



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

MANAGEMENT LETTER

on the

Grant No. TF017736
Studies for Sustainable Flood Management
Project

of the

DEPARTMENT OF PUBLIC WORKS AND HIGHWAYS

For the Year Ended December 31, 2018



REPUBLIC OF THE PHILIPPINES
COMMISSION ON AUDIT
OFFICE OF THE AUDITOR
DEPARTMENT OF PUBLIC WORKS AND HIGHWAYS
PORT AREA, METRO MANILA

INDEPENDENT AUDITOR'S REPORT

The Secretary

Department of Public Works and Highways
Port Area, Manila

Report on the Audit of the Financial Statements

Adverse Opinion

We have audited the financial statements of Grant No. TF017736 Studies for Sustainable Flood Management Project, which comprise the statement of financial position as of December 31, 2018, and the statement of financial performance, statement of changes in net assets/equity, statement of cash flows, and statement of comparison of budget and actual amounts for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, because of the significance of the matter discussed in the *Basis for Adverse Opinion* section of our report, the accompanying financial statements do not present fairly, the financial position of Grant No. TF017736 as at 31 December 2018, and its financial performance, changes in net assets/equity, cash flows, and comparison of budget and actual amounts for the year then ended in accordance with Philippine Public Sector Accounting Standards (PPSASs).

Basis for Adverse Opinion

We conducted our audit in accordance with International Standards of Supreme Audit Institutions (ISSAIs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Agency in accordance with the ethical requirements that are relevant to our audit of the financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our adverse opinion.

As discussed in Part III of the Management Letter, the year-end balance of the Cash in Bank – Foreign Currency, Savings Account contains misstatements amounting to ₱38,895,129.89 which represent 44.51% of the total assets presented in the Statement of the Financial Position and inaccurate presentation of the Statement of Financial Performance as at December 31, 2018.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with PPSASs, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.


Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Our audit involves performing procedures to obtain evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's professional judgment, including the assessment of the risk of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the agency's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the agency's internal control. Our audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

COMMISSION ON AUDIT

By:


BRENDA P. DEGALA
OIC, Supervising Auditor
Audit Group A, DPWH 1

December 16, 2019

**STUDIES FOR SUSTAINABLE FLOOD MANAGEMENT PROJECT
PH-PTF GRANT NO. TF017736-PH**

**COMPARATIVE STATEMENT OF FINANCIAL POSITION
FUND 04104163**

As of the December 31, 2018

	Notes	2018	2017
ASSETS			
CURRENT ASSETS			
CASH IN BANK			
FOREIGN CURRENCY	4.1	53,575,224.00	35,203,700.00
ADVANCES TO CONTRACTORS	5.1	12,346,050.96	16,639,484.96
TOTAL CURRENT ASSETS		<u>65,921,274.96</u>	<u>51,843,184.96</u>
NON-CURRENT ASSETS			
CONSTRUCTION-IN PROGRESS			
INFRASTRUCTURE ASSETS		21,467,169.55	-
TOTAL-NON-CURRENT ASSETS		<u>21,467,169.55</u>	<u>-</u>
TOTAL ASSETS		<u>87,388,444.51</u>	<u>51,843,184.96</u>
LIABILITIES AND NET ASSETS/EQUITY			
CURRENT LIABILITIES			
ACCOUNTS PAYABLE	7.1	33,813,220.51	16,639,484.96
TOTAL LIABILITIES		<u>33,813,220.51</u>	<u>16,639,484.96</u>
NET ASSETS/EQUITY			
ACCUMULATED SURPLUS/(DEFICIT)	8.1	53,575,224.00	35,203,700.00
TOTAL NET ASSETS/EQUITY		<u>53,575,224.00</u>	<u>35,203,700.00</u>
TOTAL ASSETS		<u>87,388,444.51</u>	<u>51,843,184.96</u>

This statement should be read in conjunction with the accompanying notes.

