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

**CORPORATE GOVERNMENT SECTOR**
**CLUSTER 3 - PUBLIC UTILITIES**

September 28, 2020

OFFICE OF THE POSTMASTER GENERAL
RECEIVED
SEP 29 2020
PHILIPPINE POSTAL CORPORATION

**Mr. JOEL L. OTARRA**
Postmaster General and Chief Executive Officer
Philippine Postal Corporation
Liwasang Bonifacio, Manila

**Dear Mr. Otarra:**

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 Postal Corporation (PPC) for the years ended December 31, 2019 and 2018.

The report consists of three Parts: I – the Independent Auditor's Report and the Audited Financial Statements, II – the Audit Observations and Recommendations, and III – the Status of Implementation of Prior Years' Audit Recommendations.

The Auditor expressed an adverse opinion on the fairness of presentation of the financial statements of the PPC as at December 31, 2019 and 2018, for the reasons stated below:

1. The consolidated balance of Property, Plant and Equipment accounts amounting to P5.975 billion was unreliable due to: (a) inclusion of unsubstantiated or "For Reconciliation" balances in an aggregate amount of P757.720 million in the PPC Central Office's books; and (b) non-provision of depreciation for the account "Other Land Improvements" and the existence of a debit balance of P23.278 million for the account "Accumulated Depreciation – Furniture and Fixtures", contrary to IPSAS 1 – Presentation of Financial Statements.

2. The existence, accuracy and validity of the year-end consolidated balance of Cash in Bank – Corporate reported at P1.397 billion could not be ascertained due to: (a) variances amounting to P94.094 million, P96.269 million and P0.664 million between the balances per books and the balances per bank confirmation in PPC Central Office, Postal Area 3 and Postal Area 8, respectively; and (b) identified reconciling items for PPC Central Office, Postal Areas 1 and 6 which remained unadjusted, contrary to IPSAS 1.

3. The existence and accuracy of the consolidated balance of the Inventory accounts as of December 31, 2019 in the aggregate amount of P172.054 million is unreliable due to unsubstantiated or "For Reconciliation" accounts in the PPC Central Office and the non-submission of report on and non-conduct of physical count of inventories by PPC Central Office and Postal Area 1, respectively, thus, affecting the fair presentation of the financial statements as required in IPSAS 1.

4. The Accounts Receivable (AR) – Mail Remunerations in the amount of P1.627 billion as of December 31, 2019 is overstated by P48.851 million and AR Trade (under contract) is understated by the same amount due to the erroneous credit to AR Trade (under contract) instead of AR – Mail Remunerations of remittance of identified designated operators, contrary to IPSAS 1.

For the above-mentioned observations which caused the issuance of an adverse opinion, we recommended that Management:

1. In PPC Central Office, reconcile the aggregate amount of P757.720 million of PPE.

2.a. Coordinate and make representation with the concerned depository banks to identify unrecorded reconciling items; and

b. Effect necessary adjusting entries for those identified reconciling items and furnish the Audit Team with the related Journal Entry Voucher/s together with the pertinent supporting documents.

3. Exhaust all means to analyze and identify the accounts "For Reconciliation" and prepare the necessary adjusting entries, if warranted.

4. Reclassify the amount of P48.851 million credited to AR - Trade (under contract) to AR Remunerations.

The other significant observations and recommendations that need immediate actions are as follows:

1. The inability of Management to reconcile and eliminate the two reciprocal accounts Due from Area Offices in the CO books and Due to CO in all nine PPC Area Offices resulted to cumulative net variance of negative P242.752 million, thereby affecting the reliability and accuracy of PPC's financial statements, contrary to Paragraph 27 of IPSAS 1, Paragraphs 38 and 40 of IPSAS 35 and Section III of PHLPost Circular No. 17-73.

   *Recommendations:*

   a. *Exert more effort to substantiate and reconcile the variances noted on a per Area Office to reduce further the total variance; and*

   b. *Comply with the provisions of Section III of PHLPost Circular No. 17-73 and effect year-end reconciliation of reciprocal accounts.*

2. The validity of the balance of Due to Officers and Employees in the amount of P210.903 million was not ascertained due to inclusion of accrued benefits and allowances amounting to P39.429 million which were not documented and remained outstanding for more than two years, contrary to Section 98 of P.D. 1445.

   *Recommendations:*

   a. *Revert to General Fund the audited amount of P39.429 million of Due to Officers and Employees pursuant to Section 98 of P.D. 1445; and* *b. Prepare the necessary adjusting journal entries regarding the negative balance of P1.280 million transactions.*

3. In Postal Area 3, the accuracy and reliability of the Deferred Tax Liabilities account with a year-end balance of P40.585 million cannot be ascertained due to improper recognition and derecognition of deferred tax liabilities which was attributable to late submission of monthly VAT Reports by the Postmasters, to wit: (a) the output tax on cash sales of various Post Offices were temporarily recognized as Deferred Tax Liabilities instead of direct credit to Output Tax; (b) deferred Tax Liabilities were not immediately derecognized upon actual collection of Accounts Receivables on Postage Charge Accounts; and (c) adjustments to Output Tax were made against the Deferred Tax Liabilities to bring the Output Tax account to zero balance even without relevant supporting documents, contrary to IPSAS 1.

*Recommendations:*

*a. Stop the practice of deferring the recognition of output taxes and the non-immediate derecognition of deferred tax liabilities to establish the accuracy and reliability of the account balance of Deferred Tax Liabilities pursuant to IPSAS 1;*

*b. Ensure that all adjustments to the account are duly supported with relevant and complete documents to ascertain validity of the claim; and*

*c. Require the Postmasters to strictly observe timely submission of VAT Reports pursuant to PHLPost Circular Nos. 18-26 and 15-66.*

The foregoing 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 August 19, 2020 are discussed in detail in Parts II and III of the report.

In a letter of even date, we requested the PPC's Postmaster General and CEO to implement the recommendations 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:**

Lydia F. de Joya

**MA. LYDIA F. DE JOYA**
Director III
Officer-in-Charge

**Copy furnished:**

The President of the Republic 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 UP Law Center
The National Library

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

# ANNUAL AUDIT REPORT

on the

# PHILIPPINE POSTAL CORPORATION

**For the Years Ended December 31, 2019 and 2018**

## EXECUTIVE SUMMARY

### A. Introduction

Philippine Postal Corporation (PPC) was created by virtue of Republic Act No. 7354, otherwise known as the “Postal Services Act of 1992”. It transformed the then Postal Service Office (PSO) from a Bureau into a government-owned and controlled corporation. Its mandate is to plan, develop, promote and operate a nationwide and universal postal system with network that extends throughout the entire Philippine archipelago. By being a member of the Universal Postal Union (UPU), a 192 member-country organization of the United Nations, the PPC has worldwide mail linkages that enable it to send mail to any part of the world.

PPC is a stock corporation composed of P10 billion authorized capital stocks divided into 45 million Class A and 55 million Class B shares, both voting and with par value of one hundred pesos. Class A shares shall be subscribed only by the Government while Class B maybe owned by private entities upon authorization by the PPC Board of Directors. On record, only Class A shares are subscribed.

The PPC powers are vested in and exercised by a Board of Directors of seven members including the Postmaster General. The President of the Philippines appoints all the seven members. The Board elects a Chairman from among its Members.

The members of the Board so appointed by the President shall hold office for a term of five years each, except of those first appointed, two members shall have a term of five years, two with one year. Thereafter, the appointment is in accordance with the Corporation Law.

In CY 2012, PPC integrated the 17 regions of the Philippines into nine postal areas excluding the Central Office, through the issuance of the PPC Office Order No. 12-01 dated January 2, 2012. Currently, PPC provides mail services to these nine postal areas, through its 1,309 post offices nationwide and to the 192 member-country organization of the UN.

As of December 31, 2019, the total Personnel Complement of PPC is 7,459 wherein 4,605 personnel or 61.74 percent are holding plantilla positions and 2,854 or 38.26 percent are hired under Contract of Service, Contractual and Consultant status. The authorized plantilla positions based on PHLPost Rationalization Plan is 7,043. The total filled-up positions are 4,605 or 65.38 percent of the authorized plantilla positions.

### B. Financial Highlights

The PPC’s Financial Position, Results of Operation, and Comparative Presentation of the budget and actual amounts for CY 2019, are shown below:

| | Financial Position | | |
|---|---|---|---|
| | 2019 | 2018 | Increase/ (Decrease) |
| Assets | 12,347,752,839 | 11,151,278,850 | 1,196,473,989 |
| Liabilities | 6,773,930,092 | 5,733,054,599 | 1,040,875,493 |
| Equity | 5,573,822,747 | 5,418,224,251 | 155,598,496 |

| Results of Operation | 2019 | 2018 | Increase/ (Decrease) |
|---|---|---|---|
| Total Revenue | 4,170,255,926 | 3,651,522,653 | 518,733,273 |
| Total Current Operating Expenses | 4,183,826,184 | 3,674,396,467 | 509,429,717 |
| Surplus(Deficit from Current Operations | (13,570,258) | (22,873,814) | (9,303,556) |
| Other Operating Income | 10,440,602 | 9,433,559 | 1,007,043 |
| Other Gains Foreign Exchange/Disposal of Assets | 84,316,795 | 39,395,116 | 44,921,679 |
| Other Losses | (79,425,276) | (368,568) | 79,056,708 |
| Surplus before Tax | 1,761,863 | 25,586,293 | (23,824,430) |
| Income Tax Expense | (520,051) | (7,675,888) | (7,155,837) |
| Surplus after Tax | 1,241,812 | 17,910,405 | (16,668,593) |
| Net Subsidy | 541,323,000 | 585,642,000 | (44,319,000) |
| **Net Surplus (Deficit) for the period** | **542,564,812** | **603,552,405** | **(60,987,593)** |

| PARTICULAR | Budgeted Amounts | | Actual Amounts on Comparable Basis | Difference Final Budget and Actual |
|---|---|---|---|---|
| | Original | Final | | |
| **RECEIPTS** | | | | |
| **Revenue** | | | | |
| Revenue | 4,858,330,720 | 4,858,330,720 | 4,170,255,926 | 688,074,794 |
| Other Non-Operating Income | 99,018,517 | 99,018,517 | 10,440,602 | 88,577,915 |
| **Total Receipts** | **4,957,349,237** | **4,957,349,237** | **4,180,696,528** | **776,652,709** |
| **PAYMENTS** | | | | |
| Personnel Services | 1,989,467,217 | 1,989,341,217 | 1,796,710,944 | 192,630,273 |
| Maintenance & Other Operating Expenses | 2,801,412,640 | 2,505,746,640 | 2,307,131,332 | 198,615,308 |
| Financial Expenses | 8,456,500 | 8,456,500 | 1,693,273 | 6,763,227 |
| **Total Payments** | **4,799,336,357** | **4,503,544,357** | **4,105,535,550** | **398,008,808** |
| **NET RECEIPTS /PAYMENTS** | **158,012,879** | **453,804,879** | **75,160,978** | **378,643,900** |

## C. Scope and Objectives of Audit

The audit was conducted to determine the (a) level of assurance that may be placed on the Management's assertions on the Financial Statements; (b) the propriety of transactions and the Corporation's compliance with existing laws, rules and regulations including Management's policies; and (c) the extent of implementation of prior years' audit recommendations.

The audit covered the examination of accounts and transactions of PPC for the period January 1 to December 31, 2019 and 2018 in accordance with International Standards of Supreme Audit Institutions (ISSAIs) and examination of the cash and accountabilities of selected accountable officers. The audit involved cash examinations, data gathering through interview, ocular inspections and other relevant procedures essential to obtain sufficient evidential data to ascertain the propriety of the financial transactions and compliance with applicable laws, rules and regulations.

## D. Independent Auditor’s Opinion

The Auditor rendered an adverse opinion on the fairness of presentation of the consolidated financial statements of the PPC for the years ended December 31, 2019 and 2018 for reasons stated below. Details are discussed in Part II of the Report.

1. The consolidated balance of Property, Plant and Equipment accounts amounting to P5.975 billion was unreliable due to: (a) inclusion of unsubstantiated or “For Reconciliation” balances in an aggregate amount of P757.720 million in the PPC Central Office’s books; and (b) non-provision of depreciation for the account “Other Land Improvements” and the existence of a debit balance of P23.278 million for the account “Accumulated Depreciation – Furniture and Fixtures”, contrary to IPSAS 1 – Presentation of Financial Statements.

2. The existence, accuracy and validity of the year-end consolidated balance of Cash in Bank – Corporate reported at P1.397 billion could not be ascertained due to: (a) variances amounting to P94.094 million, P96.269 million and P0.664 million between the balances per books and the balances per bank confirmation in PPC Central Office, Postal Area 3 and Postal Area 8, respectively; and (b) identified reconciling items for PPC Central Office, Postal Areas 1 and 6 which remained unadjusted, contrary to IPSAS 1.

3. The existence and accuracy of the consolidated balance of the Inventory accounts as at December 31, 2019 in the aggregate amount of P172.054 million is unreliable due to unsubstantiated or “For Reconciliation” accounts in the PPC Central Office and the non-submission of report on and non-conduct of physical count of inventories by PPC Central Office and Postal Area 1, respectively, thus, affecting the fair presentation of the financial statements as required in IPSAS 1.

4. The Accounts Receivable (AR) – Mail Remunerations in the amount of P1.627 billion as at December 31, 2019 is overstated by P48.851 million and AR Trade (under contract) is understated by the same amount due to the erroneous credit to AR Trade (under contract) instead of AR – Mail Remunerations of remittance of identified designated operators, contrary to IPSAS 1.

## E. Other Significant Audit Observations and Recommendations

In addition to the above audit observations which were considered in rendering an adverse opinion, the following are other significant audit observations with recommendations that need immediate action as well:

1. The inability of Management to reconcile and eliminate the two reciprocal accounts Due from Area Offices in the CO books and Due to CO in all nine PPC Area Offices resulted to cumulative net variance of negative P242.752 million, thereby affecting the reliability and accuracy of PPC’s financial statements contrary to Paragraph 27 of

IPSAS 1, Paragraphs 38 and 40 of IPSAS 35 and Section III of PHLPost Circular No. 17-73.

*Recommendations:*

a. *Exert more effort to substantiate and reconcile the variances noted on a per Area Office to reduce further the total variance; and*

b. *Comply with the provisions of Section III of PHLPost Circular No. 17-73 and effect year-end reconciliation of reciprocal accounts.*

2. The validity of the balance of Due to Officers and Employees in the amount of P210.903 million was not ascertained due to inclusion of accrued benefits and allowances amounting to P39.429 million which were not documented and remained outstanding for more than two years contrary to Section 98 of P.D. 1445.

*Recommendations:*

*a. Revert to General Fund the audited amount of P39.429 million of Due to Officers and Employees pursuant to Section 98 of P.D. 1445; and*

*b. Prepare the necessary adjusting journal entries regarding the negative balance of P1.280 million transactions.*

3. In Postal Area 3, the accuracy and reliability of the Deferred Tax Liabilities account with a year-end balance of P40.585 million cannot be ascertained due to improper recognition and derecognition of deferred tax liabilities which was attributable to late submission of monthly VAT Reports by the Postmasters, to wit: (a) the output tax on cash sales of various Post Offices were temporarily recognized as Deferred Tax Liabilities instead of direct credit to Output Tax; (b) deferred Tax Liabilities were not immediately derecognized upon actual collection of Accounts Receivables on Postage Charge Accounts; and (c) adjustments to Output Tax were made against the Deferred Tax Liabilities to bring the Output Tax account to zero balance even without relevant supporting documents, contrary to IPSAS 1.

