entity incurs either when the item is acquired, or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

c. Measurement after recognition

After recognition, all PPE are stated at cost less accumulated depreciation and impairment losses.

When significant parts of PPE are required to be replaced at intervals, the TPB recognizes such parts as individual assets with specific useful lives and depreciates them accordingly. Likewise, when a major repair/replacement is done, its cost is recognized in the carrying amount of the PPE as a replacement if the recognition criteria are satisfied.

All other repair and maintenance costs are recognized as expense in surplus or deficit as incurred.

d. Depreciation

Each part of an item of PPE with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation charge for each period is recognized as expense unless it is included in the cost of another asset.

i. Initial recognition of depreciation

Depreciation of an asset begins when it is available for use such as when it is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Depreciation starts on the second month from the date of acquisition.

ii. Depreciation method

The straight line method of depreciation is adopted unless another method is more appropriate for TPB's operation.

iii. Estimated useful life

The TPB uses the life span of PPE prescribed by COA in determining the specific estimated useful life for each asset based on its experience, as follows:

Buildings	- 30 years
Motor vehicles	- 10 years
Furniture and fixtures	- 10 years
Office equipment	- 5 years
Information, communication and technology equipment	- 5 years
Other property, plant and equipment	- 5 years

iv. Residual value

The TPB uses a residual value equivalent to at least ten per cent (10%) of the cost of the PPE.

e. Impairment

An asset's carrying amount is written down to its recoverable amount, or recoverable service amount, if the asset's carrying amount is greater than its estimated recoverable amount or recoverable service amount.

f. Derecognition

The TPB derecognizes items of PPE and/or any significant part of an asset upon disposal or when no future economic benefits or service potential is expected from its continuing use. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the surplus or deficit when the asset is derecognized.

4.6 Intangible Assets

a. Recognition and measurement

Intangible assets are recognized when the items are identifiable non-monetary assets without physical substance; it is probable that the expected future economic benefits or service potential that are attributable to the assets will flow to the entity; and the cost or fair value of the assets can be measured reliably.

Intangible assets acquired separately are initially recognized at cost.

If payment for an intangible asset is deferred beyond normal credit terms, its cost is the cash price equivalent. The difference between this amount and the total payments is recognized as interest expense over the period of credit unless it is capitalized in accordance with the capitalization treatment permitted in PPSAS 5, *Borrowing Costs*.

b. Recognition of an expense

Expenditure on an intangible item is recognized as expense when it is incurred unless it forms part of the cost of an intangible asset that meets the recognition criteria of an intangible asset.

c. Subsequent measurement

The useful life of the intangible assets is assessed as either finite or indefinite. Intangible assets with a finite life are amortized over their useful lives.

The straight line method is adopted in the amortization of the expected pattern of consumption of the expected future economic benefits or service potential.

An intangible asset with indefinite useful life is not to be amortized.

Intangible assets with indefinite useful lives or intangible assets not yet available for use are assessed for impairment annually and whenever there is an indication that the assets may be impaired.

The amortization period and the amortization method, for an intangible asset with a finite useful life, are reviewed at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on an intangible asset with a finite life is recognized in surplus or deficit as the expense category that is consistent with the nature of the intangible asset.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the surplus or deficit when the asset is derecognized.

4.7 Provisions, Contingent Liabilities and Contingent Assets

a. Provisions

Provisions are recognized when the TPB has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Where the TPB expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset only when the reimbursement is virtually certain.

The expense relating to any provision is presented in the statement of financial performance net of any reimbursement.

Provisions are reviewed at each reporting date, and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation, the provisions are reversed.

b. Contingent liabilities

The TPB does not recognize a contingent liability, but discloses details of any contingencies in the notes to financial statements, unless the possibility of an outflow of resources embodying economic benefits or service potential is remote.

c. Contingent assets

The TPB does not recognize a contingent asset, but discloses details of a possible asset whose existence is contingent on the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the TPB in the notes to financial statements.

Contingent assets are assessed continually to ensure that developments are appropriately reflected in the financial statements. If it has become virtually certain that an inflow of economic benefits or service potential will arise and the asset's value can be measured reliably, the asset and the related revenue are recognized in the financial statements of the period in which the change occurs.

4.8 Changes in Accounting Policies and Estimates

The TPB recognizes the effects of changes in accounting policy retrospectively. The effects of changes in accounting policy are applied prospectively if retrospective application is impractical.

The TPB recognizes the effects of changes in accounting estimates prospectively through surplus or deficit.

The TPB corrects material prior period errors retrospectively in the first set of financial statements authorized for issue after their discovery by:

- Restating the comparative amounts for prior period(s) presented in which the error occurred; or

- If the error occurred before the earliest prior period presented, restating the opening balances of assets, liabilities and net assets/equity for the earliest prior period presented.

4.9 Revenue from Non-Exchange Transactions

a. Recognition and measurement of assets from non-exchange transactions

An inflow of resources from a non-exchange transaction, other than services in-kind, that meets the definition of an asset are recognized as an asset if the following criteria are met:

- It is probable that the future economic benefits or service potential associated with the asset will flow to the entity; and

- The fair value of the asset can be measured reliably.

An asset acquired through a non-exchange transaction is initially measured at its fair value as at the date of acquisition.

b. Recognition of revenue from non-exchange transactions

An inflow of resources from a non-exchange transaction recognized as an asset is recognized as revenue, except to the extent that a liability is also recognized in respect of the same inflow.

As TPB satisfies a present obligation recognized as a liability in respect of an inflow of resources from a non-exchange transaction recognized as an asset, it reduces the carrying amount of the liability recognized and recognizes an amount of revenue equal to that reduction.

c. Measurement of revenue from non-exchange transactions

Revenue from non-exchange transactions is measured at the amount of the increase in net assets recognized by the entity, unless a corresponding liability is recognized.

d. Measurement of liabilities on initial recognition from non-exchange transactions

The amount recognized as a liability in a non-exchange transaction is the best estimate of the amount required to settle the present obligation at the reporting date.

e. Gifts and donations

The TPB recognizes assets and revenue from gifts and donations when it is probable that the future economic benefits or service potential will flow to the entity and the fair value of the assets can be measured reliably.

Goods in-kind are recognized as assets when the goods are received, or there is a binding arrangement to receive the goods. If goods in-kind are received without conditions attached, revenue is recognized immediately. If conditions are attached, a liability is recognized, which is reduced and revenue recognized as the conditions are satisfied.

On initial recognition, gifts and donations including goods in-kind are measured at their fair value as at the date of acquisition, which are ascertained by reference to an active market, or by appraisal. An appraisal of the value of an asset is normally undertaken by a member of the valuation profession who holds a recognized and relevant professional qualification. For many assets, the fair values are ascertained by reference to quoted prices in an active and liquid market.

f. Transfers

The TPB recognizes an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset, except those arising from services in-kind.

g. Services in-kind

Services in-kind are not recognized as asset and revenue considering the complexity of the determination of and recognition of asset and revenue and the eventual recognition of expenses.

h. Transfers from other government entities

Revenue from non-exchange transactions with other government entities and the related assets are measured at fair value and recognized on obtaining control of the asset (cash, goods, services and property) if the transfer is free from conditions and it is probable that the economic benefits or service potential related to the asset will flow to the TPB and can be measured reliably.

