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

Corporate Government Sector
Cluster 3 – Public Utilities

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June 27, 2016

The BOARD OF DIRECTORS
Philippine Ports Authority
Bonifacio Drive
Port Area, Manila

Gentlemen:

Pursuant to Section 2, Article IX-D of the Philippine Constitution and Section 43 of Presidential Decree 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 Philippine Ports Authority (PPA) for the year ended December 31, 2015.

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

The Auditor expressed a qualified opinion on the fairness of the presentation of the financial statements of the Authority due to the following:

1. Cancelled disbursement vouchers totalling 275 and involving the total amount of P1.02 billion, due to erroneous charging of accounts or incorrect amounts encoded in the computerized accounting system created doubt on the reliability of reported financial information.

2. Unbilled value of physical accomplishment for Locally-funded Projects (LFP) was recognized as Construction In Progress (CIP) and Accounts Payable in the total amount of P1.15 billion as at year-end, inconsistent with AFMS Manual and the Conceptual Framework for Financial Reporting.

   Also, the reported year-end balance of the CIP account of P2.72 billion was doubtful due to numerous cancellation of accounting entries and different/conflicting data on the reported costs of on-going projects

   Further, correctness of the amount of Investment in Fixed Assets under CIP for the year amounting to P2.75 billion claimed as special deduction from income tax payable to the BIR pursuant to Section 25 of PD 857 cannot be ascertained. The Schedule of Property and Equipment disclosed in the Notes to FS the amount of P2.62 billion as Additions/Investment in Fixed Assets, resulting in a difference of P129.85 million. Also, the accounting of CIP exclusive of the VAT considered in the computation of the ABC and the contracted project cost is not in accordance with PAS 16 and the accounting treatment by other GOCCs.

3. Of the year-end consolidated balance of Property, Plant and Equipment (PPE) account totalling P103.24 billion, unreconciled variance of P27.25 million was found between the recorded balance of PPE per books compared to the balance per physical inventory reports of the Head Office and some PMOs; balances of PPE in PMOs Ozamis and Lanao totalling P1.30 billion were without complete supporting documents to establish validity; and demolished property of P74.96 million and unserviceable assets of P18.20 million were included in the account.

   Further, costs of major repairs and maintenance of five PMOs with a total amount of P229.66 million were not capitalized, contrary to PAS 16 resulting in understatement of appropriate PPE accounts, its Accumulated Depreciation and Retained Earnings and overstatement of repairs and maintenance expenses by the same amount.

4. Existing controls on Cash in Bank were inadequate as either no bank reconciliation statements were accomplished or the submission for audit was delayed; dormant depository account existed; and, there was delay in crediting bank deposits. These resulted in unreconciled balances per books and per bank statement of the different PMOs, hence, the correctness of the consolidated year-end balance of P9.72 billion could not be ascertained.

In addition to the above audit observations considered in the formulation of the auditor's opinion, we invite your attention to the following other significant observations and recommendations that need immediate action as well:

1. Expected inflow of cash on various types of accounts receivable was not realized at the different PPA operating units as receivables totaling P272.11 million aged two years to over 25 years remained uncollected as at year-end. Meanwhile, the year-end balance of Accounts Receivable was understated due to unrecorded receivables in the books of PMO Batangas and PMO Negros/Bacolod/ Banago/Bredco aggregating P11.61 million.

   Recommendations:

   a. *For PMOs, exert more efforts to collect all past due accounts and apply the remedies for non-payment provided under Section 22 PD 857, if applicable;*

   b. *For PMO Northern Luzon, reclassify the Contingent Assets to Accounts Receivable;*

   c. *For PMO Panay/Guimaras, reclassify the dormant Accounts Receivable from Current to Non-Current Assets;*

   d. *PMO Mindoro, establish the details of the recorded Other Miscellaneous Receivables and thereafter, re-evaluate the accounts to determine the probability of collection;*

   e. *For PMO Agusan, instruct the Finance Division to reclassify accounts under litigation to Contingent Assets and determine the possibility of collecting the receivables which are considered dormant and undocumented;*

f. *For PMO Bicol, pursue the collection or recovery of all due and demandable amounts (including penalties) from concerned debtors as per agreement by sending collection letters/billing statements and/or demand letters, especially to those who have not previously replied; and strictly monitor leases and oversee the implementation of all contract provisions including the terms and conditions of the Permits to Occupy issued in consonance with Sections 15 and 16 of PPA Administrative Order No. 22-95;*

g. *For PMOs Panay Guimaras, Mindoro, Socsargen, Agusan and Bicol, consider the possibility of submitting to COA a request for write-off of accounts with nil chance of getting collected, adequately supported with documents and following the prescribed rules on writing off of dormant accounts; and*

h. *For PMO Northern Luzon, institute legal action if warranted.*

2. **The year-end balances of Accounts Payable and Due to Officers and Employees were overstated due to obligations which remained unclaimed/ unpaid for more than two years amounting to P13.15 million and P43.65 million, respectively. In addition, Accounts Payable totaling P25.82 million consisted of doubtful accounts which could not be verified; and, registered a variance of P45.63 million between the balances of five accounts payable per books and the balance confirmed by the vendors/creditors.**

Recommendations:

a. *Include in the Schedule of Accounts Payable the booking reference of each account for ease in monitoring and verification;*

b. *Indicate in the subsidiary ledger the specific names of the accounts and avoid using indistinguishable/generic account names such as Various Claimants, Security Services and the like;*

c. *Strictly observe the instructions prescribed in the NGAS in the preparation of the subsidiary ledger;*

d. *Reconcile the balances of Accounts Payable with the balances of the suppliers and contractors, and make necessary adjustments, if necessary;*

e. *Strengthen monitoring control for more accurate and reliable balances of accounts; and*

f. *Revert or close to Retained Earnings the unclaimed payables of P13.15 million and the Due to Officers and Employees accounts totaling P43.65 million.*

3. **The accuracy and validity of the remittances as government share from the gross income derived from various sources in port operations by the ATI at South Harbor Manila and the ICTSI at the MICT totalling P4.44 billion could not be ascertained in the absence of proper verification and non-enforcement of contract provisions by PPA Management.**

Recommendations to PMO NCR South Management:

a. *Comply with the provision of the contract on networking of port data and request from ATI on-line access to its computer database for verification and effective monitoring of data to ascertain the accuracy of government share on variable fees which should be based on the actual gross revenues generated by ATI; and*

b. *Exercise its visitorial powers provided in the Management Contract entered into with ICTSI. Comparison of the data in the reports submitted with the source documents should be regularly done to prove the correctness of the reported gross revenues by the ICTSI.*

The other audit 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 June 1, 2016 are discussed in detail in Parts II and III of the report.

In a letter of even date, we requested the Authority's Officer In-Charge to implement the recommendation contained in the report and to inform this Office of the actions taken thereon within 60 days from the date of receipt.

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

Very truly yours,

COMMISSION ON AUDIT

By:

RUFINA S. LAQUINDANUM
Director IV

Copy furnished:

The President of the Republic of the Philippines
The Vice President
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
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