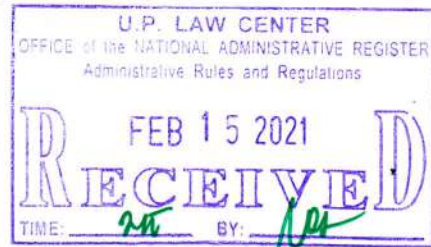




## COOPERATIVE DEVELOPMENT AUTHORITY

827 Aurora Blvd., Service Road, Brgy. Immaculate Conception, 1111 Cubao, Quezon City, Philippines

http://www.cda.gov.ph helpdesk@cda.gov.ph CDA @CDAPHil PH Cooperatives



### MEMORANDUM CIRCULAR NO. 2021-04

Series of 2021.

**SUBJECT : PERFORMANCE AUDIT REPORT (PAR) FOR COOPERATIVES**

The efficient, effective and timely institutionalization and implementation of policies, systems and procedures by the officers and management of a cooperative are necessary for their safe and sound operation and crucial for the attainment of good financial performance. Good governance, effective management practices and healthy financial condition of cooperatives are concrete measures of well-defined policies, systems and procedures adopted by the cooperative leadership and management.

#### Section 1. Title

This Memorandum Circular shall be known as the ***PERFORMANCE AUDIT REPORT (PAR) FOR COOPERATIVES.***

#### Section 2. Legal Bases

1. Article 53 of R.A. No. 9520, otherwise known as the Philippine Cooperative Code of 2008:

"Every cooperative shall draw up regular reports of its program of activities, including those in pursuance of their socio-civic undertakings, showing their progress & achievements at the end of every fiscal year. xxx"

2. Article 80 of R.A. No. 9520:

"Cooperatives registered under this Code shall be subject to an annual financial, performance, and social audit. xxx"

3. Rule 8, Section 2 (b) of the Revised Implementing Rules and Regulations of R.A. No. 9520:

Office of the Chairman : (02) 721-5325  
(02) 721-5324  
Office of the Executive Director : (02) 725-6450  
Officer of the Day : (02) 725-3764



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"Section 2. Required Regular Reports. xxx

b. Performance Audit Report, including copies of the semi-annual Report on mediation and conciliation as received by the Authority pursuant to EO 97;"

### **Section 3. Definition of Terms**

**Governance and Management** refers to Part I of the Performance Audit Report covering the different responsibility centers entrusted with the formulation and implementation of the policies, systems and procedures necessary for the safe and sound operation of the cooperative.

**Financial Performance** refers to Part II of the Performance Audit Report which measures the overall financial health or condition of the cooperative over a given period of time.

**Impaired Asset** refers to an *asset* with recoverable value which is less than its book value.

**Liquid Asset** refers to an asset that can be easily converted into cash within ninety (90) days without any loss in its value, such as Cash and Cash Equivalents.

**Net Surplus Before Other Items** refers to the Net Surplus before adding or deducting special transactions e.g. Project subsidy, Gain/Loss on Sale of Asset/Investment, Prior Period Adjustments, etc.

**Net Worth** refers to equity, inclusive of member's equity, donations/grants and statutory funds, less unbooked allowance for probable losses on loans, investments and other assets, and other capital adjustments.

**Non-Earning Assets** refer to assets that are not producing income to the cooperative, e.g Cash on Hand, Petty Cash Fund, Revolving Fund, Prepaid Expense, Supplies Expense, etc.