**STUDIES FOR SUSTAINABLE FLOOD MANAGEMENT PROJECT
PH-PTF GRANT NO. TF017736-PH**

**COMPARATIVE STATEMENT OF FINANCIAL PERFORMANCE
FUND 04104163**

For the Period Ended December 31, 2018

	Notes	2018	2017
GROSS RECEIPTS		-	-
LESS: OPERATING AND ADMINISTRATIVE EXPENSES		-	-
NET INCOME/(LOSS) FROM OPERATIONS		-	-

**STUDIES FOR SUSTAINABLE FLOOD MANAGEMENT PROJECT
PH-PTF GRANT NO. TF017736-PH**

**COMPARATIVE STATEMENT OF CHANGES IN CASH FLOW
FUND 04104163**

For the Period Ended December 31, 2018

	Notes	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES			
CASH INFLOWS			
NET REVENUE/EXPENSE FOR THE PERIOD		-	-
ADD/(DEDUCT) CHANGES IN:			
ADVANCES TO CONTRACTORS	5.1	4,293,434.00	(16,639,484.96)
ACCOUNTS PAYABLE	7.1	17,173,735.55	16,639,484.96
		<u>21,467,169.55</u>	<u>-</u>
CASH PROVIDED BY (USED IN) OPERATING ACTIV:		21,467,169.55	-
CASH FLOW FROM INVESTING ACTIVITIES		(21,467,169.55)	-
CASH FLOW FROM FINANCING ACTIVITIES			
RECEIPT OF NOTICE OF CASH ALLOCATION (NCA)	8.1	18,371,524.00	35,203,700.00
		<u>18,371,524.00</u>	<u>35,203,700.00</u>
NET CASH FLOW		18,371,524.00	35,203,700.00
ADD: CASH BALANCE, BEGINNING JANUARY 1,		35,203,700.00	-
		<u>53,575,224.00</u>	<u>35,203,700.00</u>
CASH BALANCE, ENDING DECEMBER 31,		<u>53,575,224.00</u>	<u>35,203,700.00</u>

This statement should be read in conjunction with the accompanying notes.

**STUDIES FOR SUSTAINABLE FLOOD MANAGEMENT PROJECT
PH-PTF GRANT NO. TF017736-PH**

**COMPARATIVE STATEMENT OF CHANGES IN NET ASSETS/EQUITY
FUND 04104163**

For the Period Ended December 31, 2018

	Notes	2018	2017
BEGINNING BALANCE		35,203,700.00	-
ADD/(DEDUCT):			
CHANGES IN ACCOUNTING POLICY		-	-
PRIOR PERIOD ADJUSTMENTS		-	-
OTHER ADJUSTMENTS		-	-
		<hr/>	<hr/>
RESTATED BALANCE		35,203,700.00	-
		<hr/>	<hr/>
CHANGES IN NET ASSETS/EQUITY FOR THE YEAR			
SURPLUS FOR THE PERIOD	8.1	18,371,524.00	35,203,700.00
ADJUSTMENT OF NET REVENUE		-	-
OTHERS		-	-
		<hr/>	<hr/>
TOTAL RECOGNIZED REVENUE & EXPENSE FOR THE YEAR		18,371,524.00	35,203,700.00
		<hr/>	<hr/>
ENDING BALANCE		53,575,224.00	35,203,700.00
		<hr/>	<hr/>

This statement should be read in conjunction with the accompanying notes.



Republic of the Philippines
DEPARTMENT OF PUBLIC WORKS AND HIGHWAYS
CENTRAL OFFICE
Manila

