



REPUBLIC OF THE PHILIPPINES  
**COMMISSION ON AUDIT**  
Commonwealth Avenue, Quezon City, Philippines

**Corporate Government Audit Sector**  
**CLUSTER 3 – PUBLIC UTILITIES**

June 21, 2023

**THE BOARD OF DIRECTORS**

Philippine Ports Authority  
PPA Corporate Bldg.,  
Bonifacio Drive, South Harbor,  
Port Area, Manila



**Dear Members of the Board:**

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 **Philippine Ports Authority (PPA)** for the years ended December 31, 2022 and 2021.

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

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

1. The existence, completeness and valuation of the Property, Plant and Equipment (PPE) with carrying value of P189.933 billion as at December 31, 2022 cannot be ascertained due to material errors and deficiencies, to wit: a) PPE with carrying amount of P123.389 billion was not stated at its revalued amount; b) variance of P694.992 million between the accounting records and Report on Physical Count of PPE and P165.646 million, between engineering reports and accounting records for the cost of completed projects; c) non-capitalization of major repairs of Infrastructure Assets totaling P497.585 million; d) misclassification of PPE accounts totaling P30.790 million to various asset and expense accounts; and e) non-derecognition of demolished properties amounting to P65.895 million. Hence, faithful representation of the account in the Financial Statements was not established, contrary to Philippine Accounting Standard (PAS) 1.
2. The balance of Other Payables – Non-Current account amounting to P607.053 million as at December 31, 2022 included outstanding payables for more than two to 11 years amounting to P297.261 million, which cast doubt on the validity of these obligations, hence, faithful representation of the balance of the account in the financial statements as at reporting date was not ascertained contrary to Paragraph 15 of PAS 1.
3. Liability totaling P269.076 million on the income tax effect of reclassification to PPE account of Repairs and Maintenance Expense for current and prior periods was not recognized contrary to PAS 12 – Income Taxes, resulting in the understatement of Income Tax Payable and overstatement of Retained Earnings both by P269.076 million as at December 31, 2022.

For the above observations which caused the issuance of a qualified opinion, we recommended that Management:

1. Direct the a) Accounting Division to record PPE at their revalued amount once the final appraisal reports are available; b) Accounting Division and Property Management Division to adjust/take up

the reconciling items for variances amounting to P694.992 million between the accounting records and the Report on Physical Count of Property, Plant and Equipment; c) Port Manager to require the Engineering Services Division and Finance Division of Port Management Office (PMO) Bohol to reconcile the variance amounting to P165.646 million between the engineering report and accounting records; d) Port Managers to instruct the Finance Division of concerned PMOs to prepare the necessary adjusting entries to recognize major repairs of infrastructure assets to specific PPE accounts instead of Repairs and Maintenance Expense – Infrastructure Assets; e) concerned Port Managers to require their Finance Division/Resource Management Division to reclassify the PPE accounts erroneously recognized under various asset and expense accounts; and derecognize from the books the demolished properties.

2. Require the a) Port Construction and Maintenance Department, Dredging and Survey Department, Administrative Services Department and Port Managers to instruct the Finance Division/Resource Management Division of concerned PMOs to verify the validity and existence of unsettled obligations amounting to P128.810 million; and b) Controllershship Department and Port Managers to direct the Finance Division/Resource Management Division of concerned PMOs to prepare adjusting entries to derecognize from the books payables which have been outstanding for five to 11 years and which no claim have been filed.
3. Require the Controllershship Department in coordination with the Treasury Department to recognize in the books Income Tax Payable and Income Tax Expense amounting to P269.076 million arising from tax consequence of reclassification to PPE account of Repairs and Maintenance Expense for the years 2019, 2020 and 2022.

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 9, 2023, are presented in detail in Part II of the report.

In a letter of even date, we requested the General Manager of PPA to take appropriate actions on the recommendations contained in Parts II and III of the report and to inform this Commission of the actions taken thereon.

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:

  
**MILAGROS B. SONIDO**  
OIC - Director IV

#### **Copy furnished:**

The President of the Philippines  
The Vice President  
The President of the Senate  
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  
The National Library  
The UP Law Center



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**COMMISSION ON AUDIT**  
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**CLUSTER 3 – PUBLIC UTILITIES**

June 21, 2023

**Atty. JAY DANIEL R. SANTIAGO**  
General Manager  
PPA Corporate Bldg.,  
Bonifacio Drive, South Harbor,  
Port Area, Manila

*6/21/23*  
*N. Laurel 4:05 PM*  
*OGM Senior Assistant*

**Dear General Manager Santiago:**

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3. Liability totaling P269.076 million on the income tax effect of reclassification to PPE account of Repairs and Maintenance Expense for current and prior periods was not recognized contrary to PAS 12 – Income Taxes, resulting in the understatement of Income Tax Payable and overstatement of Retained Earnings both by P269.076 million as at December 31, 2022.

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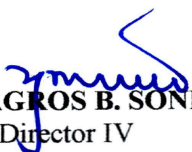
We respectfully request that the recommendations contained in Parts II and III of the report be implemented and that this Commission be informed of the actions taken thereon by accomplishing the Agency Action Plan and Status of Implementation Form (copy attached) and submitting the same to us within 60 days from the date of receipt hereof.

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:

  
**MILAGROS B. SONIDO**  
OIC - Director IV

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The Vice President  
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**PHILIPPINE PORTS AUTHORITY**  
**AGENCY ACTION PLAN AND STATUS OF IMPLEMENTATION**  
 Audit Observations and Recommendations  
 For Calendar Years 2022 and 2021  
 As of \_\_\_\_\_

Ref.	Audit Observation	Audit Recommendation	Action Plan	Responsible Dept./Person	Target Implementation Date		Status of Implementation	Reason for Partial/ Delay/Non-Implementation, if applicable	Action Taken/ Action to be Taken
					From	To			

Agency sign-off:

\_\_\_\_\_  
 Name and Position of Agency Officer  
 Date