EXECUTIVE SUMMARY

A. Introduction

The Philippine Ports Authority (PPA) is a government-owned and controlled corporation originally created under Presidential Decree (PD) No. 505 dated July 11, 1974, which was revised by substitution on December 23, 1975 by PD No. 857. Its functions are to coordinate, streamline, improve and optimize the planning, development, financing, construction, maintenance and operations of ports or port system for the entire country.

Subsequent amendments under Executive Order (EO) No. 513 dated November 16, 1978, EO No. 546 dated July 23, 1979 and Letter of Instruction (LOI) No. 1005-A dated April 11, 1980 further enhanced PPA's corporate powers to be more responsive in attaining optimum port utilization, development and operation. In EO No. 159 dated April 13, 1987, the corporate autonomy was reverted to the PPA to ensure the rapid development of port or the port system directly under it and authority was granted to execute port projects under its port program.

The corporate powers of PPA are vested in the Board of Directors, which consist of the following members: (i) Secretary of the Department of Transportation (DOTr) as Chairman; (ii) PPA General Manager as Vice-Chairperson; (iii) Secretary of Department of Public Works and Highways (DPWH); (iv) Secretary of Department of Trade and Industry (DTI); (v) Secretary of Department of Finance (DOF); (vi) Secretary of Department of Environment and Natural Resources (DENR); (vii) Director-General of National Economic and Development Authority (NEDA), (viii) Administrator of Maritime Industry Authority (MARINA); and (ix) one private sector representative.

With the passage of Republic Act (RA) No. 10149, GOCC Governance Act of 2011, PPA was included among the corporations whose performances are monitored and evaluated by the Governance Commission for GOCC (GCG). Based on its assets and revenues for the past three years, GCG classified PPA as Category "A" GOCC on November 3, 2015.

In conformity with the GOCC Governance Act of 2011 approved by GCG, the PPA Board, aside from the Executive Committee is further assisted by the following committees: (1) Audit and Risk Management Committee, (2) Governance Committee, (3) Nomination and Remunerations Committee, and (4) Finance Committee.

The PPA Rationalization Plan (RP) approved by GCG under GCG Memorandum Order No. 2014-10 provided for the same composition of top management headed by a General Manager and three Assistant General Managers (AGM), namely: AGM for Engineering Services, AGM for Operations, and AGM for Finance, Legal and Administrative Services.

Under the executive offices are 16 Departments, 25 Port Management Offices (PMOs) and 83 Terminal Management Offices (TMOs). Twenty-three (23) PMOs follow a uniform organizational structure unlike PMOs NCR South and NCR North that are streamlined to reflect their privatized setup.

The registered office of PPA is PPA Corporate Bldg., Bonifacio Drive, South Harbor, Port Area, Manila.

B. Financial Highlights

Financial Position

	2022	2021 (As Restated)	Increase (Decrease)
Total Assets	205,569,147,053	143,102,687,154	62,466,459,899
Total Liabilities	67,962,028,936	9,955,052,588	58,006,976,348
Equity	137,607,118,117	133,147,634,566	4,459,483,551

Results of Operations

	2022	2021	Increase (Decrease)
Income	20,538,066,754	17,673,662,115	2,864,404,639
Expenses			
Personnel Services	2,143,889,165	1,702,785,901	441,103,264
Maintenance and Other Operating Expenses	3,862,312,139	3,627,074,612	235,237,527
Financial Expenses	63,143,933	89,468,078	(26,324,145)
Non-Cash Expenses	3,589,287,694	3,105,331,447	483,956,247
Total Expenses	9,658,632,931	8,524,660,038	1,133,972,893
Profit Before Tax	10,879,433,823	9,149,002,077	1,730,431,746
Income Tax Expense	2,946,669,326	2,253,736,034	692,933,292
Net Profit	7,932,764,497	6,895,266,043	1,037,498,454

C. Scope and Objectives of Audit

The audit covered the examination, on a test basis, of the accounts and transactions of PPA for the period January 1 to December 31, 2022, in accordance with International Standards of Supreme Audit Institutions to enable us to express an opinion on the fairness of presentation of the financial statements for the years ended December 31, 2022 and 2021. Also, we conducted our audit to assess compliance of PPA with pertinent laws, rules and regulations, as well as adherence to prescribed policies and procedures.

D. Auditor's Opinion

The Auditor rendered a qualified opinion on the fairness of presentation of the financial statements of the PPA as at December 31, 2022 and 2021 in view of 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, hence, faithful representation of the account in the Financial Statements was not established, contrary to Philippine Accounting Standard (PAS) 1, to wit:

   a. PPE with carrying amount of P123.389 billion was not stated at its revalued amount contrary to Paragraphs 31 and 34 of PAS 16;

b. Existence of variance in the amount of P694.992 million between the accounting records and Report on Physical Count of Property, Plant and Equipment (RPCPPE) 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 understated the PPE account;

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 overstated the PPE account.

