



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

INDEPENDENT AUDITOR'S REPORT

THE BOARD OF DIRECTORS

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

Report on the Audit of Financial Statements

Qualified Opinion

We have audited the financial statements of the **Philippine Ports Authority (PPA)**, which comprise the statements of financial position as at December 31, 2022 and 2021, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and notes to the financial statements, including summary of significant accounting policies.

In our opinion, except for the effects and possible effects of the matters described in the Bases for Qualified Opinion section of our report, the accompanying financial statements present fairly, in all material respects the financial position of the PPA as at December 31, 2022 and 2021, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards (PFRSs).

Bases for Qualified Opinion

Property, Plant and Equipment (PPE) carried in the books at P189.933 billion and P127.584 billion as at December 31, 2022 and 2021, respectively, includes PPE with carrying amount of P123.389 billion which was not stated at its revalued amount. Also, there were unreconciled variances amounting to P694.992 million and P1.057 billion as at December 31, 2022 and 2021, respectively, between the accounting records and property records and P165.646 million as at December 31, 2022 between the engineering reports and accounting records for the cost of completed projects contrary to Philippine Accounting Standard (PAS) 1 - *Presentation of Financial Statements* and PAS 16 – *Property, Plant and Equipment*. Due to the absence of updated valuation of the PPE with a carrying amount of P123.389 billion and the presence of unreconciled variances of P694.992 million between the accounting and property records and P165.646 million between the engineering reports and accounting records, we were unable to obtain sufficient evidence to determine the balance of PPE that should have been recognized as at December 31, 2022 and 2021.

Likewise, PPA recognized the major repairs of Infrastructure Assets amounting to P497.585 million for the year ended December 31, 2022 as Repairs and Maintenance Expense instead of Capital Asset while demolished properties amounting to P65.895 million were still recognized under the PPE account contrary to PAS 16 – *Property, Plant and Equipment*. Had the major repairs been recognized as Capital Asset and the demolished properties been derecognized, PPE would have been increased by P431.690 million and Retained Earnings would have been increased by P431.690 million as at reporting date.

Moreover, we were unable to establish the validity of Other Payables – Non-Current account with a balance amounting to P607.053 million and P757.528 million as at December 31, 2022 and 2021, respectively, due to dormant payables amounting to P297.261 million and P705.265 million as at December 31, 2022 and 2021, respectively, recognized under the account. Due to the dormant payables included in the account, we were unable to determine whether any adjustments is necessary in respect of the balance of Other Payables – Non-Current account as at reporting dates.

Furthermore, the Authority did not recognize a liability on the income tax effect of reclassification of Repairs and Maintenance Expense pertaining to the current and prior periods totaling P269.076 million for the year ended December 31, 2022 which is contrary to PAS 12 – *Income Taxes*. Had the income tax liability been recognized, the Income Tax Payable would have been increased by P269.076 million while Retained Earnings would have been reduced by P269.076 million for the year ended December 31, 2022.

We conducted our audits in accordance with International Standards of Supreme Audit Institutions (ISSAIs). Our responsibilities under those standards are described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the PPA in accordance with the Revised Code of Conduct and Ethical Standards for Commission on Audit Officials and Employees (Code of Ethics) together with the ethical requirements that are relevant to our audit of the financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide bases for our qualified opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the PFRSs, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the PPA's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the PPA or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the PPA's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatements, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISSAIs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 PPA's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the PPA's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the PPA to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on Other Regulatory Requirements

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information required under Revenue Regulations No. 15-2010 in Note 35 to the financial statements is presented for the purpose 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 and has been subjected to the auditing procedures applied in our audits of the basic financial statements. In our opinion, except for the effects and possible effects of the matters described in the *Bases for Qualified Opinion* paragraphs, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

COMMISSION ON AUDIT


GLORINA B. SUSON
Supervising Auditor

June 9, 2023