4.10 Revenue from Exchange Transactions

a. Measurement of revenue

Revenue is measured at the fair value of the consideration received or receivable.

b. Rendering of services

TPB recognizes revenue from rendering of services by full completion or the outcome of the transaction can be measured reliably.

c. Interest income

Interest income is accrued using the effective yield method. The effective yield discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount. The method applies this yield to the principal outstanding to determine interest income each period.

d. Dividends

Dividends or similar distributions are recognized when the TPB's right to receive payments is established.

4.11 Budget Information

The annual budget is prepared on a cash basis and is published in the government website.

A separate SCBAA is prepared since the budget and the financial statements are not prepared on comparable basis. The SCBAA is presented showing the original and final budget and the actual amounts on comparable basis to the budget. Explanatory comments are provided in Note 33.

4.12 Related Parties

The TPB regards a related party as a person or an entity with the ability to exert control individually or jointly, or to exercise significant influence over the TPB, or vice versa.

Members of key management and the members of the TPB Board are regarded as related parties.

4.13 Employee Benefits

The employees of TPB are members of the Government Service Insurance System (GSIS), which provides life and retirement insurance coverage.

The TPB recognizes the undiscounted amount of short term employee benefits, like salaries, wages, bonuses, allowance, etc., as expense unless capitalized, and as a liability after deducting the amount paid.

4.14 Measurement Uncertainty

The preparation of financial statements in conformity with PPSASs requires management to make estimates and assumptions that affect the reporting amounts of assets and liabilities, and disclosure of contingent assets and liabilities, at the date of the financial statements and the reported amounts of the revenue and expenses during the period. Items requiring the use of significant estimates include the useful life of a capital asset, estimated employee benefits, impairment of assets, etc.

Estimates are based on the best information available at the time of preparation of the financial statements and are reviewed annually to reflect new information as it becomes available. Measurement uncertainty exists in these financial statements. Actual results could differ from these estimates.

5. PRIOR PERIOD ADJUSTMENTS

5.1 Due to Change in Accounting Policy

In accordance with COA Circular No. 2016-006 dated December 29, 2016, the P15,000 capitalization threshold for PPE was applied. Tangible items below the capitalization threshold of P15,000, which were issued to end-users in prior years, for a total of book value of P2,964,705, were reclassified and booked as adjustment in the accumulated surplus/(deficit). All PPE accounts and their corresponding accumulated depreciation were affected by the change except for Buildings, Information, Communication and Technology Equipment, Computer Software and Motor Vehicles, accounts which do not have item below the capitalization threshold.

5.2 Due to Prior Period Errors

Prior period errors include restoration of cash due to stale checks, writing off of other payables (dormant), over/under setup of payables due to variance in actual payment of expenses and other correction of errors in the financial statements that were reported for a prior period in Note 32.

6. EXPLANATION OF TRANSITION TO PPSASs

The accounting policies set out in Note 4 have been applied in preparing the financial statements for the year ended December 31, 2018, the comparative information presented in these financial statements for the year ended December 31, 2017 and in the preparation of an opening PPSAS statement of financial position at January 1, 2017 (TPB's date of transition).

In preparing its opening statement of financial position, the TPB has adjusted amounts reported previously in financial statements prepared in accordance with previous Generally Accepted Accounting Principles (GAAP). An explanation of how the transition from previous GAAP to PPSASs has affected the TPB's financial position, financial performance and cash flows is set out in the following tables:

Reconciliation of Net Assets/Equity
At January 1, 2017

	Previous generally accepted accounting principles (GAAP)	Effect of transition to PPSASs: Reclassification	Effect of transition to PPSASs: Changes in accounting policies and prior period errors	PPSASs	
ASSETS					**ASSETS**
Current assets					**Current assets**
Cash and cash equivalents	816,744,464	-	1,023,891	817,768,355	Cash and cash equivalents
Investments	319,346,262	(319,346,262)	-	-	
	-	319,346,262	-	319,346,262	Other investments
Receivables	310,145,972	(3,237,342)	(94,088,582)	212,820,048	Receivables - net
Inventories	6,919,499	-	935,625	7,855,124	Inventories
Prepayments	159,368	(159,368)	-	-	
Deposits	2,981,962	(2,981,962)	-	-	
	-	6,378,672	1,067,899	7,446,571	Other current assets
Total current assets	**1,456,297,527**	**-**	**(91,061,167)**	**1,365,236,360**	**Total current assets**
Non-current assets					**Non-current assets**
Investments	123,600	-	-	123,600	Other investments
Property, plant and equipment	40,139,323	-	5,522,442	45,661,765	Property, plant and equipment
Intangible assets	1,793,275	-	-	1,793,275	Intangible assets
Other assets	217,579,450	(217,579,450)	-	-	
	-	217,579,450	1,556,427	219,135,877	Other non-current assets
Total non-current assets	**259,635,648**	**-**	**7,078,869**	**266,714,517**	**Total non-current assets**
TOTAL ASSETS	**1,715,933,175**	**-**	**(83,982,298)**	**1,631,950,877**	**TOTAL ASSETS**
LIABILITIES					**LIABILITIES**
Financial liabilities	972,461,302	-	(730,375,145)	242,086,157	Financial liabilities
Inter-agency payables	217,792,443	-	(3,842,252)	213,950,191	Inter-agency payables
Trust liabilities	36,332,419	-	-	36,332,419	Trust liabilities
Other payables	29,755,717	-	(69,825)	29,685,892	Other payables
TOTAL LIABILITIES	**1,256,341,881**	**-**	**(734,287,222)**	**522,054,659**	**TOTAL LIABILITIES**
NET ASSETS/EQUITY					**NET ASSETS/EQUITY**
Accumulated surplus/(deficit)	209,591,294	-	650,304,924	859,896,218	Accumulated surplus/ (deficit)
Government equity	250,000,000	-	-	250,000,000	Government equity
Total net assets/equity	**459,591,294**	**-**	**650,304,924**	**1,109,896,218**	**Total net assets/ equity**
TOTAL LIABILITIES AND NET ASSETS/EQUITY	**1,715,933,175**	**-**	**(83,982,298)**	**1,631,950,877**	**TOTAL LIABILITIES AND NET ASSETS/ EQUITY**

Reconciliation of Surplus/(Deficit)
For the year ended December 31, 2016 (Opening balances as at January 1, 2017)

		Effect of transition to PPSASs			
	Previous generally accepted accounting principles	**Reclassification**	**Changes in accounting policies and prior period errors**	**PPSASs**	
REVENUE					**REVENUE**
Service and business income	32,451,395	-	-	32,451,395	Service and business income
Total Revenue	**32,451,395**	-	-	**32,451,395**	**Total Revenue**
Less:					
CURRENT OPERATING EXPENDITURES					**OPERATING EXPENSES**
Personnel services	49,680,210	-	-	49,680,210	Personnel services
Maintenance and other operating expenses	876,397,325	-	76,639,266	953,036,591	Maintenance and other operating expenses
Financial expenses	1,305,743	-	-	1,305,743	Financial expenses
Non-cash expenses	4,236,302		(219,785)	4,016,517	Non-Cash expenses
Total Current Operating Expenditures	**931,619,580**	**-**	**76,419,481**	**1,008,039,061**	**Total Current Operating Expenses**
PROFIT (LOSS) FROM OPERATIONS	**(899,168,185)**	**-**	**(76,419,481)**	**(975,587,666)**	**SURPLUS/(DEFICIT) FROM CURRENT OPERATIONS**
Other Income					
Non-operating income	17,009,079	(17,009,079)	-	-	
	-	17,009,079	-	17,009,079	Other non-operating income
Gains on foreign exchange	4,136,255	(4,136,255)	-	-	
		4,136,255	(2,310)	4,133,945	Gains
PROFIT (LOSS)	(878,022,851)	-	(76,421,791)	(954,444,642)	
Assistance and Subsidy	1,052,013,099	-	-	1,052,013,099	Assistance and Subsidy
NET INCOME (LOSS)	**173,990,248**	-	(76,421,791)	**97,568,457**	**NET SURPLUS/(DEFICIT) FOR THE PERIOD**

7. RISK MANAGEMENT OBJECTIVES AND POLICIES

The TPB is exposed to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Interest/Market risks
- Operational risk

This note present information about the TPB's exposure to each of the above risks, the TPB objectives, policies and processes for measuring and managing risk, and the Corporation's management of capital.