*Recommendations:*

*a. Stop the practice of deferring the recognition of output taxes and the non-immediate derecognition of deferred tax liabilities to establish the accuracy and reliability of the account balance of Deferred Tax Liabilities pursuant to IPSAS 1;*

*b. Ensure that all adjustments to the account are duly supported with relevant and complete documents to ascertain validity of the claim; and*

*c. Require the Postmasters to strictly observe timely submission of VAT Reports pursuant to PHLPost Circular Nos. 18-26 and 15-66.*

## F. Summary of Total Suspensions, Disallowances and Charges

As of December 31, 2019, the total audit suspensions and disallowances amounted to P17.864 million and P42.949 million, respectively. The details are presented in Part II of the Report.

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

Out of the 104 prior year's audit recommendations, 33 were fully implemented, 63 were partially implemented and 8 were not implemented. Details are presented in Part III of the Report.

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# PART I – AUDITED FINANCIAL STATEMENTS

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

**INDEPENDENT AUDITOR'S REPORT**

**THE BOARD OF DIRECTORS**
Philippine Postal Corporation
Liwasang Bonifacio, Manila

**Report on the Audit of the Financial Statements**

***Adverse Opinion***

We have audited the financial statements of the Philippine Postal Corporation (PPC), which comprise the consolidated statements of financial position as at December 31, 2019 and 2018, and the consolidated statements of financial performance, consolidated statements of changes in net assets/equity, consolidated statements of cash flows for the years then ended and consolidated statement of comparison of budget and actual amounts for the year ended December 31, 2019 and the notes to the financial statements, including a summary of significant accounting policies.

In our opinion, because of the significance of the matters discussed in the Bases for Adverse Opinion section of our report, the accompanying financial statements do not present fairly, in all material respects, the financial position of the PPC as at December 31, 2019 and 2018, and its financial performance and its cash flows for the years then ended in accordance with International Public Sector Accounting Standards (IPSASs).

***Bases for Adverse Opinion***

The consolidated balance of Property, Plant and Equipment accounts amounting to P5.975 billion was unreliable due to: (a) inclusion of unsubstantiated or "For Reconciliation" balances in an aggregate amount of P757.720 million in the PPC Central Office's books; and (b) non-provision of depreciation for the account "Other Land Improvements" and the existence of a debit balance of P23.278 million for the account "Accumulated Depreciation – Furniture and Fixtures", contrary to IPSAS 1 – Presentation of Financial Statements.

Also, the existence, accuracy and validity of the year-end consolidated balance of Cash in Bank – Corporate reported at P1.397 billion could not be ascertained due to: (a) variances amounting to P94.094 million, P96.269 million and P0.664 million between the balances per books and the balances per bank confirmation in PPC Central Office, Postal Area 3 and Postal Area 8, respectively; and (b) identified reconciling items for PPC Central Office, Postal Areas 1 and 6 which remained unadjusted, contrary to IPSAS 1.

In addition, the existence and accuracy of the consolidated balance of the Inventory accounts as at December 31, 2019 in the aggregate amount of P172.054 million is unreliable due to unsubstantiated or "For Reconciliation" accounts in the PPC Central Office and the non-submission of report on and non-conduct of physical count of inventories by PPC Central Office and Postal Area 1, respectively, thus, affecting the fair presentation of the financial statements as required in IPSAS 1.

Further, the Accounts Receivable (AR) – Mail Remunerations in the amount of P1.627 billion as at December 31, 2019 is overstated by P48.851 million and AR Trade (under contract) is understated by the same amount due to the erroneous credit to AR Trade (under contract) instead of AR – Mail Remunerations of remittance of identified designated operators, contrary to IPSAS 1.

We conducted our audits in accordance with the International Standards of Supreme Audit Institutions (ISSAIs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the PPC 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 ethical requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our adverse 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 IPSASs, 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.

In preparing the financial statements, management is responsible for assessing the PPC'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 PPC or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the PPC'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 misstatement, 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 risk 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 PPC'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 PPC'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 PPC 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 Legal and 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 in Note 39 to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not required part of the basic financial statements. Such supplementary information is the responsibility of management. Because of the significance of the matters described in the Bases for Adverse Opinion paragraph, it is inappropriate to and we do not express an opinion on the supplementary information referred to above.

**COMMISSION ON AUDIT**

**TOMAS A. AGUILA**
Supervising Auditor

August 19, 2020

## STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The Management of Philippine Postal Corporation is responsible for the preparation of the financial statements as of December 31, 2019, including the additional components attached thereto in accordance with the prescribed financial reporting framework indicated therein. The responsibility includes designing and implementing internal controls relevant to the preparation and fair presentation of financial statement that are free from material statement whether due to fraud or error, selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

The Board of Directors reviews and approves the financial statements before such statements are issued to the regulators, creditors and other users.

The Commission on Audit has audited the financial statements of the Philippine Postal Corporation in accordance with the Philippine Public Sector Standards on the Auditing and has expressed its opinion on the fairness of presentation upon completion of such, in its report to the Board of Directors.

**NORMAN N. FULGENCIO**
Chairman of the Board

Feb 14, 2020
Date Signed

**MAURA M. BAGHARI-REGIS**
Assistant Postmaster General
For Administration and Finance

Feb 14, 2020
Date Signed

**JOEL L. OTARRA**
Postmaster General & CEO

Feb 14, 2020
Date Signed

**PHILIPPINE POSTAL CORPORATION**
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**
**AS AT DECEMBER 31, 2019 AND 2018**

| | NOTE | 2019 | 2018 (As Restated) |
|---|---|---|---|
| **ASSETS** | | | |
| **Current Assets** | | | |
| Cash and Cash Equivalents | 6 | 2,711,483,668 | 3,101,320,213 |
| Receivables | 7 | 2,781,158,348 | 2,643,171,136 |
| Inventories | 8 | 157,560,821 | 172,054,333 |
| Other Current Assets | 9 | 199,200,008 | 194,600,336 |
| **Total Current Assets** | | **5,849,402,845** | **6,111,146,018** |
| **Non-Current Assets** | | | |
| Investment in Subsidiaries | 10 | 5,302,123 | 5,302,123 |
| Other Investments | 10 | 1,492,853,295 | 0 |
| Property, Plant and Equipment | 11 | 4,380,825,341 | 4,407,903,000 |
| Deferred Tax Assets | 12 | 143,896,314 | 146,733,293 |
| Other Non-Current Assets | 13 | 475,472,921 | 480,194,416 |
| **Total Non-Current Assets** | | **6,498,349,994** | **5,040,132,832** |
| **Total Assets** | | **12,347,752,839** | **11,151,278,850** |
| **LIABILITIES** | | | |
| **Current Liabilities** | | | |
| Financial Liabilities | 14 | 2,714,529,079 | 1,921,603,750 |
| Inter-Agency Payables | 15 | 572,231,497 | 664,727,611 |
| Intra-Agency Payables | 16 | 1,214,671,217 | 573,206,092 |
| Trust Liabilities | 17 | 774,755,630 | 838,944,518 |
| Deferred Credits/Unearned Income | 18 | 715,629,950 | 996,977,515 |
| Provisions | 19 | 275,810,552 | 365,217,109 |
| Other Payables | 20 | 204,987,720 | 263,375,494 |
| **Total Current Liabilities** | | **6,472,615,645** | **5,624,052,089** |
| **Non-Current Liabilities** | | | |
| Deferred Tax Liabilities | 21 | 100,069,054 | 85,467,538 |
| Other Payables | 21 | 201,245,393 | 23,534,972 |
| **Total Non-Current Liabilities** | | **301,314,447** | **109,002,510** |
| **Total Liabilities** | | **6,773,930,092** | **5,733,054,599** |
| **Net Assets (Total Assets Less Total Liabilites)** | | **5,573,822,747** | **5,418,224,251** |
| **NET ASSETS/EQUITY** | | | |
| Government Equity | 33 | 3,273,850,410 | 3,433,260,898 |
| Contributed Capital | | 200,000 | 200,000 |
| Cumulative Changes in Fair Value of investments | 34 | 1,575,397,359 | 1,996,368,695 |
| Retained Earnings | | 724,374,978 | (11,605,342) |
| **Total Net Assets/Equity** | | **5,573,822,747** | **5,418,224,251** |

*The notes on pages 11 to 50 form part of these statements.*

**PHILIPPINE POSTAL CORPORATION**
**CONSOLIDATED STATEMENTS OF FINANCIAL PERFORMANCE**
**FOR THE YEARS ENDED DECEMBER 31, 2019 and 2018**

| | NOTE | 2019 | 2018 (As Restated) |
|---|---|---|---|
| **Revenue** | | | |
| Service and Business Income | 22, 23, 24 & 25 | 4,170,227,568 | 3,651,522,653 |
| Shares, Donations and Grants | | 28,358 | 0 |
| **Total Revenue** | | **4,170,255,926** | **3,651,522,653** |
| **Current Operating Expenses** | | | |
| Personnel Services | 27 | (1,796,710,944) | (1,804,876,012) |
| Maintenance and Other Operating Expenses | 28 | (2,301,396,312) | (1,762,234,049) |
| Financial Expenses | | (1,693,273) | (10,053,220) |
| Direct Costs | | (5,735,020) | (8,687,232) |
| Non-Cash Expenses | 29 | (78,290,635) | (88,545,954) |
| **Total Current Operating Expenses** | | **(4,183,826,184)** | **(3,674,396,467)** |
| **Deficit from Current Operation** | | **(13,570,258)** | **(22,873,814)** |
| Other Non-Operating Income | 26 | 10,440,602 | 9,433,559 |
| Gains | 30 | 84,316,795 | 39,395,116 |
| Losses | 31 | (79,425,276) | (368,568) |
| **Surplus before Tax** | | **1,761,863** | **25,586,293** |
| Income Tax Expense | | (520,051) | (7,675,888) |
| **Surplus after Tax** | | **1,241,812** | **17,910,405** |
| Net Subsidy | | 541,323,000 | 585,642,000 |
| **Net Surplus for the Period** | | **542,564,812** | **603,552,405** |

*The notes on pages 11 to 50 form part of these statements.*

## PHILIPPINE POSTAL CORPORATION
## CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS/EQUITY
## FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

| | Accumulated Surplus/ (Deficit) | Government Equity | Contributed Capital | Cummulative Changes in Fair Value of Investments | Total |
|---|---|---|---|---|---|
| **BALANCE AT JANUARY 1, 2018** | **(123,272,849)** | **3,433,260,898** | **200,000** | **1,996,368,695** | **5,306,556,744** |
| **ADJUSTMENTS** | | | | | |
| Add/(Deduct): | | | | | |
| Prior period errors | (491,884,898) | 0 | 0 | 0 | (491,884,898) |
| **RESTATED BALANCE JANUARY 1, 2018** | **(615,157,747)** | **3,433,260,898** | **200,000** | **1,996,368,695** | **4,814,671,846** |
| **Changes in Net Assets/Equity for CY 2018** | | | | | |
| Add/(Deduct): | | | | | |
| Surplus/Deficit for the period | 603,552,405 | 0 | 0 | 0 | 603,552,405 |
| **BALANCE AT DECEMBER 31, 2018** | **(11,605,342)** | **3,433,260,898** | **200,000** | **1,996,368,695** | **4,814,671,846** |
| **Changes in Net Assets/Equity for CY 2019** | | | | | |
| Add/(Deduct): | | 0 | | | |
| Surplus/Deficit for the period | 542.564.812 | 0 | 0 | 0 | 542.564.812 |
| Other Adjustments | 193,415,508 | (159,410,488) | 0 | (420,971,336) | (386,966,316) |
| **BALANCE AT DECEMBER 31, 2019** | **724,374,978** | **3,273,850,410** | **200,000** | **1,575,397,359** | **4,970,270,342** |

## PHILIPPINE POSTAL CORPORATION
## CONSOLIDATED STATEMENTS OF CASH FLOWS
## FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

| | 2019 | 2018 (As Restated) |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| **Cash Inflows** | | |
| Collection of Revenue | 2,957,982,207 | 2,800,958,681 |
| Receipt of Assistance/Subsidy | 541,323,000 | 290,734,000 |
| Collection of Receivables | 1,208,724,842 | 1,141,594,645 |
| Receipt of Intra-Agency Fund Transfers | 11,738,232,342 | 5,271,068,516 |
| Trust Receipts | 531,202,535 | 3,832,195,732 |
| Other Receipts | 9,972,082 | 976,384,417 |
| **Total Cash Inflows** | **16,987,437,008** | **14,312,935,991** |
| Adjustments | 377,425,381 | 388,475,488 |
| **Adjusted Cash Inflows** | **17,364,862,389** | **14,701,411,479** |
| **Cash Outflows** | | |
| Payment of Expenses | 1,731,526,801 | 2,233,942,412 |
| Purchase of Inventories | 105,227,456 | 37,567,099 |
| Grant of Cash Advances | 272,944,118 | 73,004,203 |
| Prepayments | 17,080,850 | 187,872 |
| Refund of Deposits | 2,698,593 | 22,339,190 |
| Payment of Accounts Payable | 45,907,704 | 475,150,322 |
| Remittance of Personnel Benefit Contributions and Mandatory Deductions | 967,841,018 | 681,901,615 |
| Grant of Financial Assistance/Subsidy/Contribution | 0 | 2,050,000 |
| Release of Intra-Agency Fund Transfers | 11,276,781,537 | 6,956,752,715 |
| Other Disbursements | 1,010,453,088 | 3,092,601,778 |
| **Total Cash Outflows** | **15,430,461,165** | **13,575,497,206** |
| Adjustments | 714,228,061 | 807,425,509 |
| **Adjusted Cash Outflows** | **16,144,689,226** | **14,382,922,715** |
| **Net Cash Provided by Operating Activities** | **1,220,173,163** | **318,488,764** |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| **Cash Inflows** | | |
| Proceeds from Sale/Disposal of Property, Plant and Equipment | 0 | 14,512 |
| Receipt of Interest Earned | 6,235,174 | 8,749,585 |
| Proceeds from Sale of Other Assets | 0 | 21,920 |
| Proceeds from Matured Investments/Redemption of Long-term Investments/Return on Invenstments | 101,116,787 | 0 |
| **Total Cash Inflows** | **107,351,961** | **8,786,017** |
| Adjustments | 0 | 5,723,979 |
| **Adjusted Cash Inflows** | **107,351,961** | **14,509,996** |
| **Cash Outflows** | | |
| Purchase/Construction of Property, Plant and Equipment | 8,482,444 | 20,798,358 |
| Adjustments | 1,584,397,848 | 408,741 |
| **Total Cash Outflows** | **1,592,880,292** | **21,207,099** |
| **Net Cash (Used in) Investing Activities** | **(1,485,528,331)** | **(6,697,103)** |

