

MEMORANDUM

FOR : **DSWD REGIONAL DIRECTORS**
Field Offices

ATTENTION : **REGIONAL ACCOUNTANTS**

FROM : **THE UNDERSECRETARY**

DATE : **28 JANUARY 2021**

SUBJECT : **FINANCIAL MANAGEMENT GUIDELINES No. 3, S. 2021,
ACCOUNTING ENTRIES FOR VARIOUS GRANTS FOR
DSWD PROGRAMS**

I. RATIONALE

Field Office CARAGA is in receipt of various Audit Observation Memoranda alleging the incorrect accounting entries of various transactions related to grants and/or subsidies to the beneficiaries of various DSWD programs.

Various clarifications had been previously issued verbally, through issuance of memorandum, and non-verbally, through informal chat messages, clarifications.

However, there is a need to formalize said advisories to achieve uniformity of practice, thus, the issuance of these guidelines.

II. LEGAL BASES

1. Letter from Commission on Audit (COA)-Office of the Chairperson dated November 8, 2018 to then Undersecretary for Promotive Operations and Programs Group, Department of Social Welfare and Development (Annex A).

The said letter states that "COA Circular No. 2007-001 governing transfer of funds to Non-Government Organization/Peoples Organization xxx does not cover CSOs without legal personality or formal registration documents but with defined membership and leadership and organizational structure xxx. Therefore, for CSOs who are beneficiaries of grants, the requirements under COA Circular No. 2007-001, xxx do not apply."

2. COA Circular No. 2015-007 dated October 22, 2015, Prescribing the Government Accounting Manual (GAM) for Use of All National Government Agencies, Volume III – The Revised Chart of Accounts (RCA) (Updated 2015).
3. Philippine Public Sector Accounting Standards (PPSAS) No. 1, Presentation of Financial Statements, Paragraphs 19-20 (Annex B).
4. PPSAS No. 12, Inventories, Paragraph 9 (Annex C).

III. ACRONYMS

COA - Commission on Audit

GAM - Government Accounting Manual

PPA - Programs, Projects, Activities

PPSAS - Philippine Public Sector Accounting Standards

RCA - Revised Chart of Accounts

IV. GENERAL GUIDELINES

1. The responsibility for the fair presentation and reliability of the financial statements rests with the management of the reporting agency in accordance with PPSAS No. 1, Philippine Application Guide to PPSAS 1, No. 3.
2. Each significant item on the face of the financial statements, requiring disclosure based on the accountant's professional judgement, shall be cross-referenced to any related information in the notes to the financial statements.
3. Transactions shall be recorded in the books of accounts according to its substance and nature regardless of the object of expenditure used in the budget processes.
4. For purposes of preparation and submission of the Budget and Financial Accountability Reports, the disbursement shall be reported under the account code where the corresponding obligations are reported.
5. The costs incurred for the officials and employees' participation, attendance in, and conduct of trainings, conventions and seminars, workshops including all other related expenses shall be recorded as Training Expenses, with account code 50202010, in the books of accounts in accordance with the GAM Volume III, The RCA.
6. The financial assistance provided to individuals and institutions other than government agencies or non-government organizations from DSWD programs/projects/activities (PPAs) shall be recorded as Subsidies-Others, with account code 50214990, in the books of accounts in accordance with GAM Volume III, The RCA.
7. All inventory items procured by the Department for PPA beneficiaries shall be recorded as Inventory Assets in the books of accounts. Related expense shall only be recorded once the items are transferred to end-users or delivered to the beneficiaries PPA.
8. DSWD Accountants in the Central and Field Offices must be most knowledgeable with the government accounting principles and standards in accordance with the PPSAS and the GAM.

V. SPECIFIC GUIDELINES

A. Sustainable Livelihood Program

1. The funds granted to any beneficiary Sustainable Livelihood Program Associations shall be recorded as Subsidies-Others in the books of accounts.
2. Activities for skills development of DSWD PPAs, including but not limited to Social Preparation activities, shall be accounted as Subsidies-Others in the books of accounts. Other related costs shall be accounted as to the nature of such cost (i.e. DSWD personnel per diem related to a social preparation activity shall be accounted as travel expenses in the books of accounts).

B. Supplementary Feeding Program

1. Receipt of inventories related to the implementation of Supplementary Feeding Program shall be recorded in the books of accounts as Other Supplies and Materials for Distribution, with account code 10402990, in accordance with GAM Volume III, The RCA.

This account shall be credited while the related Subsidies-Others account shall be debited in the books of accounts upon transfers to end-users or deliveries to the beneficiaries.

2. The details or breakdown of Subsidies-Others account shall be provided in the Notes to Financial Statements which shall show the total amount of subsidies provided to the beneficiaries in the form of cash assistance, trainings, and inventories.

These guidelines are effective starting January 1, 2021.

For your reference and strict compliance.


JOSE ERNESTO B. GAVIOLA

WCB/JSC/222



REPUBLIC OF THE PHILIPPINES
COMMISSION ON AUDIT
OFFICE OF THE CHAIRPERSON

ANNEX A

November 8, 2018

MARIA LOURDES TURALDE-JARABE
Undersecretary
Promotive Operations and Programs Group
Department of Social Welfare and Development

Dear Undersecretary Turalde-Jarabe:

This has reference to your letter dated 7 November 2018, seeking clarification on the applicability of COA Circular No. 2007-001 governing transfer of funds to Non-Government Organization/Peoples Organization (NGO/PO) vis-à-vis the Civil Society Organizations (CSOs) who are beneficiaries of the Sustainable Livelihood Program of that Department.

In gist, the Department posits that COA Circular No. 2007-001 applies to fund transfers, and not to grants which is the very nature of the SLP being extended to the members of beneficiary CSOs as distinguished from transfer of funds by implementing agencies to CSO that will jointly implement government programs or projects.