7.1 *Risk Management Framework*

The TPB Board has overall responsibility for the establishment and oversight of TPB's risk management framework. The Board is expected to establish and institute adequate control mechanisms for good governance in TPB. The minimum internal control mechanisms for the Board's oversight responsibility include but shall not be limited to:

1. Formulation and adoption of organization and procedural controls through an effective management information system and risk management reporting system.

2. Appropriation of remedial measures when conflict of interest situations may arise.

3. Institute adequate selection, appointment and retention policies and procedures for the qualified and competent Management.

4. Ensure the development and review of personnel and human resource policies of the agency, compensation plan and management succession plan as may be provided.

In view of the foregoing and in accordance with Governance Commission for Government-Owned or Controlled Corporations (GCG) Memorandum Circular No. 2012-07 (Code of Corporate Governance and Section 17 of TPB Manual of Corporate Governance), the Board has created the TPB's Executive Committee, Governance Committee, Audit Committee and Risk Management Committee where each committee is composed of three (3) board members and one (1) executive or manager knowledgeable in audit, accounting and finance while the Executive Committee is headed by the Chief Operating Officer (COO), the Deputy COOs, and all department managers as members.

The Risk Management Committee is specifically responsible for the following:

1. Perform oversight risk management functions specifically in the areas of:

    a. Management of financial liquidity, solvency and viability, organizational and operational stability and sustainability, legal, reputational and other risks.

    b. Crisis management which includes receiving from Senior Management periodic information on risk exposures and risk management activities.

2. Develop the Risk Management Policy and ensure that the risk management processes and compliances are embedded throughout the operations of TPB, especially at the Board and Management level.

3. Provide reports and updates on key risk management issues as well as ad hoc reports and evaluation on investment proposals.

Generally, the maximum risk exposure of financial assets and financial liabilities is the carrying amount of the financial assets and financial liabilities as shown in the statements of financial position, as summarized below.

	Note	2018	2017 (As restated)
Financial assets			
Cash and cash equivalents	*8*	789,083,003	421,700,857
Other investments	*9*	264,952,191	262,515,764
Receivables – net	*10*	363,957,354	193,269,982
		1,417,992,548	**877,486,603**
Financial liabilities			
Financial liabilities	*16*	311,509,950	335,057,000
Inter-agency payables	*17*	251,595,452	171,168,825
Trust liabilities	*18*	34,513,756	33,657,266
		597,619,158	**539,883,091**

7.2 *Credit Risk*

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the TPB. The TPB has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral or security deposit where appropriate as a means of mitigating the risk of financial loss from defaults. The TPB defines counterparties as having similar characteristics if they are related entities.

Also, the TPB manages its credit risk by depositing its cash with Land Bank of the Philippines (LBP), an authorized government depository bank. Further, TPB ensures timely liquidation of cash advances/accountabilities.

The carrying amount of financial assets recognized in the financial statements represents the TPB's maximum exposure to credit risk.

a. Credit risk exposure

The table below shows the gross maximum exposure to credit risk of the TPB as of the years ended December 31, 2018 and 2017, without considering the effects of credit risk mitigation techniques.

	Note	2018	2017 (As restated)
Financial assets			
Cash and cash equivalents	*8*	789,083,003	421,700,857
Other investments	*9*	264,952,191	262,515,764
Receivables*	*10*	373,716,348	203,028,976
		1,427,751,542	**887,245,597**

*Receivables at gross of allowance for impairment amounting to P9,758,994 for the years ended December 31, 2018 and 2017, respectively.

Management of credit risk

The management of credit risk is covered by the Risk Remedial and Management Committee. The Finance Department and Cash Unit of the agency are in charge of controlling, monitoring and collecting payments of all its receivables due from employees, foreign offices and clientele. Receivables from employees consist of cash advances for project implementations and travel allowances. Status of outstanding receivables is summarized quarterly in a schedule and is submitted to the COA. Should there be no payments received, the Accounting Division follows up either thru phone call or write demand letters for collection until settled. Failure of employees and foreign offices to liquidate and refund the balances, if any, would result to withholding of salaries and future remittances.

b. Settlement risk

The TPB's activities may give rise to risk at the time of settlement of transaction and trades. Settlement risk is the risk of loss due to the failure of a company to honor its obligations to deliver cash, securities or another assets as contractually agreed.

For certain types of transactions the TPB mitigates this risk by ensuring that an obligation is settled only when both parties have fulfilled their contractual deliverables.

c. Risk concentration of the maximum exposure to credit risk

Concentrations arise when a number of counterparties are engaged in similar business activities or activities in the same geographic region or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions, concentrations indicate the relative sensitivity of the TPB's performance to developments affecting a particular industry or geographical location. Such credit risk concentrations, if not properly managed, may cause significant losses that could threaten the TPB's financial strength and undermine public confidence.

d. Aging analysis

An aging analysis of the TPB's receivables as of the year ended December 31, 2018 is disclosed under Notes 10.

e. Impairment assessment

The TPB recognizes impairment losses based on the results of the specific/individual and collective assessment of its credit exposures. Impairment has taken place when there is a presence of known difficulties in the servicing of cash flows by counterparties, infringement of the original terms of the contract has happened, or when there is an inability to pay principal or interest overdue beyond a certain threshold. These and the other factors constitute observable events and/or data that meet the definition of an objective evidence of impairment.

The two methodologies applied by the TPB in assessing and measuring impairment include: (1) specific/individual assessment; and (2) collective assessment. Under specific/individual assessment, the TPB assesses each individual significant credit exposure for any objective evidence of impairment, and where such evidence exists, accordingly calculates the required impairment.

Among the items and factors considered by the TPB when assessing and measuring specific impairment allowances are: (a) the timing of the expected cash flows; (b) the projected receipts or expected cash flows; (c) the going concern of the counterparty's business; (d) the ability of the counterparty to repay its obligations during financial crises; (e) the availability of other sources of financial support; and (f) the existing realizable value of collateral. The impairment allowances, if any, are evaluated as the need arises, in view of favorable or unfavorable developments.

With regard to the collective assessment of impairment, allowances are assessed collectively for losses on receivables that are not individually significant and for individually significant receivables when there is no apparent or objective evidence of individual impairment.

A particular portfolio is reviewed on a periodic basis, in order to determine its corresponding appropriate allowances. The collective assessment evaluates and estimates the impairment of the portfolio in its entirety even though there is no objective evidence of impairment on an individual assessment.