**PHILIPPINE POSTAL CORPORATION**
**CONSOLIDATED STATEMENTS OF CASH FLOWS**
**FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018**

| | 2019 | 2018 (As Restated) |
|---|---|---|
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | |
| **Cash Outflows** | | |
| Payment of Long-Term Liabilities | 22,456,738 | 0 |
| Payment of Cash Dividends | 86,843,396 | 105,822,863 |
| **Total Cash Outflows** | **109,300,134** | **105,822,863** |
| **Net Cash (Used in) Financing Activities** | **(109,300,134)** | **(105,822,863)** |
| **Net Increase (Decrease) in Cash and Cash Equivalents** | (374,655,302) | 205,968,798 |
| **Effects of Exchange Rate Changes on Cash and Cash Equivalents** | (15,181,243) | 13,084,328 |
| **Cash and Cash Equivalents, January 1** | 3,101,320,213 | 2,882,267,087 |
| **Cash and Cash Equivalents, December 31** | **2,711,483,668** | **3,101,320,213** |

PHILIPPINE POSTAL CORPORATION
CONSOLIDATED STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS
For the Year Ended December 31, 2019

| PARTICULARS | Notes | Budgeted Amounts Original | Budgeted Amounts Final | Actual Amounts on Comparable Basis | Difference Final Budget and Actual |
|---|---|---|---|---|---|
| **RECEIPTS** | | | | | |
| Revenue | 22, 23, 24, & 25 | 4,858,330,720 | 4,858,330,720 | 4,170,255,926 | 688,074,794 |
| Other Non-Operating Income | 26 | 99,018,517 | 99,018,517 | 10,440,602 | 88,577,915 |
| **Total Receipts** | | **4,957,349,237** | **4,957,349,237** | **4,180,696,528** | **776,652,709** |
| **PAYMENTS** | | | | | |
| Personnel Services | 27 | 1,989,467,217 | 1,989,341,217 | 1,796,710,944 | 192,630,273 |
| Maintenance & Other Operating E: | 28 | 2,801,412,640 | 2,505,746,640 | 2,307,131,332 | 198,615,308 |
| Financial Expenses | | 8,456,500 | 8,456,500 | 1,693,273 | 6,763,227 |
| **Total Payments** | | **4,799,336,357** | **4,503,544,357** | **4,105,535,549** | **398,008,808** |
| **NET RECEIPTS/PAYMENTS** | | **158,012,879** | **453,804,879** | **75,160,979** | **378,643,900** |

*The notes on pages 11 to 50 form part of these statements.*

**PHILIPPINE POSTAL CORPORATION**
**Notes to Financial Statements**
**For the year ended December 31, 2019**

## 1. CORPORATION INFORMATION

The Philippine Postal Corporation was created by virtue of Republic Act No. 7354, otherwise known as the "Postal Services Act of 1992", which took effect on April 3, 1992. It transformed the then Postal Services Office from a Bureau into a Government-Owned and Controlled Corporation, known as the Philippine Postal Corporation (PPC).

The Corporation is mandated to perform the following functions and responsibilities:

a. To provide for the collection, handling, transportation, delivery, forwarding, returning and holding of mails, parcels, and like materials, throughout the Philippines and pursuant to agreements entered into, to and from foreign countries;

b. To determine and dispose of, in a manner it deems most advantageous, with law and settled jurisprudence, confiscated or non-mail matters, prohibited articles, dead letters and undelivered mails, except the sale of prohibited drugs, dangerous materials and other banned articles as defined by law; and

c. To plan, develop, promote and operate a nationwide postal system with a network that extends or makes available at least ordinary mail service, to any settlements in the country.

On January 2, 2012, PPC implemented Office Order No. 12-01 integrating the usual 14 regions into nine postal areas excluding the Central Office which is considered as postal area.

PPC is a member of the Universal Postal Union (UPU) of the United Nations. It is part of the global network of Post Offices which operates under the principles of "one single territory" and "freedom of transit."

## 2. STATEMENT OF COMPLIANCE WITH INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS

As per COA Circular No. 2015-003 dated April 16, 2015, PPC is classified as Non-Government Business Enterprise (Non-GBE) for not having met the criteria to qualify as Government Business Enterprise (GBE), which is either of the following:

a. Has the power to contract in its own name;
b. Has been assigned the financial and operational authority to carry on a business;
c. Sell goods and services, in the normal course of its business to other entities at a profit or full cost of recovery;
d. Is not reliant on continuing government funding to be a going concern (other than purchases of outputs at arm's length), and
e. Is controlled by a public sector entity.

As Non-GBE, the International Public Sector Accounting Standards (IPSAS) and the Revised Chart of Accounts (RCA) for Government Corporations COA Circular No. 2020-002 dated January 28, 2020, shall apply in the preparation of the financial statements and other related financial reports.

## 3. SIGNIFICANT ACCOUNTING POLICIES

**Basis of Accounting**

The financial statements of the Corporation have been prepared on the historical cost basis and are presented in Philippine peso which is the Company's functional and presentation currency.

Foreign currency transactions (i.e. international money order or international mail remunerations) are translated into the functional currency. For transactions on international mail remunerations, the monetary unit being used in the preparation and settlement of accounts is the Special Drawing Rights (SDR), converted to dollar and then to peso (presentation currency). International Money Order transactions are measured in dollar and translated into the peso currency.

The accompanying financial statements have been prepared on a going concern basis, which contemplates the realization of assets and settlement of liabilities in the normal course of business.

Furthermore, the preparation of the financial statements requires management use of certain critical accounting estimates and the exercise of its judgment in the process of applying the Corporation's accounting policies.

The significant accounting policies and practices of the Corporation are set forth to facilitate the understanding of the financial statements.

*Use of the Revised Chart of Accounts for Government Corporations*

The Corporation uses the RCA for Government Corporations in the presentation of financial transactions.

Starting CY 2019, accounts are presented in their proper account groups. For comparative presentation of financial statements, the groupings in CY 2018 of the following balance sheet accounts were restated and aligned with CY 2019 grouping.

| Account | Account Group | |
|---|---|---|
| | From | To |
| Short-term Investment | Cash & Cash Equivalents | Investment |
| Cash, Disbursing Officers – Corporate & Trust | Cash & Cash Equivalents | Other Current Assets |
| Payroll Fund | Cash & Cash Equivalents | Other Current Assets |
| Receivables from NGAs, GOCCs, etc. | Other Receivables | Inter-Agency Receivables |
| Due from Subsidiaries/ JVs | Other Receivables | Inter-Agency Receivables |
| Rental Receivable | Other Receivables | Lease Receivable |
| Advances to Officers & Employees | Other Receivables | Other Current Assets |

| Account | Account Group | |
|---|---|---|
| | From | To |
| Cumbersome Cargoes | Logistics Services Income | Mail Services Income |
| Handling and Storage Fees | Mail Services Income | Business Income |
| Postal ID Delivery Fees | Postal Payment Services Income | Mail Services Income |
| Misc. Income – Valuation Fees | Mail Services Income | Business Income |
| Bulk Stamps Sales | Retail Services | Mail Services Income |
| Packaging Services | Other Income - Miscellaneous | Mail Services Income |
| Postal ID Fees | Postal Payment Services Income | Business Income |
| Income from Joint Venture | Postal Payment Services Income | Business Income |
| Misc. Income - Lamination Fees | Postal Payment Services Income | Other Non-Operating Income |
| Misc. Income - PECO | Other Income | Postal Payment Services Income |
| Philatelic Sales | Retail Services Income | Business Income |
| Phlpost Products Sales | Retail Services Income | Business Income |
| Rent Income | Other Income | Business Income |
| Lock Box Rental | Other Income | Business Income |
| Misc, Income - Service Fees | Other Income | Other Non-Operating Income |
| Misc, Income - Others | Other Income | Other Non-Operating Income |
| Misc. Income – Certification/ Revalidation Fees | Other Income | Other Service Income |
| Misc. Income - Penalties | Other Income | Other Service Incomer |
| Misc. Income –Parking Fees | Other Income | Business Income |
| Misc. Income – Phlpost Box | Other Income | Business Income |
| Misc. Income – Permit Fees | Other Income | Other Service Income |
| Misc. Income – Annual Fees (Charge Account) | Other Income | Other Service Income |
| Misc. Income – Sale of Waste Materials | Other Income | Other Non-Operating Income |
| Franchising and Accreditation Fees | Other Income | Other Service Income |
| Misc. Income – Photocopy Service Fees | Other Income | Other Non-Operating Income |
| Misc. Income – Cancelled PID Fees | Other Income | Other Service Income |
| Misc. Income – Ticketing Office Commission | Other Income | Other Service Income |
| Commission on Consignment Sales | Other Income | Other Service Income |
| Cash on Delivery Commission | Other Income | Other Service Income |
| Misc. Income – Photo ID Service Fees | Other Income | Other Service Income |
| Misc. Income – Return Cards | Other Income | Other Non-Operating Income |
| Other Gain (Gain on Excess of Standard Input over Actual Input) | Other Income | Gain |
| Per Diem | Personnel Services | Other MOOE |
| Valuation Allowance/Bad Debt Expense | MOOE | Non-Cash Expense |

| Account | Account Group | |
|---|---|---|
| | From | To |
| Loss on VAT Exemption | MOOE | Losses |
| Loss of Assets | MOOE | Losses |
| Depreciation Expenses | MOOE | Non-Cash Expense |
| Terminal Dues Expenses | International Mail Expense | MOOE – Transportation & Delivery Expenses |
| Express Mail Service Delivery Expenses | International Mail Expense | MOOE – Transportation & Delivery Expenses |
| Int'l. Conveyance Expenses – Air/Surface | International Mail Expense | MOOE – Transportation & Delivery Expenses |
| Sea Rate Expenses | International Mail Expense | MOOE – Transportation & Delivery Expenses |
| Outbound Int'l. Postal Payment Charges, IMO | International Mail Expense | MOOE – Fees & Commission Expenses |

*<u>Adoption of Standard Formats for Financial Statements, Journals and General Ledgers</u>*

The Corporation adopted the standard formats for financial statements, journals and general ledgers for the following purposes:

a. Facilitate consolidation of monthly financial reports of the Central Office and the nine Area Offices; and

b. Data are readily available for analysis and reconciliation.

*<u>Adoption of the Central Office - Area Accounting System</u>*

To strengthen the recognition of, and accounting for all inter-office transactions in both Central Office and Area Office. On September 6, 2017, PPC Circular No. 17-73 was issued which prescribed the use of one set of reciprocal accounts, viz: Due to Central Office and Due from Area Office starting CY 2018. Said Circular, amends, modifies or rescinds PPC Circular No. 13-10 dated March 15, 2013 which prescribed the use of two sets of reciprocal accounts. Previous entries using the old sets of reciprocal accounts were adjusted accordingly and balances of the old sets of reciprocal accounts were closed to the new accounts.

Only the Central Office can debit or credit the Due from Area Office account in its books and only the Area Office can debit or credit the Due to Central Office in its books.

The following transactions are recorded using the Due to Central Office and Due from Area Accounts:

1. Fund transfer from Central Office to Area Office
2. Cash transfer "sweeping" from Area Office Corporate accounts to Central Office Corporate account
3. Centralized billing to corporate clients
4. Centralized Collection of billed Accounts Receivable
5. Transfer of inventory (supplies or equipment, vehicle, etc.) from Central Office to Area Office or vice versa
6. Expenses or Payables of Area Office paid by Central Office

7. Expenses or payables of Central Office paid by Area Office
8. Transfer of withholding tax, output/input tax and creditable tax of Area Office to Central Office
9. Transfer of Area Tax Refund to Central Office
10. "Due to/from" transactions between Area Offices
11. Closing of Area's Revenue and Expense Summary account

**International Mail Accounting: General Principles**

Operators that receive international mails for delivery have an obligation to deliver them to the addressees, but they receive no income for this because the postal charge has been collected by the origin operators.

This is considered costly for many countries of destination which receive more incoming international mail than they send thus, are entitled to remuneration to compensate the costs.

The remunerations are:

- *Terminal Dues for letter posts* to compensate handling costs (acceptance, sorting, conveyance to the delivery office and delivery – UPU Convention, Art. 1, Par. 1.7).

- Inward Land Rates for parcel posts, which is uniform for the whole of the territory of each country (UPU Convention Art. 34, Par. 1). Postal Operation Council has authority to fix the inward land rates for the handling of inward parcels and sea rates for the conveyance of parcels by sea (UPU Convention Art.35, Par. 1).

- Imbalance for Express Mail Service (EMS), which is a postal express service for documents and merchandise and shall whenever possible, be the quickest postal service by physical means.

**Cash and Cash Equivalents**

Cash and Cash Equivalents consist of cash on hand, cash balances with banks and cash invested in money market instruments and time deposits.

*Cash in Bank-Local Currency, Current Account* refers to the Cash in Bank – Trust under the PPC Chart of Accounts. It pertains to funds from money order remittances; bills payments like PhilHealth and Bayad Center, and funds for Indigent Senior Citizen and other pay-out services.

*Cash in Bank-Local Currency, Savings Account* refers to the Cash in Bank – Corporate under PPC Chart of Accounts. It pertains to General Fund and Operating Fund in local and foreign currencies.

**Receivables and Allowance for Impairment**

Receivables are stated at net realizable values. Allowances for Impairment are set up following the aging method for trade receivables, and amount of receivable less benefits/claims for non-trade receivables.

The following percentages based on the age of receivables are the basis for recognizing bad debt expense as per PPC Circular No. 16-80 dated December 29, 2016 “Amendment to PPC Circular No. 15-71 dated December 21, 2015 on the Guidelines for Provision of Bad Debts”:

| Number of days | Percentage |
|---|---|
| One day to 60 days | 1% |
| 61 days to 180 days | 2% |
| 181 days to 1 year | 3% |
| More than 1 year | 5% |
| Over 10 years | 20% |

International Accounts Receivable are accounted for in SDR and converted to peso (presentation currency) at the end of the accounting period. The treatment of International Accounts Receivable on mail remunerations is governed by Universal Postal Union (UPU) regulations and bilateral agreements between designated operators.

Under UPU regulations, the debtor designated operator shall be exempted from payment of terminal dues when the annual balance does not exceed 326.70 SDR. The balance of less than 326.70 SDR shall be included in the balance of the following year by the creditor designated operator. Offsetting of receivables against payable is allowed and there is no provision for bad debts.

**<u>Inventories</u>**

Inventories are valued at cost and are determined by using the first-in-first-out (FIFO) method. Items with a serviceable life of more than one year but small enough to be considered as equipment are treated as inventories upon acquisition and as expense upon issuance. (COA Circular No. 2005-002 dated 14 April 2005).

**<u>Property, Plant and Equipment</u>**

Except for Land, Property, Plant and Equipment (PPE) are initially measured at cost less any subsequent accumulated depreciation, amortization and impairment losses. The cost of an asset consists of its purchase price and costs directly attributable to bringing the asset to its working condition for its intended use.

Depreciation is computed on the *straight-line method.* Assets acquired during the year were computed a useful life prescribed in COA Circular No. 2003-007 dated December 11, 2003 and a residual value equivalent to 10 percent (10%) of the acquisition cost.

**<u>Semi-expendable Property</u>**

Tangible items below the capitalization threshold of P15,000.00 were accounted as semi-expendable property (COA Circular 2019-006, Paragraph 5.4).

The semi-expendable property which was recognized as PPE were reclassified to the effected appropriate semi-expendable inventory accounts (if not yet issued to the end-user), Expense accounts (if issued within the year), or Retained Earnings accounts (if issued in prior years).