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 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 prepare the necessary adjusting journal entries 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 to the contractors, landowners and creditors amounting to P128.810 million; and b) Controllership Department and Port Managers to direct the Finance Division/Resource

Management Division of concerned PMOs to prepare adjusting entries, where appropriate, to derecognize from the books those payables which have been outstanding for five to 11 years and which no claim have been filed.

3. Require the Controllership 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.

E. Significant Audit Observations and Recommendations

The following are the other significant audit observations and corresponding recommendations which need immediate action:

1. Rental receivables amounting to P21.034 million from a Diagnostic Laboratory for the use of bedrooms at PPA-GAD Center from September 1, 2020 to July 31, 2022 remained not recognized in the books as of December 31, 2022, contrary to PAS 1, resulting in the understatement of Operating Lease Receivables, Output VAT and Retained Earnings accounts by P21.034 million, P2.254 million and P18.780 million, respectively. Also, the rental receivables remained uncollected as at year-end.

   Recommendations:

   a. Instruct the Accounting Division, Controllership Department in coordination with the Administrative Services Department to recognize in the Head Office books the outstanding receivables from the Diagnostic Laboratory pursuant to Section 1.1 of Philippine Ports Authority Memorandum No. 04-2014;

   b. Institute appropriate legal action against the Diagnostic Laboratory for non-payment of rental obligations despite collection and demand letters sent; and

   c. Demand the Diagnostic Laboratory to settle first all its outstanding rental obligations for the use of ground floor and 2nd floor bedrooms before terminating the Lease Contract.

2. Various office equipment, furniture, computers, computer software and high-end models and brands of electronic gadgets totaling P18.479 million were continuously procured through inclusion as reimbursable items in several dredging and infrastructure projects which unnecessarily increased project cost and created an oversupply of Machinery and Equipment, Furniture and Fixtures, Computer Software, and Semi-Expendable Assets contrary to Administrative Order No. 5, s. 2017.

   Recommendations:

   a. Discontinue immediately the inclusion of machinery and equipment, furniture and fixtures, computer software, and semi-expendable items as reimbursable items in all infrastructure projects; and

   b. Instruct immediately the concerned contractors to exclude all reimbursable items in the contract cost for all on-going projects.

3. Parcels of land recorded in the books of PPA with an area of at least 3.925 million square meters (sq. m.) valued at P73.548 billion were not supported by Original/Transfer Certificate of Titles showing ownership of the land/reclaimed land contrary to Section 39(2) of Presidential Decree (P.D.) No. 1445. Thus, ownership of the land is uncertain.

   Recommendation:

   Require the Property Management Division, Administrative Services Department and Legal Services Department to expedite the submission of all the necessary documentation to the concerned agency for the processing of the titles of the lands.

4. The detailed engineering for infrastructure projects required under Section 17.6 of the 2016 Revised Implementing Rules and Regulations (RIRR) of RA No. 9184 have not been sufficiently carried out, resulting in the suspension of five projects with contract cost totaling P1.941 billion, delaying the attainment of benefit the public could derive from the projects.

   Recommendation:

   Instruct the Port Planning and Design Department and the Programming and Survey Division of the Dredging and Survey Department to strictly and sufficiently carry out the detailed engineering of all infrastructure and dredging projects.

5. PPA has not strictly implemented its own policy and guidelines on leasing, hence, lessees at PPA PMO NCR South with expired lease contracts were continuously allowed to sublease despite the absence of prior approval by the Authority, contrary to PPA Administrative Order (AO) Nos. 22-95 dated December 5, 1995 and 07-2009. Consequently, the 10 percent sublease rental share cannot be imposed, depriving the government of an estimated additional revenue of P33.578 million.

   Recommendations:

   a. Fast track the approval of the concerned lessees' request for extension or application for lease and Permit to Occupy, and accordingly impose the 10 per cent monthly sublease rental share, retroactively, as appropriate; and

   b. Initiate the legal eviction proceedings to those lessees who failed to vacate/apply for lease.

F. Summary of Audit Suspensions, Disallowances and Charges

As of December 31, 2022, transactions suspended in audit amounted to P218.413 million while disallowances and charges amounted to P549.206 million and P21.238 million, respectively. Details are presented in Part II of this Report.

G. Status of Implementation of Prior Year's Audit Recommendations

Out of 113 audit recommendations issued in the CY 2021 Annual Audit Report, 63 were implemented, 6 were not implemented, 33 were reiterated in Part 2 of this report, and the remaining 11 were closed mainly due to the issuance of Notices of Disallowance and Notices of Suspension. Details are found in Part III of this Report.