Impairment losses are estimated by taking into consideration the following deterministic information: (a) historical losses/write offs; (b) losses which are likely to occur but has not yet occurred; and (c) the expected receipts and recoveries once impaired.

7.3 *Liquidity Risk*

Liquidity risk is the risk that the TPB might encounter difficulty in meeting obligations from its financial liabilities.

a. <u>Management of liquidity risk</u>

The TPB's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the TPB's reputation.

The TPB maintains a portfolio of short-term liquid assets, largely made up of short-term liquid investment securities, loans and advances to TPB and other facilities, to ensure that sufficient liquidity is maintained within the TPB as a whole.

b. <u>Exposure to liquidity risk</u>

The liquidity risk is the adverse situation when the TPB encounters difficulty in meeting unconditionally the settlement of its obligations at maturity. Prudent liquidity management requires that liquidity risks are identified, measured, monitored and controlled in a comprehensive and timely manner. Liquidity management is a major component of the corporate-wide risk management system. Liquidity planning takes into consideration various possible changes in economic, market, political, regulatory and other external factors that may affect the liquidity position of TPB.

The liquidity management policy of the TPB is conservative in maintaining optimal liquid cash funds to ensure capability to adequately finance its mandated activities and other operational requirements at all times. The TPB's funding requirements is generally met through any or a combination of financial modes allowed by law that would give the most advantageous results. Senior Management is actively involved in the Executive Committee headed by the Chief Operating Officer (COO), with the Deputy COO and Managers of all departments.

The table below summarizes the maturity profile of the TPB's financial liabilities as at December 31, 2018.

As at December 31, 2018	Within 1 Year	1 – 5 Years	Over 5 Years	Total
Financial liabilities	311,509,950	-	-	311,509,950
Inter-agency payables	5,570,705	246,024,747	-	251,595,452
Trust liabilities	34,513,756	-	-	34,513,756
Other payables	14,020,241	-	-	14,020,241
Total	**365,614,652**	**246,024,747**	**-**	**611,639,399**

7.4 *Market Risks*

Market risk is the risk that changes in the market prices, such as interest rate, equity prices, foreign exchange rates and credit spreads (not relating to changes in the obligor's issuer's credit standing) will affect the TPB's income, liquidity or the value of its holdings of financial assets. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on risk.

Management of market risk

The management of interest rate risk against interest gap limits is supplemented by monitoring the sensitivity of the TPB's financial assets and liabilities to various standard and non-standard interest rate scenarios.

7.5 *Operational Risks*

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the TPB's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behavior. Operational risks arise from all of the TPB's operations and are faced by all business entities.

The TPB's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the TPB's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

The primary responsibility for the development and implementation of control to address operational risk is assigned to Senior Management within each business unit. This responsibility is supported by the development of overall standards for the management of operational risk in the following areas:

- Requirement for appropriate segregation of duties, including the independent authorization of transaction
- Requirement for the reconciliation and monitoring of transactions
- Compliance with regulatory and other legal requirements
- Documentation of controls and procedures
- Requirements for the periodic assessment of operational risk faced, and the adequacy of control and procedures to address the risk identified
- Requirements for the reporting of operational losses and proposed remedial action
- Development of contingency plans
- Training and professional development
- Ethical and business standards
- Risk mitigation, including insurance where this is effective

Compliance with corporate standards/processes is supported by a program of periodic reviews undertaken by Internal Audit or the Quality Management System (QMS) Team Auditors. The results of Internal Audit review are discussed with the Management of the TPB, with summaries to the Audit Committee and Senior Management of the TPB.

8. CASH AND CASH EQUIVALENTS

This account consists of the following:

	2018	2017
Cash in bank	788,788,001	421,650,857
Cash on hand	295,002	50,000
	789,083,003	**421,700,857**

The Cash in bank account includes the balance of: (a) Special Contingency Fund for 2018 in the amount of P184 million to be transferred to SCF account; (b) Trust Liability Accounts Fund; (c) Foreign Currency – Savings Dollar Account converted at P52.72:US$1 closing rate; and (d) other cash balance for use in the usual course of operation.

9. OTHER INVESTMENTS

This account consists of the following:

	2018			2017		
	Current	Non-Current	Total	Current	Non-Current	Total
Investments in time deposits	264,828,591	-	264,828,591	262,392,164	-	262,392,164
Other investments – investments in stocks	-	123,600	123,600	-	123,600	123,600
	264,828,591	**123,600**	**264,952,191**	**262,392,164**	**123,600**	**262,515,764**

9.1 Investments in time deposits

This account consists of government equity (principal plus interest) deposited in High-Yield Savings Account (HYSA) with Land Bank of the Philippines (LBP). The deposit account has short-term maturity period of six (6) months. Upon maturity, the principal, plus any interest accruing thereon is rolled-over for another six (6) months. The deposit earns at an interest rate of approximately 1.25% semi-annually or 2.5% per annum.

	Financial assets – investment in time deposits
Beginning balance as at January 1, 2018	**262,392,164**
Add: Interest earned	2,436,427
Balance as at December 31, 2018	**264,828,591**

9.2 Other investments – investment in stocks

This account pertains to investment in securities of service enterprises which represents agency's preferred shares of stocks with Philippine Long Distance Telephone, Inc. (PLDT) as subscriber's investment for telephone lines as required by Presidential Decree (PD) No. 217.

10. RECEIVABLES

This account consists of the following:

	2018			2017 (As restated)		
	Current		Total	Current		Total
Loans and receivables accounts						
Interest receivables	-	-	-	92,568	-	92,568
Sub-total	-	-	-	92,568	-	92,568
Inter-agency receivables						
Due from NGAs	367,732,291	-	367,732,291	198,177,022	-	198,177,022
Due from LGUs	2,000,000	-	2,000,000	2,000,000	-	2,000,000
Due from GOCCs	2,133,031	-	2,133,031	2,133,031	-	2,133,031
Sub-total	371,865,322	-	371,865,322	202,310,053	-	202,310,053
Other receivables						
Due from officers and employees	176,056	-	176,056	(1,054,615)	-	(1,054,615)
Due from NGOs/ POs	1,550,213	-	1,550,213	1,550,213	-	1,550,213
Other receivables	124,757	-	124,757	130,757	-	130,757
Sub-total	1,851,026	-	1,851,026	626,355	-	626,355
Total Receivables	**373,716,348**	**-**	**373,716,348**	**203,028,976**	**-**	**203,028,976**
Less: Allowance for impairment-receivables	(9,758,994)	-	(9,758,994)	(9,758,994)	-	(9,758,994)
	363,957,354		**363,957,354**	**193,269,982**		**193,269,982**

10.1 Loans and receivable accounts – interest receivables

This account represents accrued interest receivables from deposits in High Yield Savings Account (HYSA) with a short-term maturity of six (6) months and rolled-over upon maturity.

10.2 Inter-agency receivables

10.2.1 Due from national government agencies

Due from national government agencies is composed mainly of fund transfers to DOT Regional and Foreign Offices in compliance to the audit recommendation of taking up the said transfers as Inter-Agency Transferred Funds by TPB as the source agency and as a trust liability by the DOT as the implementing agency.

This account also includes receivables from the Department of Foreign Affairs (DFA) and the DOT amounting to P4,200,000 each representing unpaid annual contributions from other government agencies represented in the PCVC-Board of Trustees covering the period 1988 - 2008 at P200,000 per annum as provided for under Section 14.1 of Executive Order (EO) No. 120-A dated July 20, 1978.