These tangible items were recognized as expenses upon issue to the end-user.

**Land**

Land includes lots appraised in 1994 and recorded in the books as part of the Paid-up Capital of the National Government, and lots acquired after 1992. These lots include donated lots covered with the Deed of Donation, whether absolute or with condition. These are valued at their appraised cost which is also the deemed cost.

By virtue of Republic Act No.7354, creating the PPC, all real and personal properties which upon the effectivity of the Act are vested in, or owned by, the Postal Services Office and its predecessor Bureau of Posts are transferred to the Corporation without the need of conveyance, transfer or assignment. The appraised value determined by Asian Appraisal Company, Inc. in 1994 is the deemed cost of the assets transferred to PPC.

Land acquired after 1994 are recorded at cost which is generally the fair market value.

**Recognition**

On January 22, 2015, the PPC Board of Directors adopted Board Resolution No. 2015-007 "adopting as a matter of policy the recognition of the value of donated lots covered by the Absolute Deed of Donations and those subject to conditions as assets in the books of the Corporation for the calendar year 2014 and in succeeding years."

**Valuation**

In September and October 2012, all lots classified as “Land” were reappraised by Asian Appraisal Company, Inc. The fair value of the land at the date of appraisal is adopted as the basis for uniform valuation in conformity with “Philippine Accounting Standards (PAS) 16.

**Revaluation Surplus**

The increase in the land’s carrying amount as a result of revaluation is accumulated in equity under the heading Revaluation Surplus.

**Accrued Expenses**

This represents amount due to various service providers/suppliers (utilities, supplies for operations, mail messengers/contractors) for services provided/goods purchased in the course of the Corporation's operations.

**Income and Expenses**

The basis of recognizing income and expenses is the modified accrual basis. Income of the Corporation is classified based on the nature of service:

- Mail Services Income
- Postal Payment Services
- Logistics Services

- Retail Services
- Other Income

Pursuant to Board Resolution No. 2015-144 dated December 16, 2015 and in compliance to existing revenue regulations, effective January 2, 2017, all sales of PPC goods and services are subject to 12% VAT subject to the exemptions that are expressly provided by existing tax laws.

Expenses are classified under the following main accounts:

Operating Expenses

- Cost of Goods Sold
- Personnel Services
- Maintenance and Other Operating Expenses
- International Mail Exchange Expenses

Other Expenses

- Financial Cost

**Subsequent Events**

The Corporation identifies subsequent events as events that occurred after the date of Statement of Financial Position but before the date when the financial statements were authorized for issue. Any subsequent events that provide additional information about the Corporation's financial position at the balance sheet date are reflected in the financial statements.

Non-adjusting events are disclosed in the Notes to the Financial Statements when material.

**Provisions and Contingencies**

Provisions are recognized as liabilities (assuming that a reliable estimate can be made) because they are present obligation and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation. The amount of liability is presented in the financial statements.

**Declaration of Dividends**

Under RA 7656, the Corporation is required to declare and remit at least 50% of its annual net earnings as dividends to the National Government.

During the year, PHLPost remitted to the National Government dividend amounting to P108,227,730.00 however, it has still an unremitted balance pertaining to prior years in the amount of P187,113,436.36.

## 4. EXEMPTION FROM TAXES, CUSTOMS, AND TARIFF DUTIES

The Corporation is exempted from all direct and indirect taxes, customs duties, fees, imports and tariff duties, compensating taxes, wharfage fees and other charges and from restrictions on the importation of equipment, machineries, spare parts, accessories, and other materials, including supplies and services used directly in the operations of the Postal System not obtainable locally on favorable terms.

All obligations entered into by the Corporation and any income derived therefrom, including those contracted with private international banking and financial institutions are exempted from all taxes on both principal and interest. The Corporation is also exempted from the payment of capital gains tax, local government imposts and fees after December 31, 1997. Further, the Corporation may offset the full value of capital investments not otherwise funded by the National Government against any income tax due for the same period.

## 5. STATEMENT OF FINANCIAL POSITION INCLUDES ACCOUNTS TERMED AS "FOR RECONCILIATION"

Upon its incorporation in 1992, PPC continued using the Postal Services Office (PSO) books of accounts, thus, the un-reconciled/unaccounted balances of then PSO were carried over to the PPC books of accounts. In 1996, the un-reconciled amounts were further increased due to non-reconciliation of balances for lack of supporting documents, as a result of the fire that completely destroyed accounting records on April 21, 1996.

In December 1999, the Corporation engaged the services of an independent auditing firm which recommended the set-up of temporary accounts (Contingent Assets, Contingent Liabilities and Contingent Capital Suspense account) to record the balances of the PSO accounts which remained dormant and other un-reconciled/unaccounted balances of the PPC books as of December 31, 1998. The temporary accounts were presented in the financial statements from CYs 2000 to 2004.

In 2005, the Contingent Assets, Contingent Liabilities and Contingent Capital Suspense Accounts were written-off from the Central Office Books while in some Regional Books, the balances were transferred to the Due to Central Office account. However, upon the recommendation of the then COA Auditor, the balances of these accounts were restored in 2006 and reclassified to "bad accounts". Since 2006 until 2012, the net differences of the assets and liabilities classified as "bad accounts" were closed to Retained Earnings.

The separation of the account balance to Good and Bad accounts was in compliance with Memorandum Circular No. 0703 dated June 15, 2007 – *Guidelines to Follow for Certain Accounts to Clean Up the Balance Sheets*, a joint memorandum issued both by PPC-OAPMG for Administration and Finance and the COA. The purpose is to reflect in the *"good*" financial statements, the "*most likely"* true worth of the Corporation pending disposition and other COA actions on the "Bad" accounts.

For CY 2013, to address the "*prior years' balances for reconciliation"* and to establish the balances to start with, Memorandum-Guidelines dated March 11, 2013 was issued relative to the following:

a. Opening a new set of Books (General Ledger beginning balances) for all accounts that are properly supported. These new balances, upon consolidation, will present the Corporation's financial position as of January 1, 2013.
b. Maintenance of the old set of Books separately containing the unsubstantiated balances subject for adjustment once the accounts are validated and properly supported.

Verification and reconciliation of prior years' balances is a continuing activity. During the year, balances which have been identified were adjusted.

## 6. CASH AND CASH EQUIVALENTS

This account consists of the following:

| | 2019 | 2018 (As Restated) |
|---|---|---|
| **Corporate Account:** | | |
| Cash on Hand | 107,031,826 | 169,174,525 |
| Cash in Bank-Local Currency | 1,397,165,512 | 1,112,872,878 |
| Cash in Bank-Foreign Currency | 188,546,284 | 0 |
| Cash Equivalents | 420,334,311 | 1,188,493,650 |
| Sub-total | 2,113,077,933 | 2,470,541,053 |
| **Trust Account:** | | |
| Cash on Hand | 57,799,104 | 110,836,770 |
| Cash in Bank-Local Currency | 506,654,003 | 519,942,390 |
| Cash in Bank-Foreign Currency | 33,952,628 | 0 |
| Sub-total | 598,405,735 | 630,779,160 |
| **Total** | **2,711,483,668** | **3,101,320,213** |

*Cash in Bank* consists of Local and Foreign Currency, Savings and Current Accounts maintained by PPC with Philippine National Bank, Land Bank of the Philippines and Banco de Oro, either for remittance of collections or for payment of operating expenses.

The *Cash in Bank, Corporate/Operating Accounts* are classified as *Cash in Bank – Local Currency, Savings Account* while *Cash in Bank*, *Trust Accounts* regardless of the type of account (Savings or Current) is classified as *Cash in Bank – Local Currency, Current Account.*

Since the new Revised Chart of Accounts does not provide a definite new account for *Cash in Bank – Trust Account, the Cash in Bank – Local Currency*, *Current Account* is being used to distinguish the account from *Cash in Bank, Corporate/Operating Accounts*.

*Cash Equivalents* are Time Deposits with a term of three months or less.

Breakdown of Cash in Bank, Local Currency – Trust Account:

| | 2019 | 2018 |
|---|---|---|
| Cash in Bank - Trust - Manual MO/PhilHealth | 440,023,288 | 404,466,676 |
| Cash in Bank - Trust - International Money Order | 19,842,975 | 52,318,278 |
| Cash in Bank - Trust - Bayad Center | 19,784,220 | 19,913,149 |
| Cash in Bank - Trust - EPMO | 10,566,775 | 10,550,812 |
| Cash in Bank - Trust - Manual MO/PhilHealth - PDIC | 6,965,518 | 387,027 |
| Cash in Bank - Trust - Social Pension for Indigent Senior Citizens (SPISC) | 6,383,494 | 9,118,192 |
| Cash in Bank - Trust - CCT | 2,007,824 | 1,552,588 |
| Cash in Bank - Trust - Manual MO/PhilHealth - Instl | 1,973,768 | 478,847 |
| Cash in Bank - Trust - Consignment | 427,967 | 14,660,068 |
| Cash in Bank - Trust - PhilHealth LBP | 321,921 | 2,255,662 |
| Cash in Bank - Trust - Red Cross | 10,500 | 10,000 |
| Cash in Bank - Trust - SCI | 2,736 | 66,533 |
| Cash in Bank - Trust - PhilHealth | 0 | 4,124,343 |
| Cash in Bank - Trust - Presidential Social Fund | 0 | 135 |
| Cash in Bank - Trust - We Access | (1,656,983) | 40,080 |
| **Total** | **506,654,003** | **519,942,390** |

Breakdown of Cash on Hand, Collecting Officers - Trust Account:

| | 2019 | 2018 |
|---|---|---|
| Cash - Collecting Officers - Trust - Bayad Center | 14,431,146 | 49,981,276 |
| Cash - Collecting Officers - Trust - PhilHealth | 25,228,885 | 40,778,990 |
| Cash - Collecting Officers - Trust - Manual MO | 17,249,145 | 19,158,060 |
| Cash - Collecting Officers - Trust - EPMO | 459,738 | 488,854 |
| Cash - Collecting Officers - Trust - Output VAT | 412,615 | 412,015 |
| Cash - Collecting Officers - Trust - Consignment | 17,575 | 17,575 |
| **Total** | **57,799,104** | **110,836,770** |

*Cash on Hand – Corporate Account* includes the following:

| | 2019 | 2018 |
|---|---|---|
| Cash-Collecting Officers | 105,601,063 | 167,799,882 |
| Petty Cash | 1,430,763 | 1,374,643 |
| **Total** | **107,031,826** | **169,174,525** |

*Cash-Collecting Officers* are cash on hand of Postmasters, Cashiers and other designated Collecting Officers.

*Petty Cash* represents undisbursed revolving funds in the custody of authorized Disbursing Officers. The authorized amount per Disbursing Officer is not more than P100,000.

## 7. RECEIVABLES

This account is composed of the following groups:

| | 2019 | 2018 |
|---|---|---|
| Loans and Receivable Accounts | 2,335,318,191 | 1,760,945,030 |
| Inter-Agency Receivables | 186,588,816 | 683,913,739 |
| Other Receivables | 171,025,049 | 162,887,816 |
| Lease Receivable | 88,226,292 | 35,424,551 |
| **Total** | **2,781,158,348** | **2,643,171,136** |

7.1 **Loans and Receivable Accounts** include the following:

| | 2019 | 2018 |
|---|---|---|
| Accounts Receivable, Designated Operators - Mail Remunerations | 1,626,574,059 | 1,205,341,151 |
| Accounts Receivable, Trade | 638,890,050 | 553,834,526 |
| Accounts Receivable, Designated Operators - Postal Payment Remittances | 138,012,832 | 201,626,402 |
| Accounts Receivable, Trade - International (Under Contract) | 130,749,796 | 0 |
| Allowance for Forex Adjustments, Designated Operators - Mail Remunerations | (1,585,383) | (1,585,383) |
| Allowance for Forex Adjustments, Designated Operators - Postal Payment Remittances | (15,761,219) | (14,931,166) |
| Allowance for Bad Debts, Trade | (181,561,944) | (183,340,500) |
| **Total** | **2,335,318,191** | **1,760,945,030** |

*Accounts Receivable, Designated Operators – Mail Remunerations* pertain to the amount due from designated operators arising from the services rendered to deliver all inbound international mail matters.

*Accounts Receivable, Trade* refers to the amount due from customers arising from mail services rendered, trading/business transactions or sale of postage/philatelic items/PPC's products including postage charge account from sales of goods or services to bulk mail clients.

Aging of Accounts Receivable, Trade

| | (in million) |
|---|---|
| 1 day to 60 days | 261.38 |
| 61 days to 180 days | 34.57 |
| 181 days to I year | 35.44 |

| | |
|---|---|
| More than 1 year to 10 years | 288.75 |
| Over 10 years | 18.75 |
| **Total** | **638.89** |

*Accounts Receivable, Designated Operators - Postal Payment Remittances* refer to charges to designated operators for inbound postal remittances.

Accounts Receivable, Trade - International (under contract) refers to charges to corporate clients with contracts for acceptance of bulk mail items for delivery to other countries.

7.2 **Inter-Agency Receivables** (formerly under Other Receivables) includes:

*Receivables from NGAs and GOCCs* like the Department of Foreign Affairs, Commission on Election (COMELEC), Department of Budget and Management, Supreme Court, Bayad Center, etc. for postal services rendered.

Due from Subsidiaries/Joint Ventures as a result of the joint venture agreement entered into by the PPC.

7.3 **Other Receivables consists of the following:**

| | 2019 | 2018 |
|---|---|---|
| Accounts Receivable, Non-Trade | 205,034,183 | 205,218,590 |
| Due from Officers and Employees | 106,753,296 | 98,120,961 |
| Receivables - Disallowances/Charges | 54,861,427 | 56,785,061 |
| Other Receivables | 2,544,496 | 931,557 |
| Allowance for Impairment-Other Receivables | (198,168,353) | (198,168,353) |
| Total | **171,025,049** | **162,887,816** |

*Accounts Receivable, Non-Trade* includes the balances from dissolved subsidiaries, viz:

| | | |
|---|---|---|
| 1. | Philippine Postal Mail Management Corporation | 1,913,854 |
| 2. | Philippine Postal Realty Development Corporation | 1,756,674 |
| 3. | Philippine Postal Institution Foundation | 57,525 |
| 4. | Philippine Postal Leasing & Financing Corporation | 194,443,300 |

On April 11, 2018, the Postmaster General requested for Authority to Write-off with the Commission on Audit.

*Due from Officers and Employees* include shortages of accountable officers who are no longer in service or whose whereabouts are unknown.

*Other Receivables* pertains to claim with GSIS for over-remittance of compulsory premiums under MOA, and Security Deposits on the rental of containers for mail conveyance.

7.4 **Lease Receivable** includes rental fees generated from leasing the Corporation's buildings and related facilities.