**STUDIES FOR SUSTAINABLE FLOOD MANAGEMENT PROJECT
PH-PTF GRANT NO. TF017736-PH**

**NOTE TO THE FINANCIAL STATEMENTS
FUND 04104163**

As of December 31, 2018

1. General Information/Agency Profile

- 1.1** The Statement of Financial Position and related Statement of Changes in Cash Flow and Changes in Net Assets/Equity presented for the year ended December 31, 2018 is the financial statements for Fund 04104163 – Foreign-Assisted/Grants under Studies for Sustainable Flood Management Project, Grant No. TF017736 of the Department of Public Works and Highways.
- 1.2** Under Executive Order No. 710 dated July 27, 1981, the Ministries of Public Works and Public Highways were merged for a more effective and sustained implementation of infrastructure projects. Under the restructured set-up, the agency was known as the Ministry of Public Works and Highways (MPWH) with 14 regional offices, 94 districts and 60 city engineering offices, 5 bureaus and 6 service offices, in addition to corporations and councils attached to the Ministry for administrative supervision.
- 1.3** By virtue of Executive Order No. 124, dated January 30, 1987, the agency was known as the Department of Public Works and Highways (DPWH). The agency is headed by Honorable Mark A. Villar, as the Secretary with all supervision and control of the Department.

Department Order No. 105 series of 2017 amended the authorities and areas of responsibilities of the DPWH undersecretaries and assistant secretaries as follows:

- 1.3.1** Rafael C. Yabut – Senior Undersecretary. He serves as Undersecretary for Regional Operations in Luzon, as such, he shall have overall supervision and control over the operations of all Regional Offices in Luzon, except the National Capital Region (NCR) and Region IV-B. He shall likewise have overall supervision and control over all infrastructure projects implemented by this Department, but funded under the budget of various line agencies, i.e. school buildings, health centers and farm-to-market roads in his areas of assignment.
- 1.3.2** Ma. Catalina E. Cabral – Undersecretary. She serves as Undersecretary for Planning Service and the Public-Private Partnership Service.

1.3.3 Ardeliza R. Medenilla – Undersecretary. She serves as Undersecretary for Support Services, as such, she shall have overall supervision and control over the Human Resource and Administrative Service (HRAS), the Financial Service (FS), the Information Management Service (IMS), the Procurement Service (PrS), the Legal Service, and the Stakeholders Relations Service (SRS).

1.3.4 Emil K. Sadain – Undersecretary. He serves as Undersecretary for Unified Project Management Office (UPMO) operations, as such, he shall handle the overall administrative functions of the five (5) specialized clusters of the UPMO. The operations of the four (4) UPMO Clusters, namely, Bridges Management Cluster, Roads Management Cluster 1, Roads Management Cluster 2 and Building Management Cluster, shall remain under his overall supervision.

He shall also serve as Alternate Representative and Focal Person in the Inter-Agency Task Force Bangon Marawi and manage implementation of various infrastructure projects in the Autonomous Region of Muslim Mindanao (ARMM).

He shall likewise serve, in concurrent capacity, as Undersecretary for Technical Services and as such, he shall have overall supervision and control over all the Bureaus.

1.3.5 Dimas S. Soguilon – Undersecretary. He serves as Undersecretary for Regional Operations in Mindanao, as such, he shall have overall supervision and control over the operations of all Regional Offices in Mindanao. He shall likewise have overall supervision and control over all infrastructure projects implemented by this Department, but funded under the budget of various line agencies, i.e. school buildings, health centers and farm-to-market roads in his area of assignment.

1.3.6 Roberto R. Bernardo – Undersecretary. He serves as Undersecretary for Regional Operations in Visayas, the National Capital Region (NCR) and Region IV-B, as such, he shall have overall supervision and control over the operations of all Regional Offices in Visayas, the National Capital Region (NCR) and Region IV-B. He shall likewise have overall infrastructure projects implemented by this Department but funded under the budget of various line agencies, i.e. school buildings, health centers and farm-to-market roads in his area of assignment.

1.3.7 Eugenio R. Pipo, Jr. – Assistant Secretary. He serves as Assistant Secretary for Regional Operations in Luzon except the National Capital Region (NCR) and Region IV-B, as such, he shall assist the Undersecretary for Regional Operations in Luzon in the overall supervision and control over Regions I, II, III, IV-A, V, and CAR.