Receivables from these two (2) agencies were not accrued since 2009. An allowance for bad debts for these receivables was never provided. The Board of Directors approved the writing off of the receivables from DOT and the DFA, but still needs the submission of approved budgets of these two (2) agencies to prove that there were no appropriations provided for the annual contributions, as advised by then COA Resident Auditor. Once the documents required are complied with, the request for write off shall be forwarded to the COA for appropriate action.

10.2.2 Due from local government units

Due from local government units represent financial assistance/sponsorship granted to City of Bacoor relative to the project "*Musiko 2017.*"

10.2.3 Due from government corporations

Due from government-owned or controlled corporations represent share of the Tourism Infrastructure and Enterprise Zone Authority (TIEZA), formerly the Philippine Tourism Authority (PTA) in the ASTA World Congress/ other miscellaneous receivables.

10.3 Other receivables

10.3.1 Due from officers and employees

Due from officers and employees refer to receivables from employees' disallowances, personal calls, overpayments of salary and overtime.

10.3.2 Due from non-government organizations/people's organizations

Due from non-government organizations/people's organizations represent financial assistance/sponsorship granted to Pinoy Village Publishing relative to the Celebration of the *119th Anniversary of Philippine Independence in Singapore* and International School of Sustainable Tourism for *Subic.*

10.3.3 Other receivables

Other receivables represent over payment made to various suppliers.

10.4 Aging analysis of receivables as at December 31, 2018

	Not Past Due	Past Due < 30 days	Past Due > 60 days	Total
Inter-agency receivables:				
Due from NGAs	25,580,287	-	342,152,004	367,732,291
Due from LGUs	-	-	2,000,000	2,000,000
Due from GOCCs	-	-	2,133,031	2,133,031
Sub-total	25,580,287	-	346,285,035	371,865,322
Other receivables:				
Due from officers and employees	-	-	176,056	176,056
Due from NGOs/ POs	-	-	1,550,213	1,550,213
Other receivables	-	-	124,757	124,757
Sub-total	-	-	1,851,026	1,851,026
	25,580,287	**-**	**348,136,061**	**373,716,348**
Less: Allowance for impairment	-	-	(9,758,994)	(9,758,994)
	25,580,287	**-**	**338,377,067**	**363,957,354**

Due from NGAs consist of fund remittances to local and foreign DOT offices for the implementation of various events or projects. Liquidation period for local and foreign fund transfers are 30 and 45 days, respectively.

11. INVENTORIES

	2018 Inventories carried at lower of cost and net realizable value	2018 Inventories carried at fair value less cost to sell	2017 Inventories carried at lower of cost and net realizable value	2017 Inventories carried at fair value less cost to sell
Work-in-Process Inventory				
Carrying amount, January 1	-	-	-	-
Additions/Acquisitions during the year	951,750	-	-	-
Expensed during the year except write-down	-	-	-	-
Other adjustments	-	-	-	-
Carrying amount, December 31	**951,750**	**-**	**-**	**-**
Office Supplies Inventory				
Carrying amount, January 1	2,613,566	-	6,433,803	-
Additions/Acquisitions during the year	3,632,524	-	4,562,449	-
Expensed during the year except write-down	(4,282,141)	-	(8,856,147)	-
Other adjustments	-	-	-	-
Carrying amount, December 31	**1,963,949**	**-**	**2,140,105**	**-**
Other Supplies and Material Inventory				
Carrying amount, January 1	5,250,146	-	-	-
Additions/Acquisitions during the year	38,809,496	-	7,299,279	-
Expensed during the year except write-down	(19,458,178)	-	-	-
Carrying amount, December 31	**24,601,464**	**-**	**7,299,279**	**-**
Semi-Expendables Inventory				
Carrying amount, January 1	1,818,610	-	-	-
Additions/Acquisitions during the year	-	-	-	-
Expensed during the year except write-down	(1,818,610)	-	-	-
Other adjustments	-	-	-	-
Carrying amount, December 31	-	-	-	-
Total Inventory	**27,517,163**	**-**	**9,439,384**	**-**

Work-in-Process Inventory consists of initial payment for the creative and printing of five (5) destination brochures. Upon completion and delivery of the creatives and brochures, WIP Inventory will be closed with a corresponding debit to Other Supplies and Material Inventory. Inventories are measured at cost upon initial recognition and are recognized as an expense when deployed for utilization or consumption in the ordinary course of operation of the TPB.

12. OTHER CURRENT ASSETS

This account consists of the following:

	2018			2017 (As restated)		
	Current	Non-Current	Total	Current	Non-Current	Total
Advances:						
Advances to officers and employees	1,946,192	-	1,946,192	(1,632,902)	-	(1,632,902)
Sub-total	1,946,192	-	1,946,192	(1,632,902)	-	(1,632,902)
Prepayments:						
Prepaid insurance	-	-	-	56,518	-	56,518
Other prepayments	1,500,000	-	1,500,000	-	-	-
Sub-total	1,500,000	-	1,500,000	56,518	-	56,518
Deposits:						
Guaranty deposits	2,986,782	-	2,986,782	2,981,962	-	2,981,962
Sub-total	2,986,782	-	2,986,782	2,981,962	-	2,981,962
	6,432,974	**-**	**6,432,974**	**1,405,578**	**-**	**1,405,578**

Prepaid insurance pertains to the unexpired portion as of December 31, 2017 of Government Service Insurance System (GSIS) insurance premiums paid for vehicles.

Other prepayment pertains to the consumable deposit to the DBM - Procurement Service relative to the procurement of air ticket requirements per Government Fares Agreement with Philippine Airlines and Cebu Pacific.

12.1 Aging of advances to officers and employees as at December 31, 2018

	Not Past	Past Due		
	Due	< 30 days	> 60 days	Total
Advances to officers and employees	949,437	-	996,755	1,946,192
	949,437	**-**	**996,755**	**1,946,192**

13. PROPERTY, PLANT AND EQUIPMENT

This account consists of the following:

As at December 31, 2018

	Buildings and other structures	Office equipment	Information & communication technology & equipment	Furniture & fixtures	books	Motor vehicles	Other property, plant & equipment	Total
Carrying amount, January 1, 2018	13,356,150	10,097,712	3,578,805	758,324	6,445	9,268,715	297,196	37,363,347
Additions/Acquisitions	1,815,245	6,601,264	8,879,916	755,446	-	3,042,160	-	21,094,031
Total	15,171,395	16,698,976	12,458,721	1,513,770	6,445	12,310,875	297,196	58,457,378
Disposals	-	(491,439)		(123,130)	-	(1,957,533)	-	(2,572,102)
Depreciation	(431,185)	(3,980,310)	(2,261,943)	(117,012)	-	(1,300,569)	(27,387)	(8,118,406)
Impairment loss	-	-	-	-	-	-		
Adjustment-accumulated depreciation	-	442,296	-	110,817	-	1,761,780	-	2,314,893
Carrying amount, December 31, 2018	**14,740,210**	**12,669,523**	**10,196,778**	**1,384,445**	**6,445**	**10,814,553**	**269,809**	**50,081,763**
Gross cost	23,989,753	26,974,934	14,502,707	1,940,186	64,450	15,483,802	788,778	83,744,610
Less: Accumulated depreciation	(9,249,543)	(14,305,411)	(4,305,929)	(555,741)	(58,005)	(4,669,249)	(518,969)	(33,662,847)
Carrying amount, December 31, 2018	**14,740,210**	**12,669,523**	**10,196,778**	**1,384,445**	**6,445**	**10,814,553**	**269,809**	**50,081,763**