## 8. INVENTORIES

Inventories are valued using the first-in, first-out (FIFO) method.

| | 2019 | 2018 |
|---|---|---|
| **Inventory Held for Sale** | | |
| Merchandise Inventory | 65,861,424 | 72,559,069 |
| Sub-total | 65,861,424 | 72,559,069 |
| **Inventory Held for Consumption** | | |
| Office Supplies Inventory | 60,836,848 | 56,108,756 |
| Accountable Forms, Plates and Stickers Inventory | 15,862,238 | 21,380,756 |
| Other Supplies and Materials Inventory | | |
| Spare Parts Inventory - Motor Vehicles | 8,198,663 | 11,951,567 |
| Spare Parts Inventory – Office & IT Equipment | 249,752 | 1,311,392 |
| Spare Parts Inventory – Metered Machines | 0 | 923,780 |
| Semi-Expendable Office ICT Equipment | 2,019,686 | 2,847,965 |
| Fuel, Oil and Lubricants Inventory | 2,214,931 | 2,220,302 |
| Construction Materials Inventory | 892,424 | 1,170,914 |
| Sub-total | 90,274,542 | 97,915,432 |
| **Semi-Expendable Machinery and Equipment** | | |
| Semi-Expendable Office Equipment | 117,985 | 740,039 |
| Semi-Expendable Other Machinery and Equipment | 11,200 | 457,261 |
| Sub-total | 129,185 | 1,197,300 |
| **Semi-Expendable Furniture, Fixtures and Books** | | |
| Semi-Expendable Furniture and Fixtures | 1,295,670 | 382,532 |
| Sub-total | 1,295,670 | 382,532 |
| **Total** | **157,560,821** | **172,054,333** |

*Merchandise Inventory* includes Philatelic Stamps and other items, PhilPost Packs/Boxes, and other items for sale such as but not limited to bubble envelope, souvenir items.

*Office Supplies Inventory* includes Postage/Definitive and Mailing Center Stamps, Postal ID, Blank Money Order Checks, Serially Numbered Gummed Tapes, and Consignment Notes

*Accountable Forms, Plates and Stickers Inventory* include Official Receipt; Billing Invoice, Sales Invoice, and Acknowledgment Receipt.

## 9. OTHER CURRENT ASSETS

This account consists of the following:

| | 2019 | 2018 (As Restated) |
|---|---|---|
| Advances | 49,396,977 | 53,225,219 |
| Other Assets | 30,741,016 | 32,242,805 |
| Prepayments | 115,041,076 | 104,385,360 |
| Deposits | 4,020,939 | 4,746,952 |
| **Total** | **199,200,008** | **194,600,336** |

Breakdown of **Advances:**

| | 2019 | 2018 |
|---|---|---|
| Advances for Payroll | 13,121,189 | 17,572,908 |
| Cash - Disbursing Officers - Trust - SPISC | 12,646,638 | 12,583,949 |
| Cash - Disbursing Officers - Trust - SCI | 13,284,020 | 11,962,300 |
| Cash - Disbursing Officers - Corporate | 5,329,248 | 5,835,597 |
| Cash - Disbursing Officers - Trust - CCT | 3,611,310 | 3,736,125 |
| Advances to Officers and Employees | 659,004 | 788,771 |
| Cash - Disbursing Officers - Trust - Manual MO | 725,568 | 725,569 |
| Cash - Disbursing Officers - Trust - PRC | 20,000 | 20,000 |
| **Total** | **49,396,977** | **53,225,219** |

*Advances for Payroll* represents cash advances granted to designated disbursing officers for payment of salaries, wages, allowances and other similar expenses.

*Cash - Disbursing Officers* represents unutilized funds on hand of designated Disbursing Officers for payment of authorized official expenditures or pay-out to designated beneficiaries.

*Advances to Officers and Employees* are cash advances for special and time-bound undertaking granted to officers and employees.

**Other Assets -** Deferred Charges account pertaining to unidentified bank deposits to the Corporate Accounts, Local Currency and over-remittance/over-deposit of CCT funds.

| | 2019 | 2018 |
|---|---|---|
| Deferred Charges – unidentified deposits | 29,367,140 | 30,868,929 |
| Deferred Charges - CCT | 1,373,876 | 1,373,876 |
| **Total** | **30,741,016** | **32,242,805** |

**Prepayments**

| | 2019 | 2018 |
|---|---|---|
| Advances to Contractors/Sub-Contractors | 1,401,305 | 0 |
| Prepaid Rent | 39,880 | 39,880 |
| Creditable Input Tax | 53,938,523 | 37,022,144 |
| Input Tax | 28,598,202 | 27,186,330 |
| Withholding Tax at Source | 19,205,991 | 20,202,761 |
| Prepaid Insurance | 11,857,175 | 330,245 |
| Other Prepayments | 0 | 19,604,000 |
| **Total** | **115,041,076** | **104,385,360** |

***Deposits*** refer to security deposits during the duration of the contract, subject to refund upon fulfillment of the obligation.

## 10. INVESTMENTS

### a. Investments in Subsidiaries

| | 2019 | 2018 |
|---|---|---|
| Provident Fund Office (PFO) | 5,000,000 | 5,000,000 |
| PLDT/MERALCO (Mega Manila) | 302,123 | 302,123 |
| **Total** | **5,302,123** | 5,302,123 |

The P5 million investments in the Provident Fund Office (PFO) represent the seed money of the fund.

### b. Other Investments

| | 2019 | 2018 |
|---|---|---|
| Investments in Time Deposits - Local Currency | 981,414,802 | 0 |
| Investments In Time Deposits - Foreign Currency | 511,438,493 | 0 |
| **Total** | **1,492,853,295** | **0** |

Investments in time deposits are transfers from Short-term investments.

## 11. PROPERTY, PLANT AND EQUIPMENT

Movement of the property and equipment for CY 2019 and 2018 are as follows:

| | Land and Land Improvement | Building and Building Improvement | Furniture, Fixture and Equipment | Motor Vehicles | IT Equipment and Software | Philatelic Items and Library Books | Machinery | Tools | Total |
|---|---|---|---|---|---|---|---|---|---|
| **COST** | | | | | | | | | |
| Jan. 1, 2018 | **2,344,381,389** | **1,210,507,011** | **1,111,153,353** | **342,651,291** | **238,951,026** | **2,550,222** | **112,988,215** | **163,173** | **5,363,345,680** |
| Additions | 630,408,540 | 12,359,740 | 4,145,685 | 1,764,894 | 9,124,427 | 0 | 0 | 225,205 | 658,028,491 |
| Adjustments | (7,453,842) | 413,508 | (23,082,704) | (6,363) | (20,681,139) | (8,125) | 0 | 0 | (50,818,665) |
| Disposals | 0 | 0 | (12,564,009) | 0 | (313,631) | 0 | 0 | 0 | (12,877,640) |
| **Dec. 31, 2018** | **2,967,336,087** | **1,223,280,259** | **1,079,652,325** | **344,409,822** | **227,080,683** | **2,542,097** | **112,988,215** | **388,378** | **5,957,677,866** |
| **ACCUMULATED DEPRECIATION** | | | | | | | | | |
| Jan. 1, 2018 | **9,059,567** | **703,175,794** | **479,712,579** | **216,726,888** | **59,855,508** | **1,243,688** | **38,412,482** | **41,693** | **1,508,228,199** |
| Adjustments | (711,921) | (3,934,144) | (25,083,075) | 1,606,844 | (9,014,003) | 0 | (9,391,456) | 0 | (46,527,755) |
| Provisions | 334,769 | 22,033,708 | 13,263,002 | 30,997,397 | 9,726,525 | 0 | 11,679,167 | 39,854 | 88,074,422 |
| **Dec. 31, 2018** | **8,682,415** | **721,275,358** | **467,892,506** | **249,331,129** | **60,568,030** | **1,243,688** | **40,700,193** | **81,547** | **1,549,774,866** |
| Net Carrying Amount, as restated Dec. 31, 2018 | **2,958,653,672** | **502,004,901** | **611,759,819** | **95,078,693** | **166,512,653** | **1,298,409** | **72,288,022** | **306,831** | **4,407,903,000** |

| | Land and Land Improvement | Building and Building Improvement | Furniture, Fixture and Equipment | Motor Vehicles | IT Equipment and Software | Philatelic Items and Library Books | Machinery | Tools | Total |
|---|---|---|---|---|---|---|---|---|---|
| **COST** | | | | | | | | | |
| Jan. 1, 2019 | **2,967,336,087** | **1,223,280,259** | **1,079,652,325** | **344,409,822** | **227,080,683** | **2,542,097** | **112,988,215** | **388,378** | **5,957,677,866** |
| Additions | 0 | 30,999,353 | 12,883,331 | 210,714 | 28,834,541 | 0 | 0 | 0 | **72,927,939** |
| Adjustments | 0 | 2,824,403 | (36,435,472) | 1,961,863 | (22,915,081) | 558,203 | 0 | (26,058) | **(54,032,142)** |
| Disposals | 0 | 0 | 0 | (1,924,086) | 0 | 0 | 0 | 0 | **(1,924,086)** |
| **Dec. 31, 2019** | **2,967,336,087** | **1,257,104,015** | **1,056,100,184** | **344,658,313** | **233,000,143** | **3,100,300** | **112,988,215** | **362,320** | **5,974,649,577** |
| **ACCUMULATED DEPRECIATION** | | | | | | | | | |
| Jan. 1, 2019 | **8,682,415** | **721,275,358** | **467,892,506** | **249,331,129** | **60,568,030** | **1,243,688** | **40,700,193** | **81,547** | **1,549,774,866** |
| Adjustments | 0 | **7,022,940** | **(37,643,375)** | **(1,165,313)** | **(2,242,618)** | **(3,407)** | **0** | **0** | **(34,031,782)** |
| Provisions | 334,771 | **21,950,253** | **7,468,098** | **29,198,747** | **10,249,298** | **0** | **8,792,929** | **87,047** | **78,081,143** |
| **Dec. 31, 2019** | **9,017,186** | **750,248,551** | **437,717,229** | **277,364,563** | **68,574,710** | **1,240,281** | **49,493,122** | **168,594** | **1,593,824,236** |
| Net Carrying Amount, Dec. 31, 2019 | **2,958,318,901** | **506,855,464** | **618,382,955** | **67,293,750** | **164,425,433** | **1,860,019** | **63,495,093** | **193,726** | **4,380,825,341** |

*Property, Plant and Equipment* includes all existing assets and facilities transferred from the defunct Bureau of Posts and thereafter the then Postal Service Office to the PPC pursuant to Section 9(b) of R.A. 7354. Generally, Property, Plant and Equipment are carried at cost, however, properties transferred from the Bureau of Posts are carried in the books at their appraised values in 1994 as determined by an independent appraiser, Asian Appraisal Company, Inc.

### Land

The *Land* account consists of the following:

| | |
|---|---|
| • Lots with title | 40 |
| • Lots with absolute deed of donation | 195 |
| • Donated lots with conditions | 163 |
| • Lots without documents | 103 |
| • Proclamation | 8 |
| • Purchased | 5 |

| | |
|---|---|
| • Usufruct | 30 |
| • Assignment of rights | 3 |
| • Resolution | 43 |
| • PPC as Administrator | 1 |
| • Revoked without PPC's consent or utilized/ occupied by others | 123 |

Among the lots included in the Land account and part of the Paid-up Capital of the National Government are the following:

1. The lot located in Intramuros, Manila which is the site of the Central Office is titled under the name of Bureau of Transportation and Telecommunications.

2. Donated lots that were reclaimed by the donors for failure to fulfil the conditions in the Deed of Donation; declared as "reversed/or no build zone"; abandoned as post cite, and occupied or controlled by another.

## 12. DEFERRED TAX ASSETS

| | 2019 | 2018 (As Restated) |
|---|---|---|
| Deferred Charges – Excess Income Tax | 116,761,220 | 116,761,220 |
| Deferred Input Tax | 27,157,704 | 29,817,474 |
| Deferred Charges – MCIT | (22,610) | 154,599 |
| **Total** | **143,896,314** | **146,733,293** |

## 13. OTHER NON-CURRENT ASSETS

This account includes balances in the then Bureau of Posts' books of accounts carried over in the books:

| | 2019 | 2018 |
|---|---|---|
| Cash-Disbursing Officers, Receivables-Others, Accounts Receivable-Non Trade, Due from NGAs | 363,970,883 | 363,970,883 |
| Un-reconciled Cash in Bank balance | 36,422,392 | 36,422,392 |
| Due from Subsidiaries with nil probability of collection | 24,682,068 | 24,682,068 |
| Unserviceable Assets at their salvage value | 20,803,434 | 25,524,929 |
| Un-reconciled Cash, Collecting Officers balances | 28,518,552 | 28,518,552 |
| Other Structures and PPE | 48,918 | 48,918 |
| Other Assets | 1,026,674 | 1,026,674 |
| **Total** | **475,472,921** | **480,194,416** |

*Due from Subsidiaries* were claims of PPC from the subsidiaries in payment of various expenses.

| Due From Subsidiary Account | 2019 Balance | Description and Disposition |
|---|---|---|
| Provident Fund Office (PFO) | **22,083,889** | *Expenditures for* salaries/bonuses of PPC employees detailed at PFO and other operational expenses. This is subject to reconciliation. |
| Philippine Postal Savings Bank, Inc. (PPSBI) | **2,598,179** | Rentals in the year 2006, health insurance premiums in September - December 1988, janitorial services from January 1997 - March 1997 and equipment under Letter of Credit dated December 13, 1994. No corresponding payable is reflected in the bank's financial statements |
| **Total** | **24,682,068** | |

## 14. FINANCIAL LIABILITIES

This account consists of the following:

| | 2019 | 2018 (As Restated) |
|---|---|---|
| Accounts Payable, Designated Operators - Mail Remunerations | 1,640,996,906 | 951,685,963 |
| Allowance for Forex Adjustments, Designated Operators-Mail Remunerations | (1,426,935) | (1,426,935) |
| Accrued Expenses | 411,630,550 | 642,744,596 |
| Accounts Payable, Designated Operators - Postal Payment Remittances | 735,683 | 573,691 |
| Accounts Payable, Designated Operators - Air Conveyance | 304,391,490 | (65,173,658) |
| Accounts Payable | 21,592,276 | 26,827,806 |
| Due to Officers and Employees | 335,789,109 | 365,444,787 |
| Longevity Benefits Payable | 820,000 | 927,500 |
| **Total** | **2,714,529,079** | **1,921,603,750** |

*Accounts Payable, Designated Operators - Mail Remunerations* refers to amounts due to designated operators for services rendered to deliver all outbound international mail matters.

*Accrued Expenses* are various claims awaiting completion of supporting documents by claimants or excess of payables accrued in prior years. Balances totalling to P277.907 million were reverted during the year pursuant to Section 98 of PD1445.

*Accounts Payable, Designated Operators - Postal Payment Remittances* refer to amounts due to designated operators for all outbound money order remittances.

*Due to Officers and Employees* pertains to Performance Based Bonus CY 2019 of P55,000,000.00 and additional Salaries set-up in year 2018 (provisions for salary differential of downgraded employees during rationalization in the amount of P37,890,167.42).

## 15. INTER-AGENCY PAYABLES

This account consists of the following:

| | 2019 | 2018 (As Restated) |
|---|---|---|
| Due to NGAs, Other Government Corporations, State, Universities and Colleges and LGUs | 488,855,529 | 563,312,574 |
| Due to GSIS | 47,643,363 | 47,882,000 |
| Due to Pag-IBIG | 22,901,492 | 23,426,884 |
| Due to PhilHealth | 5,197,846 | 6,323,710 |
| Due to BIR | 7,633,267 | 7,827,770 |
| Value Added Tax Payable | 0 | 15,954,673 |
| **Total** | **572,231,497** | **664,727,611** |

*Due to NGAs* pertains to COA auditing services.