**Performance Audit** shall refer to an audit on the efficiency and effectivity of the cooperative as a whole, its management and officers and its various responsibility centers as basis for improving individual, team or overall performance and for objectively informing the general membership on such performance;

**Risk Assets** refer to total assets less the following:

- a. Cash on hand;
- b. Evidences of indebtedness of the Republic of the Philippines and of the BSP and other evidences of indebtedness or obligations the servicing and repayment of which are fully guaranteed by the Republic of the Philippines;

- c. Loans to the extent covered by hold-outs or assignments of deposits maintained in the cooperative and held in the Philippines;
- d. Land owned by the cooperative being used for operations;
- e. Building and land improvements, net of depreciation;
- f. Furniture, Fixtures and Equipment, net of depreciation;
- g. Real estate mortgage loans insured by the Home Guaranty Corporation (HGC), to the extent of the amount of the insurances; and
- h. Other non-risk items as the CDA may, from time to time, determine

**Service Receivables** refer to services which have already been rendered but payment has not yet been received.

**Short Term Payables** refer to obligations which are reasonably expected to be settled within the cooperative's normal operating cycle or 12-month period after the financial condition statement date.

**Unbooked Allowance** refers to an insufficient amount on the provision of allowance for probable losses on receivables based on Portfolio at Risk (PAR) and Assets that are already impaired, in accordance with the standard issued by the Authority.

**Volume of Business** refers to the Gross Receipts from all types of services and Net Sales (Sales less Sales Returns and Allowances and Sales Discounts) from all types of sales made and business done during a 12-month period. For Credit Operations, it refers to the Gross Loan Releases for the year.

#### **Section 4. Purpose**

The purpose of the Performance Audit Report is to measure the financial and non-financial performance of the cooperative. Specifically, the report shall serve as the:

- a. management tool of cooperative to identify the strong and weak areas in its governance and management practices and business operations; and
- b. regulatory and supervisory tool of CDA to determine the appropriate intervention.

#### **Section 5. Coverage**

This Guidelines shall cover all registered cooperatives, regardless of types and categories.

## **Section 6. Performance Audit Report**

The report shall consist of three (3) parts: (I) The Governance and Management Report (GMR), (II) The Financial Performance Standards for Cooperatives – STEPS and (III) Summary Report.

In the conduct of the Performance Audit by the Internal Auditor or Audit Committee, a post-audit conference shall be held to discuss the observations and findings, the needed action/s and timeline/s with the Board of Directors and management of the cooperative prior to submission to the Authority.

The report shall be kept and maintained by the cooperative and shall be made available during inspection.

### **a. The Governance and Management Report (GMR) (Annex A)**

The Governance and Management Report consists of four (4) major components, namely:

1. *The Governance Report - consists of reports on actions undertaken by the different responsibility centers, to wit: General Assembly, Board of Directors, different Committees and other Officers;*
2. *Management Report/Records - consists of records and reports of the Management on Human Resource, Organizational Structure, Systems and Procedures, and Compliance to and Certificates from different Government Agencies;*
3. *Partnership, Networking and Linkaging - pertains to involvement, participation and affiliation of cooperatives to different organizations and activities/undertakings; and*
4. *Membership Participation - pertains to direct participation of members to governance and cooperative affairs, programs and activities.*

### **b. Financial Performance of Cooperatives (Annex B)**

The report reflects the financial performance of the cooperative using the following as indicators: Stability, Turn-Over Ratio, Efficiency, Profitability and Structure of Assets (STEPS).

The STEPS is computed based on the given formulas or ratios. Data, values or figures will be sourced from the Audited Financial Statements and Cooperative Annual Progress Report.

Unions of Cooperatives are not required to submit the Financial Performance Standards-STEPS.

### **c. Summary Report (Annex C)**

The report contains the overall observations and findings gathered from the Governance and Management Report – Part I and Financial Performance Standards-Part II.

It contains the strong areas of the cooperative and the areas to be improved for compliance as reflected in the Governance and Management Report. The cooperative shall provide the actions needed and timeline for areas to be improved or for compliance.

The overall rating is also shown in this report.

## Section 7. Rating System

The GMR and STEPS are weighted at 40% and 60%, respectively. The sum of the total points earned in Part I shall be multiplied by 40% while the total points earned in Part II shall be multiplied by 60%. Then, add the results to get the total percentage points.