- 1.3.8** Gilberto S. Reyes – Assistant Secretary. He serves as the Assistant Secretary for Technical Services, as such, he shall assist the Undersecretary for Technical Services in the overall supervision and control over all the Bureaus.
- 1.3.9** B. Elizabeth E. Yap – Assistant Secretary. She serves as Assistant Secretary for Support Services, as such, she shall assist the Undersecretary for Support Services in the overall supervision and control over the Human Resource and Administrative Service (HRAS), the Financial Service (FS), the Information Management Service (IMS), the Procurement Service (PrS), the Legal Service, and the Stakeholders Relations Service (SRS).
- 1.3.10** Maximo L. Carvajal – Assistant Secretary. He serves as Assistant Secretary for Regional Operations in Mindanao, as such, he shall assist the Undersecretary for Regional Operations in Mindanao.
- 1.3.11** Antonio V. Molano, Jr. – Assistant Secretary. He serves as Assistant Secretary for Regional Operations in Visayas, the National Capital Region (NCR) and Region IV-B, as such, he shall assist the Undersecretary for Regional Operations in Visayas, the National Capital Region (NCR) and Region IV-B.

The agency is composed of 9 services, 6 bureaus and 5 PMOs. It also has 17 Regional Offices and 180 District Offices.

- 1.4** The Department of Public Works and Highways functions as the engineering and construction arm of the Government tasked to continuously develop its technology for the purpose of ensuring the safety of all infrastructure facilities and securing for all public works and highways the highest efficiency and quality in construction. DPWH is currently responsible for planning, design, construction and maintenance of infrastructure, especially the national highways, flood control and water resources development system, and other public works in accordance with national development objectives.
- 1.5** Mission. To provide and manage quality infrastructure facilities and services responsive to the needs of the Filipino people in the pursuit of national development objectives.
- 1.6** Vision. By 2030, DPWH is an effective and efficient government agency, improving the life the every Filipino through quality infrastructure.
- 1.7** Mandate. The Department of Public Works and Highways (DPWH) is one of the three departments of the government undertaking major infrastructure projects. The DPWH is mandated to undertake (a) the planning of infrastructure, such as roads and bridges, flood control, water resources projects and other public works, and (b) the design, construction and maintenance of national roads and bridges, and major flood control systems.

1.8 Sources of Funds

- 1.8.1** The DPWH maintains the following funds under Cluster 02 – Foreign Assisted Project Fund.

Fund Code	Fund Description
101151	NGA – GOP Counterpart Funds
101152	NGA – Asian Development Bank
101153	NGA – Australia
101154	NGA – Austria
101160	NGA – France
101163	NGA – International Bank of Reconstruction and Development
101167	NGA – Japan
101168	NGA – Korea
101169	NGA – Millennium Challenge Corporation
101173	NGA – Saudi Arabia
101174	NGA – Spain
101176	NGA – United Kingdom

- 1.8.2** Fund 04104163 provides specific budgeting and accounting guidelines necessary for the proper recording, accounting and monitoring of foreign assisted projects sourced from foreign loan proceeds and foreign grants accruing to the agency.

2. Statement of Compliance and Basis of Preparation of Financial Statements

The financial statements have been prepared in accordance with and comply with the Philippine Public Sector Accounting Standards (PPSAS) issued by the Commission on Audit per COA Resolution No. 2014-003 dated January 24, 2014. The financial statements have been prepared on the basis of historical cost, unless stated otherwise. The Statement of Cash Flows is prepared using the direct method.

3. Summary of Significant Accounting Policies

- 3.1** The agency uses accrual basis of accounting. All income is recognized when realized and expenses when incurred and reported in the financial statements in the period to which they relate.
- 3.2** The agency implemented the electronic New Government Accounting System (e-NGAS) during FY 2004 and utilizes the system for all Journal Entry Vouchers (JEV), General Ledger, Subsidiary Ledgers, Inventory, and Property, Plant and Equipment records. The e-NGAS was utilized as the basis of preparing the financial statements.
- 3.3** There was no specific accounting policy provided by the Department regarding the provision for allowance for Doubtful Accounts (ADA) as of balance sheet date, but the agency is still in the process of verifying the adequacy level for potential uncollectability of the receivable accounts which will also be the basis in providing uniform accounting policy in setting up and maintaining the provision for ADA.