**Breakdown of Due to BIR:**

| | 2019 | 2018 |
|---|---|---|
| Due to BIR - Expanded Withholding Tax (EWT) | 2,708,001 | 1,819,578 |
| Due to BIR - Withholding Tax On Compensation | 2,624,849 | 3,993,981 |
| Due to BIR - Value-Added Tax (VAT) | 1,820,442 | 2,787,646 |
| Due to BIR - Minimum Corporate Income Tax (MCIT) | 520,050 | 0 |
| Due to BIR - Final Withholding Tax | (40,075) | (773,435) |
| **Total** | **7,633,267** | **7,827,770** |

## 16. INTRA-AGENCY PAYABLES

Intra-Agency Payables consists of the following:

| | 2019 | 2018 (As Restated) |
|---|---|---|
| Due from Area 01 - Northeastern Luzon (NELA) | (155,368,515) | (159,417,666) |
| Due from Area 02 - Northwestern Luzon (NWLA) | (46,222,924) | 13,578,239 |
| Due from Area 03 - Mega Manila (MEGA) | 2,229,373,523 | 2,569,539,382 |
| Due from Area 04 - Southern Luzon (SLA) | (487,232,102) | (545,486,136) |
| Due from Area 05 - Central and Eastern Visayas (CEVA) | (338,016,096) | (330,745,523) |
| Due from Area 06 - Western Visayas (WEVA) | (344,455,401) | (378,110,569) |

| | 2019 | 2018 (As Restated) |
|---|---|---|
| Due from Area 07 - Eastern Mindanao (EMA) | (273,178,856) | (325,146,170) |
| Due from Area 08 - Central Mindanao (CEMA) | (54,081,544) | (107,903,728) |
| Due from Area 09 - Western Mindanao (WEMA) | (251,993,179) | (295,318,337) |
| Due to Central Office | 898,201,085 | 126,442,891 |
| Due to Area 03 - Mega Manila (MEGA) | 572,265 | 0 |
| Due to Area 05 - Central and Eastern Visayas (CEVA) | 2,657 | 0 |
| Due from Area Central Office - Tax Management Office | 252,946 | 5,773,709 |
| Due from Area 10 - for ID | 36,817,358 | 0 |
| **Total** | **1,214,671,217** | **573,206,092** |

## 17. TRUST LIABILITIES

This account consists of the following:

| | 2019 | 2018 (As Restated) |
|---|---|---|
| Trust Liabilities - DMO | 844,567,371 | 788,410,312 |
| Trust Liabilities - Premiums/Bills Payments Collections - Provident Fund | 55,997,646 | 54,233,289 |
| Trust Liabilities - Inbound Int'l E-postal Money Order | 20,695,129 | 20,695,129 |
| Trust Liabilities - SPISC | 19,735,650 | 22,448,200 |
| Trust Liabilities - SCI | 13,283,820 | 12,019,780 |
| Trust Liabilities - Inbound IMO | 10,957,633 | 9,049,566 |
| Guaranty/Security Deposits Payable | 9,359,554 | 8,957,216 |
| Trust Liabilities - Premiums/Bills Payments Collections - PDIC | 6,553,872 | 2,050 |
| Trust Liabilities - Conditional Cash Transfers Program | 5,051,994 | 4,664,949 |
| Trust Liabilities - Premiums/Bills Payments Collections - Consignment | 2,820,270 | 2,820,270 |
| Trust Liabilities - Domestic EPMO | 2,279,066 | 2,446,267 |
| Trust Liabilities - Premiums/ Bills Payments Collections - Bayad Center | 1,327,084 | 2,336,924 |
| Trust Liabilities - Outbound IMO | 884,586 | 801,453 |
| Trust Liabilities - Inbound EPMO | 317,968 | 317,968 |
| Trust Liabilities - Outbound EPMO | 49,299 | 49,299 |
| Trust Liabilities - Philatelic | 10,330 | 10,330 |
| Trust Liabilities - Red Cross | 500 | 0 |
| Bail Bonds Payable - IMUC | (32,665,152) | 0 |
| Bail Bonds Payable | (58,481,238) | 11,021,706 |

| | 2019 | 2018 (As Restated) |
|---|---|---|
| Trust Liabilities - Premiums/Bills Payments Collections - PhilHealth | (127,989,752) | (101,340,190) |
| **Total** | **774,755,630** | **838,944,518** |

This account pertains to amounts held in trust like the amount posted by various remitters/senders received locally; remittances received from other postal administrations; bills payment collections and cash received from partner agencies for the distribution/delivery to designated beneficiaries or payees such as Bayad Center, Philippine Health Insurance Corporation (PhilHealth) etc.

The balance of *Trust Liabilities – Social Pension for Indigent Senior Citizens (SPISC)* refers to fund transfer from Department of Social Welfare and Development (DSWD) subject to liquidation. According to Area 6, 80 to 90 percent of the fund transfer from DSWD for this project was already received by designated beneficiaries.

## 18. DEFERRED CREDITS/UNEARNED REVENUE

Deferred credits account consists of the following:

| | 2019 | 2018 (As Restated) |
|---|---|---|
| Deferred Credits - Remunerations | 589,976,986 | 765,557,017 |
| Output Tax | 56,549,696 | 50,360,522 |
| Other Deferred Credits | 3,509,478 | 0 |
| Deferred Credits - CCT | 2,775,318 | 2,343,548 |
| Deferred Credits - BAC Honoraria | 33,500 | 28,300 |
| Deposits On Direct Mail Services | 47,714,554 | 160,759,388 |
| Deposits On Private Metered Machines | 14,363,404 | 13,402,649 |
| Deposits On Domestic Mail Services | 0 | 3,781,267 |
| Deferred Revenue from Grants and Donations | 707,014 | 744,824 |
| **Total** | **715,629,950** | **996,977,515** |

*Deferred Credits - Remunerations* includes remunerations on remittances to lending entities.

*Other Deferred Credits refers to the* unidentified deposits in different bank accounts.

*Deposits On Direct Mail Services* include revenues arising from mail services which were collected in advance.

*Deposits on Private Metered Machines* correspond to amounts collected in advance in private metered machine loading.

*Deposits on Domestic Mail Services* pertain to amount paid on bulk purchase of stamps.

## 19. PROVISIONS

This account is composed of the following:

| | 2019 | 2018 (As Restated) |
|---|---|---|
| Leave Benefits Payable | 196,787,347 | 286,193,904 |
| Other Provisions | 79,023,205 | 79,023,205 |
| **Total** | **275,810,552** | **365,217,109** |

*Leave Benefits Payable* pertains to unpaid Terminal Leave Benefits of retired employees as at year-end.

*Other Provisions* refers to the unclaimed incentive of employees who retired under Executive Order No. 366.

## 20. OTHER PAYABLES

This account is composed of the following:

| | 2019 | 2018 (As Restated) |
|---|---|---|
| Dividends Payable | 187,113,423 | 251,266,425 |
| Other Loan Deductions | 17,874,297 | 12,109,069 |
| **Total** | **204,987,720** | **263,375,494** |

Dividends Payable is the balance due to the National Government as at year-end.

Other loan deductions include unremitted salary deductions as of December 31, 2019 due to Provident Fund Office, PSMBAI Inc.

## 21. NON-CURRENT LIABILITIES

This consists of the following accounts:

*Deferred Tax Liabilities* refers to Deferred Output Tax in the amount of P100,069,054 and P85,467,538 for CY 2019 and CY 2018, respectively.

*Other Payables* includes the claim of Asset Pool A (SPV-AMC) under Civil Case No. 01-1205 before the RTC of Makati and the outstanding GSIS premium arrearages under a Memorandum of Agreement between PPC and GSIS.

| | 2019 | 2018 |
|---|---|---|
| Other Long-Term Liabilities - SPV-AMC | 201,245,393 | 0 |
| Other Long-Term Liabilities - GSIS | 0 | 23,534,972 |
| **Total** | **201,245,393** | **23,534,972** |

**SERVICE AND BUSINESS INCOME**

This account is composed of the following

**22. Mail Service Revenue**

| | 2019 | 2018 (As Restated) |
|---|---|---|
| Direct Access/Entry Income | 773,775,302 | 73,083,283 |
| Intl EMS - Merchandise | 636,920,262 | 672,586,883 |
| Domestic Ordinary Mails | 599,861,937 | 663,416,844 |
| Domestic Registered Mails | 340,921,684 | 327,781,963 |
| EMS Delivery Income | 254,599,108 | 264,583,460 |
| Terminal Dues Income - Recorded Items | 216,814,880 | 279,196,567 |
| Domestic Registered Mails with Return Card | 138,858,128 | 112,637,334 |
| Presentation to Customs Fee | 109,782,914 | 110,582,015 |
| Intl EMS - Documents | 92,010,059 | 95,552,533 |
| Inward Land Rate Income | 76,933,296 | 76,286,740 |
| Domestic Ordinary Mails with Proof of Delivery | 65,186,713 | 60,578,115 |
| Intl Registered Letters | 50,748,210 | 45,716,149 |
| Intl Letters | 49,181,530 | 54,917,225 |
| Cumbersome Cargoes | 34,370,659 | 51,377,643 |
| Domestic EMS - Documents | 27,169,320 | 18,023,495 |
| Intl Ordinary Parcel | 24,715,105 | 32,417,828 |
| Domestic EMS - Merchandise | 20,332,424 | 23,450,953 |
| Intl Registered Small Packet | 12,556,167 | 11,493,337 |
| Miscellaneous Income - Postal ID Delivery Fee | 11,268,481 | 14,123,884 |
| Bulk Stamp Sales | 10,865,063 | 21,479,408 |
| Intl Registered Letters with Advice of Receipt | 8,844,153 | 8,763,362 |
| Domestic Priority Mails | 5,400,592 | 5,048,488 |
| Packaging Services | 4,862,024 | 1,095,623 |
| Domestic Air Parcel | 4,760,332 | 4,894,076 |
| Postal Station Sales | 4,677,463 | 0 |
| Intl Ordinary Parcel with Advice of Receipt | 3,971,957 | 4,804,441 |
| Domestic Express Pouch | 3,619,228 | 3,180,322 |
| Domestic Printed Matters and Magazines | 3,612,274 | 2,809,336 |
| Intl Printed Matter | 1,847,756 | 1,866,964 |
| Intl Registered Small Packet with Advice of Receipt | 1,701,125 | 1,232,823 |
| Intl Letters - Special Delivery | 1,623,744 | 2,334,743 |
| Intl Postcards | 1,473,445 | 1,511,380 |
| Intl Registered Printed Matters | 607,693 | 1,285,397 |
| Business Reply Envelope (BRE) | 587,757 | 1,093,764 |
| Miscellaneous Income - Mail Bag | 410,153 | 311,962 |

| | 2019 | 2018 (As Restated) |
|---|---|---|
| Intl Books | 240,363 | 104,203 |
| Miscellaneous Income - 2nd Class Mails | 195,174 | 182,381 |
| Unaddressed Mails | 149,465 | 310,569 |
| Domestic Subscriptions with Mail Indicia | 65,671 | 690 |
| Intl Registered Printed Matter with Advice of Receipt | 60,364 | 153,004 |
| Domestic Cod Parcel | 14,005 | 2,412 |
| Intl Business Reply Service (IBRS) | 9,902 | 49,497 |
| Domestic Books | 7,990 | 185,726 |
| Letter Shopping | 0 | 1,971,864 |
| Discounts on Mailing Services | (9,880,538) | (12,858,659) |
| **Total** | **3,585,733,334** | **3,039,620,027** |

**23. Postal Payment Service Revenue**

| | 2019 | 2018 (As Restated) |
|---|---|---|
| Domestic Postal Money Order Service Fees | 8,925,937 | 9,788,038 |
| Delivery Service Fees - PDIC | 5,348,357 | 4,822,286 |
| Delivery Service Fees - PMO | 1,814,880 | 2,343,510 |
| Commission on Collections - Bayad Center | 792,986 | 984,554 |
| Delivery Service Fees - ICRC | 295,162 | 333,730 |
| Miscellaneous Income - Pension Verification | 260,298 | 4,987,881 |
| Inbound Intl Postal Money Order Service Fees | 200,142 | 382,802 |
| Delivery Service Fees - PRC | 165,186 | 0 |
| Delivery Service Fees - CCT | 159,926 | 0 |
| Miscellaneous Income - PECO | 141,276 | 86,372 |
| Delivery Service Fees - Oxfam | 96,875 | 315,270 |
| Miscellaneous Income - MCWD Service Commission Fees | 60,380 | 73,143 |
| Delivery Service Fees - PITAHC | 42,979 | 0 |
| Domestic E-Postal Money Order Service Fees | 24,345 | 66,588 |
| Commission on Collections - PhilHealth | 4,390 | 28,198,384 |
| Delivery Service Fees - Senior Citizen | 1,207 | 0 |
| Outbound Intl E-Postal Money Order Service Fees | 166 | 4,234 |
| | **18,334,492** | **52,386,792** |

## 24. Other Service Income

| | 2019 | 2018 (As Restated) |
|---|---|---|
| Cancellation Fees | 473,424 | 79,230 |
| Clearance and Certification Fees | 1,522,402 | 1,671,986 |
| Fees and Commissions Income | | |
| Miscellaneous Income -Annual Fees/Charge Account | 349,540 | 177,188 |
| Commission on Consignment Sales | 36,763 | 57,293 |
| Miscellaneous Income - Ticketing Office Commission | 1,440 | 13,204 |
| Collect-On-Delivery Commission | 179 | 2,906 |
| Fines and Penalties-Service Income | 725,493 | 1,228,917 |
| Franchising Fees | 242,393 | 157,425 |
| Permit Fees | 267,773 | 662,554 |
| Processing Fees | 25 | 0 |
| Photo ID Service Fees | 429 | 125 |
| **Total** | **3,619,861** | **4,050,828** |

## 25. Business Income

| | 2019 | 2018 (As Restated) |
|---|---|---|
| Postal ID Fees | 301,651,025 | 314,698,445 |
| Share in the Profit/Revenue of Joint Venture | 158,568,099 | 167,646,980 |
| Rent/Lease Income | 48,022,806 | 16,127,518 |
| Interest Income | 24,181,189 | 11,669,063 |
| Philatelic Sales | 19,551,222 | 22,229,764 |
| Lock Box Rental | 6,121,828 | 6,199,852 |
| PhlPost Products Sales | 1,743,243 | 3,404,291 |
| Miscellaneous Income - Valuation Fees | 1,133,281 | 49,471 |
| Miscellaneous Income - Parking Fees | 1,034,268 | 864,949 |
| Miscellaneous Income - PhlPost Box | 509,791 | 720,687 |
| Handling and Storage Fee | 23,129 | 11,853,986 |
| | **562,539,881** | **555,465,006** |

## 26. OTHER NON-OPERATING INCOME

| | 2019 | 2018 |
|---|---|---|
| Miscellaneous Income - Service Fees | 5,509,182 | 6,194,584 |
| Miscellaneous Income - Others | 4,498,261 | 2,968,723 |
| Miscellaneous Income - Photocopy Service Fees | 279,687 | 110,832 |
| Miscellaneous Income - Sale of Waste Materials | 153,369 | 158,490 |
| Miscellaneous Income - Lamination Fees | 103 | 821 |
| Miscellaneous Income - Return Cards | 0 | 109 |
| **Total** | **10,440,602** | **9,433,559** |