The adjectival rating of the total percentage score for the Performance Audit Report are scaled as follows:

Rating				Adjectival Rating
Large	Medium	Small	Micro	
96-100%	93-100%	90 – 100%	87-100%	Excellent
91-95%	85-92%	80 - 89%	75-86%	Very Satisfactory
86 – 90%	77-84%	70% - 79%	63-74%	Satisfactory
81% - 85%	69-76%	60% - 69%	51-62%	Fair
Below 81%	Below 69%	Below 60%	Below 51%	Needs Improvement

- *Rating 1 Excellent.* The cooperative has strong and outstanding performance that consistently provides safe and sound operations. Cooperatives in this group withstand unexpected adverse changes in business environment.
- *Rating 2 Very Satisfactory.* The cooperative shows very satisfactory performance that consistently provides safe and sound operations. Cooperatives in this group are able to withstand business fluctuations well. However, there are some areas of concern that require important attention which if unchecked, can potentially develop into conditions of greater concern.
- *Rating 3 Satisfactory.* The cooperative's performance is flawed to some degree. Results of key performance measures indicate that safe and sound operations may be adversely affected. Cooperatives in this group are only nominally resistant to adverse business conditions and may deteriorate if identifiable areas of weakness are not corrected immediately.
- *Rating 4 Fair.* The cooperative has fair performance and most of the areas of its operations, if left unchecked, would lead to conditions that could threaten its viability. A high potential for failure is present but is not yet imminent.

- *Rating 5 Needs Improvement.* The Cooperative has unsatisfactory performance and is in need of immediate remedial attention. Cooperatives in this group have a very high probability of failure.

## **Section 8. Submission of PAR**

The Performance Audit Report shall be submitted by the cooperative using the CDA online system within 120 days after the end of each calendar year.

## **Section 9. Sanctions for Non-submission of PAR**

A cooperative who fails to submit the PAR shall be subject to the following penalties imposed under MC Nos. 2019-04, 2016-07 and 2015-04 and any amendments thereof:

1. Non-issuance of Certificate of Compliance (COC) and shall be tagged as NON-COMPLIANT COOPERATIVE;
2. A fine of One Hundred Pesos (Php100.00) per day of delay.

Filing of the Cooperative Annual Progress Report (CAPR) without PAR shall be considered non-compliance and shall subject the accountable officers to fines and penalties until such time that the PAR is submitted;

3. Other than the imposition of monetary penalties, the Authority may dissolve/revoke, after due process, the Certificate of Registration of the cooperative<sup>1</sup>.

## **Section 10. Validation of Performance Audit Report**

The Performance Audit Report shall be validated during inspection by the Field CDS.

## **Section 11. Assistance from Federation and Union**

Upon request of the Authority in writing, cooperative federations may assist the Authority in the performance of its power of inspection/examination by way of providing relevant information such as, but not limited to, research, reports and financial records necessary to the inspection and/or examination.

Federations shall assist their members to become sustainable cooperative organizations and to comply with the laws, regulations, policies, inspection/examination findings of any government regulatory agencies. (Section 1, Article VI, MC on Federation)

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<sup>1</sup> Section 7, Rule 8 of the Revised IRR of RA9520

## **Section 12. Repealing Clause**

Memorandum Circular No. 2017-05, Series of 2017, dated August 15, 2017 Re: "Governance and Management Audit Report for Cooperatives" and all circulars, regulations, issuances or parts thereof, inconsistent with any of the provisions of this Circular, are hereby repealed or modified accordingly.

## **Section 13. Separability Clause**

In the event that any part of this Memorandum Circular is declared void or unconstitutional, the remaining provisions not affected thereby shall continue to be in full force and effect.

## **Section 14. Effectivity**

This Memorandum Circular shall take effect fifteen (15) days after its publication in the Office of National Administrative Register (ONAR).

Approved by the CDA Board of Directors on December 16, 2020 per BOD Resolution No. 361, Series of 2020.

Date: February 13, 2021

For the CDA Board of Directors:

By:

  
**ORLANDO R. RAVANERA**  
Chairman  
OC458 