Section 67 of the General Provisions of R.A. No. 10964 or the General Appropriations Act of 2018, allows a government agency to transfer funds to a CSO that: 1) will jointly implement a program/project with the government agency; or 2) a beneficiary of a government program or project. For beneficiary CSOs, one of the requirements is that they must have appropriate social preparation from the government agency providing the grant of financial assistance. Clearly, there are two types of CSOs contemplated by the law, first, CSOs that will jointly implement programs or projects with a government agency; and second, CSOs who are beneficiaries of grants.

On the other hand, COA Circular No. 2007-001, under Section 3 thereof, covers all funds granted to NGOs/PDs for the implementation of projects enumerated under Section 4.3 which are beyond the capability of the government agency as follows:

1. Livelihood development
2. Manpower development
3. Sports development
4. Cooperative development
5. Delivery of basic services
6. Environmental protection
7. Agricultural and fisheries diversity
8. Rural industrialization
9. Development of local enterprises
10. Social services in the areas that would not be ordinarily undertaken by the private sector

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11. Construction, maintenance, operation and management of Infrastructure projects, such as, but not limited to:

- a. housing projects for the poorest of the poor
- b. schools buildings for schools with inadequate classrooms

The said circular does not make any distinction between an Implementing CSO and a Beneficiary CSO. But the intention is clear, that is, to cover all funds granted to NGOs/POs for the implementation of projects enumerated under Section 4.3 which are beyond the capability of the government agency. This circular covers NGOs/POs with legal personality or which are formally organized and registered with the Securities and Exchange Commission (SEC), Cooperative Development Authority (CDA) and Department of Labor and Employment (DOLE).¹ It does not cover CSOs without legal personality or formal registration documents but with defined membership and leadership and organizational structure contemplated under Section 67 (c) (ii) of R.A. No. 10964, and who have undergone social preparations to become eligible beneficiaries of grants.

Therefore, for CSOs who are beneficiaries of grants, the requirements under COA Circular No. 2007-001, including, among others, provision of 20% equity, submission of Certificate of Registration from SEC, CDA and DOLE, and audited financial statements for the past three years do not apply. Beneficiary CSOs are governed by the provisions of 67 of R.A. No. 10964 and pertinent accounting and auditing laws, rules and regulations on disbursement of government funds.

We hope we have enlightened you on this matter. Thank you.

Very truly yours,



¹ Section 4.4.1, COA Circular No. 2007-001

enable all these objectives to be met. This is likely to be particularly so in respect of entities whose primary objective may not be to make a profit, as managers are likely to be accountable for the achievement of service delivery as well as financial objectives. Supplementary information, including non-financial statements, may be reported alongside the financial statements in order to provide a more comprehensive picture of the entity's activities during the period.

Responsibility for Financial Statements

19. The responsibility for the preparation and presentation of financial statements varies within and across jurisdictions. In addition, a jurisdiction may draw a distinction between who is responsible for preparing the financial statements and who is responsible for approving or presenting the financial statements. Examples of people or positions who may be responsible for the preparation of the financial statements of individual entities (such as government departments or their equivalent) include the individual who heads the entity (the permanent head or chief executive) and the head of the central finance agency (or the senior finance official, such as the controller or accountant-general).
20. The responsibility for the preparation of the consolidated financial statements of the government as a whole usually rests jointly with the head of the central finance agency (or the senior finance official, such as the controller or accountant-general) and the finance minister (or equivalent).

Components of Financial Statements

21. **A complete set of financial statements comprises:**
 - (a) **A statement of financial position;**
 - (b) **A statement of financial performance;**
 - (c) **A statement of changes in net assets/equity;**
 - (d) **A cash flow statement;**
 - (e) **When the entity makes publicly available its approved budget, a comparison of budget and actual amounts either as a separate additional financial statement or as a budget column in the financial statements; and**
 - (f) **Notes, comprising a summary of significant accounting policies and other explanatory notes.**
22. The components listed in paragraph 21 are referred to by a variety of names both within and across jurisdictions. The statement of financial position may also be referred to as a balance sheet or statement of assets and liabilities. The statement of financial performance may also be referred to as

Inventories are assets:

- (a) **In the form of materials or supplies to be consumed in the production process;**
- (b) **In the form of materials or supplies to be consumed or distributed in the rendering of services;**
- (c) **Held for sale or distribution in the ordinary course of operations; or**
- (d) **In the process of production for sale or distribution.**

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.

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, an entity either receives value from another entity without directly giving approximately equal value in exchange, or gives value to another entity without directly receiving approximately equal value in exchange.

Terms defined in other International Public Sector Accounting Standards are used in this Standard with the same meaning as in those other Standards, and are reproduced in the Glossary of Defined Terms published separately.

Net Realizable Value

- 10. Net realizable value refers to the net amount that an entity expects to realize from the sale of inventory in the ordinary course of operations. Fair value reflects the amount for which the same inventory could be exchanged between knowledgeable and willing buyers and sellers in the marketplace. The former is an entity-specific value; the latter is not. Net realizable value for inventories may not equal fair value less costs to sell.

Inventories

- 11. Inventories encompass goods purchased and held for resale including, for example, merchandise purchased by an entity and held for resale, or land and other property held for sale. Inventories also encompass finished goods produced, or work in progress being produced, by the entity. Inventories also include materials and supplies awaiting use in the production process and goods purchased or produced by an entity, which are for distribution to other parties for no charge or for a nominal charge; for example, educational books produced by a health authority for donation to schools. In many public sector entities inventories will relate to the provision of services rather than goods purchased and held for resale or goods manufactured for sale. In the case of a service provider, inventories include