## 27. PERSONNEL SERVICES

| | 2019 | 2018 (As Restated) |
|---|---|---|
| Salaries and Wages | | |
| Salaries and Wages - Regular | 1,018,663,028 | 1,047,923,205 |
| Salaries and Wages – Casual/Contractual | 2,576,323 | 1,177,399 |
| Sub-total | 1,021,239,351 | 1,049,100,604 |
| Other Compensation | | |
| Year End Bonus | 170,156,017 | 173,242,254 |
| Personnel Economic Relief Allowance (PERA) | 113,412,340 | 118,830,575 |
| Performance-Based Bonus | 49,398,517 | 55,000,000 |
| Service Recognition Incentive | 44,504,500 | 0 |
| Clothing/Uniform Allowance | 28,000,500 | 29,327,686 |
| Cash Gift | 23,808,000 | 24,808,950 |
| Productivity Enhancement Incentive (PEI) | 23,053,750 | 24,315,750 |
| Letter Carrier's Allowance | 11,983,629 | 12,209,035 |
| Representation Allowance (RA) | 11,300,572 | 7,941,875 |
| Overtime and Night Pay | 10,303,536 | 10,771,235 |
| Transportation Allowance (TA) | 7,215,650 | 7,206,875 |
| Night Differential Pay | 1,640,536 | 1,567,698 |
| Honoraria | 1,504,393 | 1,299,134 |
| Longevity Pay | 995,000 | 1,932,521 |
| Special Counsel Allowance | 98,750 | 69,350 |
| Sub-total | 497,375,690 | 468,522,938 |
| Personnel Benefit Contributions | | |
| Retirement and Life Insurance Premiums | 122,529,477 | 125,672,132 |
| PhilHealth Contributions | 13,538,069 | 13,848,395 |
| Pag-IBIG Contributions | 5,785,174 | 5,929,600 |
| Employees Compensation Insurance Premiums | 5,676,292 | 5,951,287 |
| Sub-total | 147,529,012 | 151,401,414 |

| | 2019 | 2018 (As Restated) |
|---|---|---|
| Other Personnel Benefits | | |
| Terminal Leave Benefits | 130,566,891 | 135,851,056 |
| Sub-total | 130,566,891 | 135,851,056 |
| **TOTAL** | **1,796,710,944** | **1,804,876,012** |

The Corporation implemented *tranche 2 of the Salary Standardization Law 4* as follows: 25% for the period July to December 2018; 25% from January 2019 to June 2019 and 25% from July to December 2019. The remaining 25% shall be implemented from January 2020 to June 2020.

*Terminal Leave Benefits* represent value of allowable leave credits of employees who retired from the service during the current year. The computation is based on current salary rate.

## 28. MAINTENANCE AND OTHER OPERATING EXPENSES

This account is composed of the following:

| | 2019 | 2018 (As Restated) |
|---|---|---|
| Traveling Expenses | | |
| Traveling Expenses-Local | 42,264,508 | 59,058,731 |
| Traveling Expenses-Foreign | 6,119,439 | 5,067,728 |
| Sub-total | 48,383,947 | 64,126,459 |
| | | |
| Training and Scholarship Expenses | | |
| Training Expenses | 5,860,857 | 4,803,074 |
| Scholarship Grants/Expenses | 71,963 | 64,010 |
| Sub-total | 5,932,820 | 4,867,084 |
| | | |
| Supplies and Materials Expenses | | |
| Office Supplies Expenses | 191,347,668 | 86,801,968 |
| Accountable Forms Expenses | 28,612,025 | 148,517,797 |
| Fuel, Oil and Lubricants Expenses | 50,008,663 | 52,709,925 |
| Semi-Expendable Furniture, Fixtures and Books Expenses | 1,275,972 | 1,146,590 |
| Semi-Expendable Machinery and Equipment Expenses | 6,754,248 | 1,830,590 |
| Sub-total | 277,998,576 | 291,006,870 |
| | | |
| Utility Expenses | | |
| Water Expenses | 13,056,674 | 12,317,906 |
| Electricity Expenses | 42,552,981 | 41,424,241 |
| Other Utility Expenses | 55,584 | 1,351 |

| | 2019 | 2018 (As Restated) |
|---|---|---|
| Sub-total | 55,665,239 | 53,743,498 |
| Communication Expenses | | |
| Telephone Expenses - Landline | 6,029,677 | 6,130,331 |
| Telephone Expenses - Mobile | 1,029,824 | 708,280 |
| Internet Subscription Expenses | 16,091,170 | 11,246,797 |
| Sub-total | 23,150,671 | 18,085,408 |
| Award/Rewards, Prizes and Indemnities | 34,461 | 177,411 |
| Confidential, Intelligence and Extraordinary Expenses | | |
| Miscellaneous Expenses | 906,287 | 960,954 |
| Extraordinary Expenses | 881,877 | 816,958 |
| Sub-total | 1,788,164 | 1,777,912 |
| Professional Services | | |
| Legal Expenses | 0 | 25,646 |
| Auditing Services | 19,118,233 | 28,455,696 |
| Consultancy Services | 9,399,536 | 876,750 |
| Sub-total | 28,517,769 | 29,358,092 |
| General Services | | |
| Janitorial Services | 12,245,943 | 12,761,899 |
| Security Services | 40,378,636 | 44,107,558 |
| Other General Services | 51,962,812 | 55,865,182 |
| Sub-total | 104,587,391 | 112,734,639 |
| Repairs and Maintenance | | |
| Repairs and Maintenance–Buildings and Other Structures | 7,150,680 | 7,824,246 |
| Repairs and Maintenance–Machinery and Equipment | 3,998,520 | 1,705,758 |
| Repairs and Maintenance-Transportation Equipment | 14,089,402 | 9,636,708 |
| Repairs and Maintenance - Furniture and Fixtures | 100,707 | 100,935 |
| Repairs and Maintenance - Leasehold Improvements-Building | 216,930 | 285,517 |
| Repairs and Maintenance - IT Equipment/Software | 11,913,769 | 9,168,707 |
| Sub-total | 37,470,008 | 28,721,871 |
| Taxes, Insurance Premiums and Other Fees | | |
| Taxes, Duties and Licenses | 1,972,568 | 2,478,470 |
| Fidelity Bond Premiums | 1,887,516 | 1,819,086 |
| Insurance Expenses | 9,930,970 | 12,779,414 |

| | 2019 | 2018 (As Restated) |
|---|---|---|
| Sub-total | 13,791,054 | 17,076,970 |
| | | |
| Labor and Wages and Wages | | |
| Labor and Wages | 253,662,467 | 226,939,523 |
| | | |
| Other Maintenance and Operating Expenses | | |
| Advertising, Promotional and Marketing Expenses | 5,855,743 | 3,940,973 |
| Domestic Conveyance Expenses | 66,124,817 | 84,701,854 |
| Terminal Dues Expenses – Recorded Items | 545,909,163 | 261,675,701 |
| EMS Delivery Expenses | 190,363,106 | 213,460,767 |
| Intl Conveyance Expenses - Air | 123,830,824 | 119,397,341 |
| Intl Conveyance Expenses - Surface | 14,057,764 | 20,728,979 |
| Intl Conveyance Expenses - Other Charges | 289,127,079 | 0 |
| Sea Rate Expenses | 3,198,286 | 7,489,987 |
| Inward Land Rate Expenses | 1,916,183 | 0 |
| Rent Expenses | 46,224,036 | 38,093,752 |
| Leasing Costs | 605,409 | 2,646 |
| UPU Membership Dues and Fees | 6,058,885 | 7,978,385 |
| Subscription Expenses | 98,465 | 57,946 |
| Other MOOE - Donations to Organizations | 3,500 | 6,400 |
| Per Diems | 0 | 3,249,000 |
| Documentary Stamp Expenses | 1,489,698 | 172,894 |
| Outbound Intl Postal Payment Charges, IMO | 10,333 | 19,415 |
| Delivery Expense | | |
| Other MOOE - Others | 120,969,807 | 86,157,219 |
| Other MOOE - Common Usage | 20,773,804 | 54,382,308 |
| Other MOOE - Meetings/Dialogues | 7,038,410 | 5,933,987 |
| BOD Reimbursable Expenses | 3,940,815 | 4,716,388 |
| Gender and Development Expenses | 1,966,095 | 1,086,216 |
| Other MOOE - PhlPost Christmas Celebration | 535,168 | 184,713 |
| Other MOOE - PhlPost Anniversary Celebration | 152,143 | 141,379 |
| Other MOOE - Salo-Salo Program | 0 | 30,000 |
| Other MOOE - Real Properties Titling | 34,969 | 8,036 |
| Other MOOE - Professional License Renewal | 0 | 2,026 |
| Discretionary Expenses | 123,161 | 0 |

| | 2019 | 2018 (As Restated) |
|---|---|---|
| Other MOOE - PhlPost Henyo Program | 6,000 | 0 |
| Other MOOE - Pre Qualification Advertising | 82 | 0 |
| Sub-total | 1,450,413,745 | 913,618,312 |
| **TOTAL** | **2,301,396,312** | **1,762,234,049** |

## 29. NON-CASH EXPENSES

This account is composed of the following:

| | 2019 | 2018 (As restated) |
|---|---|---|
| **Depreciation** | | |
| Depreciation – Transportation Equipment | 29,198,755 | 28,422,344 |
| Depreciation – Buildings and Other Structures | 21,886,272 | 21,969,724 |
| Depreciation - IT Equipment | 10,249,298 | 9,398,428 |
| Depreciation - Machineries | 8,792,930 | 11,679,167 |
| Depreciation - Equipment | 5,484,725 | 14,658,929 |
| Depreciation – Furniture, Fixtures and Books | 1,983,371 | 1,507,225 |
| Depreciation - Land Improvements | 334,769 | 334,769 |
| Depreciation - Tools | 87,049 | 39,854 |
| Depreciation - Leasehold Improvements–Bldg. | 63,983 | 63,983 |
| Sub-total | 78,081,152 | 88,074,423 |
| Impairment Loss | | |
| Bad Debt Expense | 209,483 | 471,531 |
| **Total** | **78,290,635** | **88,545,954** |

## 30. GAINS

This account is composed of the following:

| | 2019 | 2018 |
|---|---|---|
| Gain on Foreign Exchange (ForEx) | 60,130,426 | 13,084,328 |
| Other Gain (Gain on Excess of Standard Input Over Actual Input) | 24,140,911 | 26,240,449 |
| Gain/Loss on Sale or Disposal of Assets | 45,458 | 70,339 |
| **TOTAL** | **84,316,795** | **39,395,116** |

## 31. LOSSES

This account is composed of the following:

| | 2019 | 2018 |
|---|---|---|
| Loss on Foreign Exchange (FOREX) | 78,458,986 | 0 |
| Loss on Sale of Property, Plant and Equipment | 910,792 | 0 |
| Loss on VAT Exemption | 55,498 | 112,313 |
| Loss of Assets | 0 | 256,255 |
| **TOTAL** | **79,425,276** | **368,568** |

## 32. AUTHORIZED CAPITAL STOCK

Under Section 9 of R.A. 7354 or the Postal Services Act of 1992, the Corporation shall have an authorized capital stock of P10 billion divided into 45 million Class “A” shares to be subscribed by the Government and 55 million Class “B” shares to be subscribed by private entities with par value of P100 each.

## 33. GOVERNMENT EQUITY

The appraised value of all existing assets of the then Postal Service Office is the subscription of the National Government. PPC has not yet issued any share of stock.

Adjustment was made on Government Equity this year. Compared to CY 2018, it decreases by P159,410,487.90. This amount represents the money order collections of the then Postal Service Office erroneously remitted to the national government.

PPC erroneously recorded the above amount as Government Equity (Paid-up Capital) when it was refunded by the national government in April 2003.

## 34. Cumulative Changes in Fair Value/Revaluation Surplus

This pertains to the increase in the book value of titled lots or a result of appraisal.

| Location Lots | Appraisal Report September 1994 | Reappraisal 2009/2010 | 2019 | 2018 |
|---|---|---|---|---|
| BIR Road, Quezon City | 141,020,000 | 634,590,000 | 493,570,000 | 493,570,000 |
| CMEC, Quezon City | 0 | 1,005,730,000 | 1,005,730,000 | 1,005,730,000 |
| Regional Offices | 33,071,400 | 108,978,520 | 75,907,120 | 75,907,120 |
| Mega Manila adjustment | 0 | 0 | 0 | 421,161,575 |
| Area adjustment | 0 | 190,239 | 190,239 | 0 |
| **Appraisal Increase** | **174,091,400** | **1,749,488,759** | **1,575,397,359** | **1,996,368,695** |

## 35. APPRAISAL CAPITAL

*Appraisal Capital* represents the accumulated amount of appraisal increases as determined by independent appraisers who were hired to conduct appraisal of PPC's fixed assets. Appraisal increase is the amount by which the appraised value exceeds the book value of fixed assets and is added to the carrying value of fixed assets.

## 36. ADJUSTMENT IN THE STATEMENT OF FINANCIAL POSITION

Certain asset and liability accounts were presented at amounts net of account balances which accumulated prior to incorporation and which could not be substantiated. The Statement of Financial Position is presented net of these account balances. *Postage stamps inventory*, for example, reflects the face value instead of printing cost; *Due from Officers and Employees* includes incomplete or unliquidated payroll; *Receivables/Disallowances* include accountabilities/shortages of absconded employees; *Land* includes the booked-up value of properties without titles; *Accounts Payable* includes excess certification or booked-up payables without corresponding disbursement vouchers. These accounts are subject to verification, validation and necessary adjustment in the books. Accounts to be written off will be requested to the Commission on Audit. The list of the accounts with the corresponding amounts which could not be substantiated and subjected for reconciliation are as follows:

| ACCOUNT NAME | DEBIT | CREDIT |
|---|---|---|
| Cash - Collecting Officers - Corporate | 4,962,483 | |
| Cash - Collecting Officers - Trust - Manual MO | 7,535,196 | |
| Cash - Disbursing Officers - Corporate | 4,764,546 | |
| Cash - Disbursing Officers - Trust - Manual MO | 725,569 | |
| Payroll Fund | 1,067,100 | |
| Cash In Bank - Corporate | 10,204,216 | |
| Cash In Bank - Trust - Manual MO/PhilHealth | 112,409,457 | |
| Accounts Receivable, Trade | | 144,737 |
| Due From Directors, Officers and Employees | 26,938,557 | |
| Due From NGAS, GOCCS, SUCs and LGUs | 3,023,468 | |
| Rental Receivable | 81,367 | |
| Receivables - Disallowances/Charges | 35,875,963 | |
| Advances To Officers And Employees | | 454,389 |
| Merchandise Inventory | 5,453,673 | |
| Accountable Forms Inventory | 761,499 | |
| Guaranty Deposits | | 266,716 |
| Furniture And Fixtures | 683,580,448 | |
| It Equipment And Software | 104,695,886 | |
| Other Assets | 402,820,896 | |
| Due to BIR - Expanded Withholding Tax (EWT) | 1,608,151 | |

| ACCOUNT NAME | DEBIT | CREDIT |
|---|---|---|
| Due to GSIS | 12,004,364 | |
| Other Loan Deductions | 4,364,387 | |
| Due to Central Office | | 91,833,160 |
| Trust Liabilities - Premiums/ Bills Payments collections – PhilHealth | | 2,273,901 |
| Trust Liabilities - DMO | | 71,794,323 |
| Area Equity | | 98,835,200 |
| Retained Earnings | | 1,169,990,232 |
| Prior Years' Adjustments | 12,715,432 | |
| **Total** | **1,435,592,658** | **1,435,592,658** |

## 37. JOINT VENTURE

In 2009, PPC and Filmetrics Inc. (Filmetrics) entered into a Joint Venture Agreement (JVA) to operate the Filmetrics' Biometric Data Service Facilities (BDSF) with their clients. In conformity with its obligations under the JVA, PPC entered into an Agency to Agency Agreement with Social Security System (SSS), JV client, for use of the BDSF for the issuance of cards (IDs) to its members. In 2014, the Partners executed a Memorandum of Agreement to use the same BDSF for the issuance of Postal IDs.