As at December 31, 2017

	Buildings and other structures	Office equipment	Information & communication technology & equipment	Furniture & fixtures	books	Motor vehicles	Other property, plant & equipment	Total
Carrying amount, January 1, 2017	12,381,640	13,815,064	5,622,791	2,787,507	6,504	10,644,299	403,960	45,661,765
Additions/Acquisitions	1,089,167	1,616,161	-	351,700	-	-	-	3,057,028
Total	13,470,807	15,431,225	5,622,791	3,139,207	6,504	10,644,299	403,960	48,718,793
Disposals	-	(156,502)	-	(83,553)	-	-	-	(240,055)
Depreciation	(114,657)	(2,321,093)	(2,043,986)	(107,294)	(59)	(1,375,584)	(103,869)	(6,066,542)
Impairment loss	-	-	-	-	-	-		
Adjustment-error in recording	-	(2,855,918)	-	(2,190,036)	-	-	(2,895)	(5,048,849)
Carrying amount, December 31, 2017	**13,356,150**	**10,097,712**	**3,578,805**	**758,324**	**6,445**	**9,268,715**	**297,196**	**37,363,347**
Gross cost	22,174,508	20,865,109	5,622,791	1,307,870	64,450	14,399,175	788,778	65,222,681
Less: Accumulated depreciation	(8,818,358)	(10,767,397)	(2,043,986)	(549,546)	(58,005)	(5,130,460)	(491,582)	(27,859,334)
Carrying amount, December 31, 2017	**13,356,150**	**10,097,712**	**3,578,805**	**758,324**	**6,445**	**9,268,715**	**297,196**	**37,363,347**

14. INTANGIBLE ASSETS

	2018	2017
Carrying amount, January 1	1,793,275	1,793,275
Additions - internally developed	-	-
Carrying amount, December 31	**1,793,275**	**1,793,275**

Intangible assets include the computer software acquired in the year 2016.

Intangible asset is recognized and measured initially at cost. Subsequent measurement is at cost less any accumulated amortization and any accumulated impairment loss. Amortization shall start when the asset is available for use, in the location and condition necessary for the asset to be capable of operating in the manner intended by Management.

15. OTHER NON-CURRENT ASSETS

This account consists of the following:

	2018			2017 (As restated)		
	Current	Non-Current	Total	Current	Non-Current	Total
Restricted fund	-	189,029,555	189,029,555	-	186,930,285	186,930,285
Other assets	-	2,159,071	2,159,071	-	2,159,071	2,159,071
	-	**191,188,626**	**191,188,626**	**-**	**189,089,356**	**189,089,356**

15.1 Restricted fund

Restricted Fund consists of Special Contingency Fund set-up in prior years which is deposited in a High-Yield Savings Account with Land Bank of the Philippines. The total amount is composed of principal and accrued interest earned from deposit.

15.2 Other assets

Other Assets refer to the advances of overseas officers whose whereabouts can no longer be located.

16. FINANCIAL LIABILITIES

This account consists of the following:

	2018			2017		
	Current	Non-Current	Total	Current	Non-Current	Total
Payables	311,341,634	-	311,341,634	335,007,919	-	335,007,919
Tax refunds payable	168,316	-	168,316	49,081	-	49,081
	311,509,950	**-**	**311,509,950**	**335,057,000**	**-**	**335,057,000**

16.1 Payables

	2018			2017		
	Current	Non-Current	Total	Current	Non-Current	Total
Accounts payable	306,898,957	-	306,898,957	330,285,843	-	330,285,843
Due to officers and employees	4,442,677	-	4,442,677	4,722,076	-	4,722,076
	311,341,634	**-**	**311,341,634**	**335,007,919**	**-**	**335,007,919**

16.1.1 Accounts payable

The Accounts Payable account represents outstanding unpaid obligations to suppliers and contractors for the implementation of promotional and marketing projects.

16.1.2 Due to officers and employees

The Due to Officers and Employees account represents unpaid salaries and allowances, terminal leave and separation incentive package of the retired employees.

16.2 Tax refunds payable

	2018			2017		
	Current	Non-Current	Total	Current	Non-Current	Total
Tax refunds payable	168,316	-	168,316	49,081	-	49,081
	168,316	**-**	**168,316**	**49,081**	**-**	**49,081**

Tax Refunds Payable refers to over withheld taxes from employees during the year and balance of unclaimed tax refunds of employees who have already separated from service.

16.3 Aging of financial liabilities as at December 31, 2018

	< 30 days	< 90 days	<360 days	> 360 days	Total
Accounts payable	36,808,249	113,603,581	10,944,745	145,542,382	306,898,957
Due to officers and employees	-	-		4,442,677	4,442,677
Tax refunds payable	119,234	-	-	49,082	168,316
	36,927,483	**113,603,581**	**10,944,745**	**150,034,141**	**311,509,950**

17. INTER-AGENCY PAYABLES

This account consists of the following:

	2018			2017		
	Current	Non-current	Total	Current	Non-current	Total
Due to GSIS	582,693	-	582,693	977,904	-	977,904
Due to BIR	4,011,384	-	4,011,384	4,866,461	-	4,866,461
Due to PhilHealth	84,991	-	84,991	67,870	-	67,870
Due to Pag-IBIG	891,637	-	891,637	545,444	-	545,444
Due to NGAs	241,196,116	-	241,196,116	159,882,515	-	159,882,515
Due to GOCC	4,828,631	-	4,828,631	4,828,631	-	4,828,631
	251,595,452	-	**251,595,452**	**171,168,825**	-	**171,168,825**

Advances received for the implementation of various tourism promotional/marketing projects and advertising campaign programs of the DOT and TIEZA comprise Due to NGAs and Due to GOCCs, respectively.

18. TRUST LIABILITIES

	2018			2017		
	Current	Non-Current	Total	Current	Non-Current	Total
Guaranty/security deposits payable	34,513,756	-	34,513,756	33,657,266	-	33,657,266
	34,513,756	**-**	**34,513,756**	**33,657,266**	**-**	**33,657,266**

Guaranty/Security Deposits Payable account represents receipts from service providers/suppliers to guarantee their performance to be refunded upon full delivery of service and termination/ completion of contract.

19. OTHER PAYABLES

The Other Payables account in the amount of P14.020 million consists of stale checks, collected bid documents and mainly of unreleased checks in the amount of P11.883 million.