- 3.4** Notice of Cash Allocation (NCA) is recorded in the Regular Agency (RA) books as well as those income/receipts, which the agency is authorized to use.
- 3.5** Income/receipts which the agency are not authorized to use and are required to be remitted to the National Treasury are recorded in the National Government (NG) books.
- 3.6** Allotments received and obligations incurred are recorded in registries. Separate registries are maintained to control allotments and obligations for each class of allotment.
- 3.7** Petty Cash Fund (PCF) account is maintained under the Imprest System. All replenishments are directly charged to the expense account. The PCF is not used to purchase regular inventory items for stock.
- 3.8** For Foreign Assisted Projects, the agency also uses the Working Fund/Imprest Account Availment – a scheme whereby the lending/donor institution provides the Implementing Agency with seed money from the loan/grant for the payment of eligible expenditures, subject to replenishment.
- 3.9** For assets under construction, all engineering and administrative expenses incurred during construction of the project are expensed.
- 3.10** Some properties of the government, which are used by the general public such as Land and Land Improvements, are still accounted under Property, Plant and Equipment of the office that has been recorded based on the old government accounting system. The Inventory Committee of the Department is in the process of validating the value and ownership of these fixed assets for the purpose of transferring records from the books of accounts of the agency to the Registry of Public Infrastructures. The past practice has been to continually add the capitalized cost of projects to these fixed asset accounts without depreciating improvements made to the property.
- 3.11** The depreciation expense was provided during the year using the straight-line method (less 5% salvage value). The Electronic National Government Accounting System (e-NGAS) computes the current and prior years' depreciation expense.
- 3.12** Payable accounts are recognized and recorded in the books of accounts only upon acceptance of the goods/inventory/other assets and rendition of services to the agency. The accounts payable of obligated contracts is set-up during contractor's billings.
- 3.13** Accounts were classified to conform to the new Chart of Accounts prescribed under the New Government Accounting System, which was implemented effective January 1, 2002, and as further reclassified in compliance with COA Circular 2003-001 dated June 17, 2003, with updated descriptions of accounts through COA Circular 2004-008 dated September 20, 2004, as amended, to the Revised Chart of Accounts for National Government

Agencies under Commission on Audit Circular No. 2013-002 dated January 30, 2013.

- 3.14** Transactions in foreign currencies are either recorded in Philippine Peso based on the BSP rate of exchange prevailing at the date of transactions or recorded at a fixed rate if indicated in the contract. These transactions involved foreign assisted projects in which the lending institutions require contracts to be denominated in foreign currency. These are in the form of Direct Payment and Special Accounts.
- 3.15** Fundamental errors of prior years are corrected by using the Accumulated Surplus/Deficit account. Errors affecting current year's operation are charged to the current year's accounts.
- 3.16** Accumulated Surplus/Deficit account is also used to record transactions, not necessarily errors, affecting prior years' financial record and information.

3.17 Financial Instruments

3.17.1 Financial Assets

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, loans and receivables, held-to-maturity investments or available-for-sale financial assets, as appropriate. DPWH 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 DPWH commits to purchase or sell the asset.

The agency's financial assets include: cash; loans and receivable accounts, inter-agency receivables; and other receivables.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

Derecognition

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

- The rights to receive cash flows from the asset have expired or is waived;
- The agency has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party; and either: (a) the agency has transferred substantially all the risks and rewards of the asset; or (b) it has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Impairment of financial assets

The agency 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.

3.17.2 Financial Liabilities

Initial recognition and measurement

Financial liabilities within the scope of IPSAS 29 are classified as financial liabilities at fair value through surplus or deficit or loans and borrowings, as appropriate. The Group 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 Department's financial liabilities include trade and other payables, and trust liabilities.

