



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

## **INDEPENDENT AUDITOR'S REPORT**

### **THE BOARD OF DIRECTORS**

Philippine Ports Authority  
Bonifacio Drive  
Port Area, Manila

#### *Report on the Financial Statements*

We have audited the accompanying financial statements of the Philippine Ports Authority (PPA), which comprise the statement of financial position as at December 31, 2016 and 2015, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

#### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the Philippine Financial Reporting Standards, 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 Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the Philippine Public Sector Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks 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 entity'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 entity's internal control. An 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.

We believe that the audit evidence we obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

#### *Basis for Qualified Opinion*

The accumulated cost of Construction in Progress (CIP) amounting to P3.616 billion and P2.722 billion as of December 31, 2016 and December 31, 2015, respectively was understated with the recognition of Input Value Added Tax (VAT) as separate expense item instead of capitalized part of the carrying cost of CIP which was not in conformity with the matching of cost and revenue principle and not in uniformity with the accounting treatment by other GOCCs. Also, we were not able to confirm the correctness of the amount of P240.539 million recognized as Input VAT segregated from the cost of CIP in 2016 because the contractors' Official Receipts did not indicate the tax as separate item of cost incurred by the PPA.

The accuracy of the reported consolidated balance of Property, Plant and Equipment (PPE) account totaling P105.066 billion and P103.237 billion as of December 31, 2016 and December 31, 2015, respectively was uncertain due to the unreconciled net variance of P376.639 million between the balance of PPE per books compared to the balance per physical inventory reports of PMOs Mindoro and NCR South; completed projects at PMOs Negros Oriental/Siquijor and Misamis Occidental/Ozamiz costing P61.885 million were still carried under Construction in Progress instead of reclassified to appropriate PPE thus, depreciation expense on the assets was not computed thereby overstating net income during the year; property already sold and salvage materials for disposal amounting to P11.605 million were not derecognized in the books of PMO NCR South; security equipment valued at P12.193 million at the Head Office were unaccounted and demolished property of P1.961 million were still carried in the books of PMO NCR North. Further, major repairs and maintenance costs incurred by PMOs Mindoro and Ozamis totaling P206.50 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 expense by the same amount.

The reported balance of Cash in Bank disclosed in Note 5 amounting to P10.873 billion and P9.723 billion as of December 31, 2016 and December 31, 2015, respectively, cannot be relied upon due to the unreconciled difference of P29.873 million between the balance of the account per books of PMO Mindoro amounting to P186.167 million and the balance per bank of P216.040 million. The bank reconciliation statements submitted for verification by the PMO Management were up to March 2015 only.

Various assets and liabilities totaling P17.085 million and P12.817 million, respectively, which had been dormant or inactive in the books of the different PMOs of PPA affected the fair presentation of accounts in the financial statements.

#### *Qualified Opinion*

In our opinion, except for the effects and possible effects of the matters discussed in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects, the financial position of the Philippine Ports Authority as at December 31, 2016 and 2015, and of its financial performance and its cash flows for

the years then ended in accordance with the Philippine Financial Reporting Standards.

*Emphasis of Matter*

We draw attention to Note 45 and 46 of the Notes to Financial Statements, which describes the uncertainty related to the outcome of the pending lawsuits and the Draft Substitute Bill (House Bill No. 4312) entitled "An Act Creating the Manila Ports and Special Economic Recommendationary (MP-SER) Administration; as well, as the disputed deficiency tax assessment for FY 2007 of P4.9 billion and preliminary assessment of P125.0 million for internal revenue liabilities for taxable year 2012 which may affect the future financial condition of the PPA. Our opinion is not qualified in respect of this matter.

*Report on the Supplementary Information Required Under BIR Revenue Regulations 15-2010*

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information on taxes, duties and license fees paid or accrued during the taxable year described in Note 44 to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such supplementary information is the responsibility of Management. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

**COMMISSION ON AUDIT**

By:



**MAYOLA PAREDES-SALITA**  
Supervising Auditor

May 19, 2017