20. SERVICE AND BUSINESS INCOME

This line item consists of the following:

	2018	2017
Service income:		
Registration fees	22,392,729	29,414,905
Total service income	22,392,729	29,414,905
Business income:		
Other business income	753,500	41,290
Share in the profit from the joint undertaking	846,792	18,372,940
Interest income	5,838,851	6,166,811
Total business income	7,439,143	24,581,041
	29,831,872	**53,995,946**

21. PERSONNEL SERVICES

This line item consists of:

	2018	2017
Salaries and wages	40,833,048	36,460,906
Other compensation	18,753,980	14,901,930
Personnel benefit contributions	6,107,486	4,168,433
Other personnel benefits	3,171,113	2,883,224
	68,865,627	**58,414,493**

21.1 Salaries and wages

	2018	2017
Salaries and wages – regular	40,833,048	36,460,906
	40,833,048	**36,460,906**

21.2 Other compensation

	2018	2017
Personnel economic relief allowance	2,063,159	2,033,574
Representation allowance	1,709,629	1,672,167
Transportation allowance	1,025,129	1,183,399
Clothing/uniform allowance	540,000	384,176
Productivity incentive allowance	-	2,000
Honoraria	240,587	866,538
Overtime and night pay	1,696,731	626,436
Year-end bonus	3,383,054	3,099,923
Cash gift	428,000	422,000
Other bonuses and allowances	7,667,691	4,611,717
	18,753,980	**14,901,930**

21.3 Personnel benefit contributions

	2018	2017
Retirement and life insurance premiums	5,473,553	3,659,842
Pag-IBIG contributions	102,900	97,000
PhilHealth contributions	427,033	313,391
Employees compensation insurance premiums	104,000	98,200
	6,107,486	**4,168,433**

21.4 Other personnel benefits

	2018	2017
Terminal leave benefits	-	113,357
Other personnel benefits	3,171,113	2,652,903
Incentive and loyalty award	-	116,964
	3,171,113	**2,883,224**

21.5 Employees future benefits

The permanent employees of the TPB contribute to the GSIS in accordance with RA No. 8291. The GSIS administers the plan, including payment of pension benefits to employees to whom the act applies. Social insurance (life and retirement) benefits are mandatory defined contribution plans fixed at 9% of the basic salaries of regular government employees. Total contributions to GSIS amounted to P8,368,531 broken down as follows: employees' share – P2,894,978 and government share – P5,473,553.

22. MAINTENANCE AND OTHER OPERATING EXPENSES

This line item consists of:

	2018	2017
Travelling expenses	16,699,242	3,578,000
Training and scholarship expenses	4,691,342	8,237,047
Supplies and materials expenses	8,148,488	6,812,637
Utility expenses	1,920,376	2,198,682
Communication expenses	3,801,522	5,578,920
Confidential, intelligence and extraordinary expenses	206,108	275,257

	2018	2017
Professional services	23,531,658	30,365,678
General services	7,610,208	8,041,214
Repairs and maintenance	1,872,702	2,258,145
Taxes, insurance premiums and other fees	2,394,569	2,421,850
Other maintenance and operating expenses	737,011,898	1,188,058,683
	807,888,113	**1,257,826,113**

22.1 Travelling expenses

	2018	2017
Traveling expenses-local	3,236,041	2,959,903
Traveling expenses-foreign	13,463,201	618,097
	16,699,242	**3,578,000**

22.2 Training and scholarship expenses

	2018	2017
Training expenses	4,691,342	8,237,047
	4,691,342	**8,237,047**

22.3 Supplies and materials expenses

	2018	2017
Office supplies expenses	4,067,791	3,260,749
Drugs and medicines expense	5,945	-
Fuel, oil and lubricants expenses	969,672	1,133,865
Semi-expendable machinery and equipment expenses	65,664	1,824,690
Semi-expendable furniture, fixtures and books expenses	349,799	35,100
Other supplies and materials expenses	2,689,617	558,233
	8,148,488	**6,812,637**

22.4 Utility expenses

	2018	2017
Electricity expenses	1,753,754	2,170,011
Water expenses	166,622	28,671
	1,920,376	**2,198,682**

22.5 Communication expenses

	2018	2017
Telephone expenses	1,590,712	1,860,485
Internet subscription expenses	2,210,810	3,709,435
Cable and satellite expenses	-	9,000
	3,801,522	**5,578,920**

22.6 Confidential, intelligence and extraordinary expenses

	2018	2017
Extraordinary and miscellaneous expenses	206,108	275,257
	206,108	**275,257**

22.7 Professional services

	2018	2017
Auditing services	44,650	5,495,442
Consultancy services	1,994,160	3,556,080
Other professional services	21,492,848	21,314,156
	23,531,658	**30,365,678**

22.8 General services

	2018	2017
Security services	5,109,977	5,217,245
Janitorial services	2,500,231	2,823,969
	7,610,208	**8,041,214**

22.9 Repairs and maintenance

	2018	2017
Repairs and maintenance-transportation equipment	1,522,991	117,776
Repairs and maintenance-buildings and other structures	80,390	903,574
Repairs and maintenance-machinery and equipment	98,976	175,950
Repairs and maintenance-furniture and fixtures	170,345	1,060,845
	1,872,702	**2,258,145**

22.10 Taxes, insurance premiums and other fees

	2018	2017
Taxes, duties and licenses	1,520,270	1,734,126
Insurance expenses	716,935	549,558
Fidelity bond premiums	157,364	138,166
	2,394,569	**2,421,850**

22.11 Other maintenance and operating expenses

	2018	2017
Donations	7,500	6,000
Rent/lease expenses	7,054,646	7,195,468
Transportation and delivery expenses	2,109,340	37,364
Representation expenses	2,743,760	2,029,723
Printing and publication expenses	-	222,020
Advertising, promotional and marketing expenses	722,146,926	1,175,031,875
Subscription expenses	459,132	146,679
Postage and courier services	6,081	87,437
Membership dues and contributions to organizations	1,237,169	2,163,183
Board of Directors allowance and other benefits	199,000	173,000
Other maintenance and operating expenses	1,048,344	965,934
	737,011,898	**1,188,058,683**

23. FINANCIAL EXPENSES

	2018	2017
Bank charges	1,787,764	1,688,334
	1,787,764	**1,688,334**

24. NON-CASH EXPENSES

This account consists of the following:

	2018	2017
Depreciation-buildings and other structures	431,185	114,657
Depreciation-machinery and equipment	6,242,253	4,365,079
Depreciation-transportation equipment	117,012	1,375,584
Depreciation-furniture, fixtures and books	1,300,569	107,353
Depreciation-other property plant and equipment	27,387	103,869
	8,118,406	**6,066,542**

25. OTHER NON-OPERATING INCOME

	2018	2017
Miscellaneous income	14,471	3,574,822
	14,471	**3,574,822**

26. GAINS

This line item consists of the following:

	2018	2017
Gain on foreign exchange (FOREX)	629,484	1,890,753
Gain on sale of property, plant and equipment	30,147	-
	659,631	**1,890,753**

27. LOSSES

This line item consists of the following:

	2018	2017
Loss on foreign exchange (FOREX)	60,823	453,328
Loss on sale of property, plant and equipment	44,457	240,055
	105,280	**693,383**

28. ASSISTANCE/SUBSIDY

	2018	2017
Subsidy income from SAGF	1,406,926,985	688,030,307
	1,406,926,985	**688,030,307**

Subsidy received from the Special Account in the General Fund (SAGF) – PAGCOR and Ports and SAGF – Duty Free Philippines Corporation during the year amounted to P1.353 billion and P53.585 million, respectively, appropriated for the implementation of various 2018 programs.