Derecognition

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

3.18 Cash and Cash Equivalents

Cash and cash equivalents of the agency comprise cash on hand and cash at bank.

3.19 Property, Plant and Equipment

Recognition

An item is recognized as property, plant, and equipment (PPE) if it meets the characteristics and recognition criteria as a PPE.

The characteristics of PPE are as follows:

- Tangible items;
- Are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and,
- Are expected to be used during more than one reporting period.

An item of PPE is recognized as an asset if:

- It is probable that future economic benefits or service potential associated with the item will flow to the entity; and,
- The cost or fair value of the item can be measured reliably.

Measurement at Recognition

An item recognized as property, plant, and equipment 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:

- Its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates;
- Expenditure that is directly attributable to the acquisition of the items; and,
- 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.

Measurement After Recognition

After recognition, all property, plant and equipment are stated at cost less accumulated depreciation and impairment losses.

Depreciation

Each part of an item of property, plant, and equipment 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.

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.

For simplicity and to avoid proportionate computation, the depreciation is for one month if the PPE is available for use on or before the 15th of the month. However, if the PPE is available for use after the 15th of the month, depreciation is for the succeeding month.

Depreciation Method

The straight line method of depreciation shall be adopted unless another method is more appropriate for agency operation.

Estimated Useful Life

DPWH uses the Schedule on the Estimated Useful Life of PPE by classification prepared by COA.

The agency uses a residual value equivalent to at least five percent (5%) of the cost of the PPE.

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 service amount.

Derecognition

DPWH derecognizes items of property, plant and equipment 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.

3.20 Provisions

Provisions are recognized when the department 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 department 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.

3.21 Changes in Accounting Policies and Estimates

The Department of Public Works and Highways 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 Department recognizes the effects of changes in accounting estimates prospectively by including in surplus or deficit. It 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.

3.22 Foreign Currency Transactions

Transactions in foreign currencies are initially recognized by applying the spot exchange rate between the function currency and the foreign currency at the transaction.

At each Reporting Date:

- Foreign currency monetary items are translated using the closing rate;
- Nonmonetary items that are measured in terms of historical cost in a foreign currency shall be translated using the exchange rate at the date of the transaction; and
- Nonmonetary items that are measured at fair value in a foreign currency shall be translated using the exchange rates at the date when the fair value was determined.

Exchange differences arising (a) on the settlement of monetary items, or (b) on translating monetary items at rates different from those at which they were translated on initial recognition during the period or in previous financial statements, are recognized in surplus or deficit in the period in which they arise, except as those arising on a monetary item that forms part of a reporting entity's net investment in a foreign operation.

3.23 Measurement Uncertainty

The preparation of financial statements in conformity with PPSAS 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 revenues and expenses during the period.

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.

4. Cash and Cash Equivalents

4.1 Cash in Bank – Foreign Currency Account

Particulars	(Fund 04104163)	
	2018	2017
Cash in Bank – Foreign Currency	<u>₱ 53,575,224.00</u>	<u>₱ 35,203,700.00</u>

Cash in Bank – Foreign Currency Account consists of the balance maintained at the Land Bank of the Philippines representing the account for DPWH-SSFMP Grant TF017736 with Account No. 0014-0093-70.

5. Other Assets

5.1 Advances to Contractors

Particulars	(Fund 04104163)	
	2018	2017
Advances to Contractors	<u>₱ 12,346,050.96</u>	<u>₱ 16,639,484.96</u>

The Advances to Contractors represents 15% of Contract Price as mobilization cost in the implementation of the locally and foreign assisted infrastructure projects and recoupment made on every progress billings to the contractors.

6. Property, Plant and Equipment

6.1 Construction-in-Progress – Infrastructure Assets

Particulars	(Fund 04104163)	
	2018	2017
Construction-in-Progress	<u>₱ 21,467,169.55</u>	<u>₱ 0.00</u>

It represents the cost of projects that are ongoing and will be transferred to appropriate account once completed.