29. RECONCILIATION OF NET CASH FLOWS FROM OPERATING ACTIVITIES TO SURPLUS/(DEFICIT)

	2018	2017
Surplus for the year	550,667,769	(577,197,037)
Depreciation	8,118,406	6,066,542
Losses	105,280	693,383
Gains	(659,631)	(1,890,753)
Receipt of interest earned categorized as investing activity	(284,941)	(6,166,811)
Prior year expenses disbursed in current year		2,999,619
(Increase) Decrease in investments	(2,436,427)	-
(Increase) Decrease in receivables	(170,687,372)	19,550,066
Increase in inventories	(18,077,779)	(1,584,260)
(Increase) Decrease in other assets	(7,126,666)	36,087,514
Increase (Decrease) in financial liabilities	(23,547,050)	92,970,843
Increase (Decrease) in inter-agency payables	80,426,627	(42,781,366)
Increase (Decrease) in trust liabilities	856,490	(2,675,153)
Increase (Decrease) in other payables	(29,975,030)	14,309,379
Net cash flows from operating activities	**387,379,676**	**(459,618,034)**

30. RELATED PARTY TRANSACTIONS

30.1 Related party transactions

The TPB does not have dealings with related parties involving transfer of resources and obligations.

30.2 Key management personnel

The key management personnel of the TPB are the Chief Operating Officer (COO), the Deputy Chief Operating Officers for Corporate Affairs and Marketing and Promotions, and the executives/managers of all departments. The TPB Board consists of the Chairman, COO as Vice Chairman and the six (6) board members representing TIEZA, DFA, DTI, DOTr and two from the Private Sectors, all are appointed by the President of the Philippines.

30.3 Key management personnel compensation

The Chairman and the members of the TPB Board receive per diems for every board meeting attended. The aggregate remuneration for the Chief Operating Officer, inclusive of the remuneration pay of officers who are/were permanently appointed and acted as COO throughout 2018 and are/were part of the organization's structure/plantilla and on a fulltime equivalent basis received the following:

	Aggregate remuneration
Salaries and wages	1,584,923
Other compensation	889,818
Total personnel benefits	**2,474,741**

31. GOVERNMENT EQUITY

This account consists of authorized capital which is fully subscribed by the National Government per Republic Act (RA) No. 9593 (Tourism Act of 2009). The amount includes releases by the Department of Budget and Management (DBM) in the total amount of P250 million increased by the interest accrued thereon from its deposit to a High-Yield Savings Account in Land Bank of the Philippines.

31.1 Capital management

The primary objective of the TPB's capital management is to ensure that resources of the agency is geared towards the attainment of its mandate and the implementation of its objectives thru the programs to be undertaken for the promotion of the Philippines domestically and internationally as a global destination.

The total government equity has been intact with TPB's high-earning deposit accounts, deriving additional funds from interest accruing thereon.

TPB derives its funds from the share in the annual remittances of the Philippine Amusement and Gaming Corporation (PAGCOR), ports and income of Duty Free Philippines Corporation (DFPC), as per RA No. 9593. TPB manages its net assets/equity by establishing controls in collection of fees and other sources of revenues, monitoring status of projects and periodic reporting of funds and disbursements while maintaining compliance to rules, regulations, and other legal requirements.

32. ACCUMULATED SURPLUS

	Amount
Accumulated surplus, January 1, 2017	209,591,294
Effect of changes in accounting policy	(2,964,705)
Adjustments due to prior period errors:	
Reversal of accounts payable	746,229,605
Unrecorded expenses for CY 2015	(16,538,185)
Unrecorded advertising, promotional and marketing expenses for CY 2016	(76,826,022)
Unrecorded insurance expenses for CY 2016	(106,867)
Unrecorded semi-expendable furniture, fixtures and books expenses for CY 2016	(86,500)
Unrecorded semi-expendable machinery and equipment expenses for CY 2016	(23,257)
Overstated depreciation-furniture, fixtures and books for CY 2016	219,785
Overstated internet subscription expenses for CY 2016	403,380
Overstated gains for CY 2016	(2,310)
Accumulated surplus, January 1, 2017 as restated	**859,896,218**
Surplus/(Deficit) for 2017, as previously stated	(231,771,530)
Adjustments due to prior period errors:	
Overstated service and business income for CY 2017	(260,091)
Unrecorded miscellaneous income for CY 2017	6,000

	Amount
Unrecorded other compensation for CY 2017	(159,060)
Unrecorded other personnel benefits	(311,700)
Unrecorded advertising, promotional and marketing expenses	(337,095,040)
Unrecorded travelling expenses	(2,299,348)
Unrecorded training expenses	(361,558)
Unrecorded utility expenses	(61,962)
Unrecorded supplies and material expenses	(2,460,641)
Overstated communication expenses	55,639
Unrecorded professional services	(1,695,000)
Unrecorded general services	(15,964)
Unrecorded repairs and maintenance	(253,720)
Unrecorded miscellaneous expenses	(778)
Unrecorded taxes, duties and licenses	(6,019)
Unrecorded other maintenance and operating expenses	(178,788)
Overstated bank charges	32,400
Unrecorded non-cash expenses	(359,877)
Accumulated surplus, December 31, 2017 as restated	**282,699,181**
Surplus for 2018	550,667,769
Accumulated surplus, December 31, 2018	**833,366,950**

33. BUDGET INFORMATION IN FINANCIAL STATEMENTS

The *original budget* reflected in the SCBAA for December 31, 2018 is the proposed Corporate Operating Budget (COB) for the year 2018 and is submitted to the Department of Budget and Management (DBM) for review/evaluation while the *final budget* is the amount as approved by DBM on October 26, 2018. The proposed/original COB is prepared considering: (1) the Agency's various programs, projects and activities in the pursuance of its mandate; (2) the projected revenues and other sources of income to finance and support these programs; (3) actual expenses for previous years; and (4) effects of inflation. Aside from the COB, the Agency has received subsidy from Duty Free Philippines Corporation under the RA No. 9593, and fund transfers from DOT and TIEZA appropriated for the implementation of programs.

Changes between the original and final budget are due to the following:

a. Reduction in the level of budget for Personnel Services due to over-provision for vacant positions.

b. Reduction in the level of budget for Maintenance and Other Operating Expenses based on 2017 actual utilization.

c. Reduction in the level of budget for Capital Outlay due to over-provision in the proposal of the purchase of Motor Vehicle.

d. Material differences between the actual expenses as against the budget were noted particularly in the budget allocated for Personnel Services (PS) and Maintenance and Other Operating Expenses (MOOE). A lot of factors contributed to its low utilization rate namely: cancellation of various projects/programs due to time constraints and change in management policies.

34. SUPPLEMENTARY INFORMATION REQUIRED BY BUREAU OF INTERNAL REVENUE

34.1 Revenue Regulation (RR) No. 15-2010

TPB had been regularly withholding taxes due from salaries and other benefits of its employees as well as on goods and services purchased. Likewise, such amounts withheld are remitted to the Bureau of Internal Revenue (BIR). Total tax withheld and remitted in 2018 are as follows:

	Amount withheld	Amount remitted
On compensation	4,084,636	3,699,082
Expanded creditable income tax	3,833,332	3,567,673
VAT from suppliers and contractor/other percentage taxes	1,153,932	1,119,250
Total	**9,071,900**	**8,386,005**

As provided in National Internal Revenue Code (NIRC) of 1997, as amended, and Section 57 of Republic Act 9593, TPB is exempt from payment of corporate income tax.

35. COMPLIANCE WITH GOVERNMENT SERVICE INSURANCE SYSTEM (GSIS) LAW, REPUBLIC ACT (RA) NO. 8291

TPB has been regularly deducting premiums from its employees and remitting the total amount withheld as well as the government share to the GSIS. The employees' and employer's shares remitted for CYs 2018 and 2017 were as follows:

	2018	2017
Employees' share	2,894,978	3,274,701
Employer's share	5,473,553	4,368,162
	8,368,531	**7,642,863**