6.1.1 Under Department Order No. 176 series of 2015 par. II.b, upon completion of the project, JEV is prepared to close Construction-in-Progress account to appropriate PPE for Public Infrastructure account. Thereafter, adjusting entries are immediately prepared to transfer to the General Fund (Fund 01101101) the cost of completed projects funded from funding sources other than Fund Code 01101101.

6.1.2 As a general policy of the Department, all Infrastructure Assets shall be maintained under the General Fund for the main reason that maintenance of these assets are usually funded under the General Fund.

7. Financial Liabilities

7.1 Accounts Payable

Particulars	(Fund 04104163)	
	2018	2017
Accounts Payable	<u>₱ 33,813,220.51</u>	<u>₱ 16,639,484.96</u>

The Accounts Payable balance pertains to due and demandable obligations of the agency which consists of transactions arising from payment of contract progress billings through direct payment, which will be liquidated upon receipt of the corresponding NCAA from the DBM.

The amount of ₱16,639,484.96 15% Advance Payment, although already paid to the contractor, was not yet credited from the Cash-in-Bank account due to the absence of supporting document required to recognize its liquidation which was not yet received from the Bureau of Treasury

Paragraph 5.3.2.2 of Joint Circular No. 2-97 dated March 21, 1997 provides for the guidelines under which the Bureau of Treasury could record the constructive cash receipt and utilization relative to the documentary requirements for the liquidation of direct payments made by the lending institution under the Special Account – Foreign-Assisted/Foreign Grants Fund – IBRD, TF017736-PH

8. Equity

8.1 Accumulated Surplus/(Deficit)

Particulars	(Fund 04104163)	
	2018	2017
Accumulated Surplus/(Deficit)	₱ 53,575,224.00	₱ 35,203,700.00

The Accumulated Surplus/(Deficit) balance pertains to the sum total of all the revenues and expenses received or disbursed by the Department which was closed to become part of the Department's equity at the end of the fiscal year.

The balance of ₱18,371,524.00 was received from the Department of Budget and Management under Advice of NCA Issued dated July 24, 2018 credited under NCA No. NCA-BMB-A-18-0015289.

This results in the ending balance of ₱53,575,224.00 as of December 31, 2018.

9. Other Information

The Grant Agreement, PH-PTF Grant Number TF017736-PH, was entered into in CY 2015 between the Republic of the Philippines ("Recipient") and International Bank for Reconstruction and Development/International Development Association ("World Bank"). It acts as the administrator of the Australia World Bank Philippines Development Trust Fund.

Under the Grant, the World Bank agrees to extend to the Recipient, on the terms and conditions set forth or referred to in the Agreement, a grant in an amount equal to Seven Million United States Dollars (\$7,000,000.00) to assist in financing its projects. The Recipient may withdraw the proceeds of the Grant in accordance with Section IV of Schedule 2 of the Agreement.

The Grant is funded out of the abovementioned trust fund for which the World Bank receives periodic contributions from the donor to the trust fund. In accordance with Section 3.02 of the Standard Conditions, the World Bank's payment obligations in connection with this Agreement are limited to the amount of funds made available to it by the donor under the abovementioned trust fund, and the Recipient's rights to withdraw the Grant proceeds is subject to the availability of such funds.

As of December 31, 2017, the Department of Public Works and Highways, through its Unified Projects Management Office – Flood Control Management Cluster, has the following projects funded by the Grant:

Contract ID	Project Name	Consultant/ Contractor	Contract Cost
16CSZ001	Consultancy Services for the Feasibility Study & Preparation of Detailed Engineering Design of Proposed Upper Marikina Dam, Greater Metro Manila Area Flood Management Project	Dohwa Eng'g Co., Ltd in assoc. with Kyong-Ho Eng'g & Architect Co., Ltd & Design Science Inc.	₱ 110,929,899.74

xxxxx nothing follows xxxxx