**Joint Venture Agreement (SSS IDs)**

Under the JVA (SSS IDs), PPC billed SSS for ID captured and recognizes revenue, the cost of ID captured. The amount corresponding to 86.67% (85% starting October 2019) of the revenue however is remitted to FILMETRICS and recorded as expense under the account "Other MOOE-Common Usage

For the year 2019, PHLPost recorded a revenue of P202.36 million while the expenses is P124.26 million, net of input vat of P14.91 million.

**Joint Venture Agreement (Postal IDs)**

Under the JVA (Postal IDs), PPC recognizes the selling cost of P504.00 (VAT inclusive) per ID as revenue. Included in the P504.00 is the JV-ID fee of P222.00 (VAT inclusive) which is recorded as Accountable Forms Expense and payable to FILMETRICS.

While PHLPost recognizes the whole PID Fee of P222.00 as expense, it is also entitled to a share of 13.33% (15% starting October 2019) of the P222.00 PID Fee. This is additional revenue of PHLPost but it can be only collected from FILMETRICS upon remittance of the P222.00 to the latter.

During the year, PHLPost collected from Filmetrics P16.59 million as share of the partial remittance of PID Fees.

## 38. OTHER MATTERS

a. **Subsidy from the National Government for CY 2019**

The Department of Budget and Management through the Bureau of Treasury issued Special Allotment Released Order (SARO)-BMB-C-19-0016587 for the amount of P541,323,000 to cover the National Government subsidy for the delivery of mails of offices with franking privileges.

Likewise, the DBM issued Notice of Cash Allocation (NCA)-BMB-C-19-0020649 in the same amounts. This amount was released to PHLPost on November 13 and December 12, 2019.

Also, the DBM issued NCA-BMB-C-19-00164140 in the amount of P294,908,000 which is the unreleased balance of CY 2018 subsidy. This amount was released on September 10, 2019.

b. **Civil case for collection of sum of money docketed as Civil Case No. 01-1205 pending before the RTC of Makati, Branch 149 filed by Plaintiff BPI (now substituted by Asset Pool A (SPV-AMC), Inc. against PHLPost and co-defendant PLFC**

From 1996 to 1998, PLFC was granted a loan accommodation from FEBTC in an aggregate amount of P254,855,302.21 for which PPC binds itself, jointly and severally with PLFC in its capacity as surety, for any and all obligations of the latter. After some payments, PLFC defaulted in its loan obligation and as of 22 May 2001, BPI as successor-in-interest of FEBTC claimed that the outstanding obligation of PLFC already amounts to P402.137 million, broken down as follows:

| | |
|---|---|
| Principal | P250.722 million |
| Interest | 151.415 million |

On September 27, 2005, Avenue Asia Special Situations Fund III L.P. filed a Motion for Substitution of Party. AASSF III averred that BPI assigned its credit and accounts from PLFC.

Then, on September 17, 2012, Asset Pool A SPV-AMC, Inc. (present plaintiff) also filed a Motion for Substitution of AASSF III.

As of October 31, 2018, plaintiff claimed that the above balances including Attorney's Fee reached to P2,459,770,356.40.

After reconciliation, a Compromise Agreement was entered into by the parties by which PHLPost will pay the principal amount of P213,702,130.54 plus the compromise interest, penalties and attorney's fees of P25,000,000.00 in accordance with the agreed schedule.

PHLPost initially paid P15,000,000 interest on September 2019 and the monthly installment of P3,728,368,84 starting October or a total of P26,185,106,52 as at year-end.

c. **Civil Case No. 08-318 pending before the RTC of Makati, Branch 146 filed by Allied Banking Corporation (now substituted by Philippine National Bank (PNB) against PHLPost and Co-defendant PLFC.**

On April 23, 2008, a Complaint for Sum of Money with Prayer for Issuance of Writ of Preliminary Attachment was filed by then Plaintiff Allied Banking Corporation (ABC) against Defendants PLFC and PHLPost for unpaid loans which were incurred from 1995 to 1998. Plaintiff ABC claimed that Defendant PLFC still owes a principal amount of P44,218,118.88. On the other hand, PHLPost is being sued in its alleged capacity as surety of the PLFC loans.

On October 17, 2011, the Court issued a Decision in favour of Plaintiff bank ordering PLFC to pay plaintiff the amount of P44,218,811.11 plus interest at the rate of 12% per annum and penalty charge at the rate of 12% per annum starting from October 15, 2004 until the obligation is fully paid.

As per PNB's Statement of Account as of April 30, 2019 on PLFC's account, the latter's outstanding obligation already ballooned to P189,990,517.46.

In the Compromise Agreement entered into, PHLPost shall pay PNB the principal amount of P44,218,118,88 in accordance with the following schedule:

a. P5,000,000.00 first/initial installment upon approval of the Compromise Agreement
b. P13,072,706.30 three regular installments to be paid within 60 days after every installment

On top of the P44,218,118.88, PHLPost shall also pay a compromise interest of P6,000,000.00.

d. **Petition for Money Claim of FGU Insurance Corporation against PHLPost**

The claim arose from the vehicular incident on November 11, 1994 involving a vehicle of PPC. The owner of the other vehicle filed an insurance claim with FGU and was paid the amount of P287,500. On the other hand, FGU filed a complaint on December 12, 1966 before the RTC of Makati docketed as Civil Case No. 96-2023, for recovery of damages. The Court ordered PPC to pay the actual damage of P287,500 plus legal interest thereon from the time of filing of the complaint until full payment; Attorney's fees of P30,000 and cost of The case reached the Court of Appeals but it directed that the claim against PPC must be filed before the COA pursuant to Sec.26 of PD no. 1445.

In the COA Decision No. 218-287, PPC was directed to pay FGU the amount of P287,500.00 plus legal interest of 6% per annum computed from the date of filing of the complaint on December 12, 1996 until the judgment became final and executory on November 6, 2007, and 12% from finality of the judgment until full payment. The Commission did not determine the exact amount of the claim considering that PPC had yet to pay its obligation.

Following the computation of the Judgment Obligation as stated in the decision, the outstanding obligation of PHLPost assuming the date of actual payment was May 7, 2019, it would have been P1,131,752.21.

Upon acknowledging the present predicament of PHLPost and in view of the Parties' desire to put an end to this case, FGU insurance agreed that PHLPost shall pay the amount of P800,000 only subject to the following terms and conditions, among others:

i. Initial payment of P511,825 shall be paid to FGU fifteen days after approval by the court of the compromise agreement.

ii. The remaining balance of P288,175 shall be paid in five equal monthly installments at the rate of P57,635. The first payment of the 5 equal monthly installment shall commence 60 days after the date of initial payment of P511,825 while the succeeding installments shall be paid every month thereafter.

iii. The compromise agreement shall operate as a legal bar to any other actions that may hereafter be filed by the plaintiff involving the same cause/s of action.

e. PPC has a payable to PPSB in the amount of P4,545,811.40 representing the rehabilitation cost of the then PPC building destroyed by fire in 2011. On the other hand, PPSB has a payable to the PPC for the rental of the former Regional Office, Baguio City Post Office from April 2015 to December 2019. The property is being rented for P50,000 monthly by PPSB for the use of the Philippine Charity Sweepstakes Office (PCSO).

On November 25, 2016, PPC requested PPSB for offsetting of its payable of P4,545,811.40 against the latter's outstanding rental payable and succeeding monthly rental of P50,000 until the amount of P4,545,811.40 is fully paid.

In a letter dated February 2018, PPSB conveyed its approval and acceptance of PPC's proposal for offsetting, however, requested to include its PPSB outstanding payable with Mega Manila and succeeding monthly postage consumptions.

As of October 31, 2019, the obligations of both parties were already settled. Offsetting will be recognized in the books upon proper/complete documentation.

Offsetting of claims will be effected in the books once the parties come up with a Memorandum of Agreement

f. **Case No. SB-17-CRM-2146 for violation of Section 3 (e) of R.A. 3019 "Anti-Graft and Corrupt Practices Act" involving former PPC officials**

Facts/Background:

PHLPost USA engaged in the business of providing international re-mailing services to residents of the United States of America entered into License Agreement with PPC in April 2000.

For calendar year 2001, PHLPost USA paid PPC the amount of $1,031,936.03 or P52,772,780.30 for the terminal dues for mail matters sent to Royal Mail (United Kingdom)

On November 19, 2003, PPC refunded to PHLPost USA the $1,031,936.03 or P53,043,834.52 upon the request of PHLPost USA for the reason that Royal Mail has not sent invoices/ claim for the 2001 terminal dues.

Subsequently, the COA issued Audit Observation Memorandum (AOM) dated March 29, 2004 which upon evaluation issued Notice of Disallowance dated August 4, 2005 on the ground that the refund has no legal basis, and is not provided for in the License Agreement between PHLPost USA thus, considered as unnecessary expense.

A case was filed with the Sandigan Bayan against Diomedio Villanueva, then Postmaster General; Antonio R. Siapno, then Assistant Postmaster General, and Leonido T. Basilio, then Acting Director.
In the decision promulgated on February 22, 2019, the Sandigan Bayan, First Division acquitted accused Villanueva for failure of prosecution to prove his guilt beyond reasonable doubt, and no civil liability is adjudged against him.

The decision applies only to Villanueva. The Court did not rule whether accused Siapno and Basilio are guilty of the charge or not.

g. A portion of the Quezon City Post Office lot located at BIR Road, Barangay Pinyahan measuring approximately 640 sq.m. was affected by the Road Widening Project of the Department of Public Works and Highways (DPWH). As such, the existing power house, guard house and perimeter fence and wall, steel entrance were relocated due to the said project.

h. **Civil Case for Escheat at RTC, Branch No. 5, Legazpi City**

In the decision dated 16 January 2020, the Court ruled in favor of the Philippine Postal Corporation, excluding from the escheat proceedings, the unclaimed balance of P28,572.08 of the Postal Services now Philippine Postal Corporation under account number 0132-0104-80 deposited with the Land Bank of the Philippines, Legazpi City Branch.

## 39. Report on Other Legal and Regulatory Requirements

**Taxes, duties and licenses paid or accrued during the year:**

**a. Value Added Tax**

| Period | Paid On | Output Tax | Creditable VAT | Input Tax | Input Tax (sale to Gov't.) | Net Vat Payable |
|---|---|---|---|---|---|---|
| December 2018 | January 2019 | 33,615,622 | 2,393,873 | 11,734,424 | 1,207,233 | 18,280,092 |
| January 2019 | February | 27,623,913 | 2,405,350 | 5,724,239 | 2,775,094 | 16,719,230 |
| February | March | 17,606,133 | 353,044 | 2,954,960 | 840,929 | 13,457,200 |

| Period | Paid On | Output Tax | Creditable VAT | Input Tax | Input Tax (sale to Gov't.) | Net Vat Payable |
|---|---|---|---|---|---|---|
| March | April | 38,503,974 | 2,054,677 | 7,539,814 | 3,797,458 | 25,112,025 |
| April | May | 24,474,374 | 1,877,150 | 7,406,828 | 1,639,649 | 13,550,747 |
| May | June | 23,850,437 | 1,202,242 | 5,239,783 | 1,373,718 | 16,034,694 |
| June | July | 31,450,194 | 1,723,937 | 5,432,585 | 2,700,021 | 21,593,651 |
| July | August | 29,754,482 | 2,345,053 | 7,330,081 | 2,825,752 | 17,253,596 |
| August | September | 20,816,937 | 1,690,632 | 6,276,419 | 1,396,805 | 11,453,081 |
| September | October | 34,795,368 | 913,135 | 6,676,386 | 2,247,280 | 24,958,567 |
| October | November | 22,275,978 | 1,565,669 | 6,771,845 | 1,192,162 | 12,746,302 |
| November | December | 22,003,318 | 2,241,692 | 5,158,841 | 2,144,845 | 12,457,940 |
| **TOTAL** | | **326,770,730** | **20,766,454** | **78,246,205** | **24,140,946** | **203,617,125** |

**b. Monthly remittance return of income taxes withheld expanded (1601E)**

| CY2019 | TAX WITHHELD | TAX REMITTED |
|---|---|---|
| December 2018 | 3,921,992 | 3,921,992 |
| January | 224,775 | 224,775 |
| February | 633,286 | 633,286 |
| March | 948,201 | 948,201 |
| April | 840,599 | 840,599 |
| May | 1,082,555 | 1,082,555 |
| June | 1,196,027 | 1,196,027 |
| July | 1,134,429 | 1,134,429 |
| August | 1,119,450 | 1,119,450 |
| September | 1,708,167 | 1,708,167 |
| October | 850,014 | 850,014 |
| November | 1,427,201 | 1,427,201 |
| **TOTAL** | **15,086,696** | **15,086,696** |

**c. Monthly remittance return of value-added tax and other percentage taxes withheld (1600)**

| CY 2019 | TAX WITHHELD | REMITTED |
|---|---|---|
| December 2018 | 10,220,715 | 10,220,715 |
| January | 528,625 | 528,625 |
| February | 1,249,443 | 1,249,443 |
| March | 2,142,672 | 2,142,672 |
| April | 1,876,714 | 1,876,714 |
| May | 2,518,837 | 2,518,837 |
| June | 2,768,543 | 2,768,543 |
| July | 2,939,942 | 2,939,942 |
| August | 3,218,076 | 3,218,076 |
| September | 3,025,138 | 3,025,138 |

| CY 2019 | TAX WITHHELD | REMITTED |
|---|---|---|
| October | 1,895,049 | 1,895,049 |
| November | 3,100,638 | 3,100,638 |
| **TOTAL** | **35,484,392** | **35,484,392** |

**d. Monthly return of income tax withheld on compensation (1601C)**

| CY2019 | TAX WITHHELD | TAX REMITTED |
|---|---|---|
| December 2018 | 2,407,673 | 2,407,673 |
| January | 1,656,607 | 1,656,607 |
| February | 1,719,221 | 1,719,221 |
| March | 1,777,165 | 1,777,165 |
| April | 1,774,416 | 1,774,416 |
| May | 1,794,307 | 1,794,307 |
| June | 2,689,117 | 2,689,117 |
| July | 1,946,179 | 1,946,179 |
| August | 1,916,138 | 1,916,138 |
| September | 1,998,260 | 1,998,260 |
| October | 1,948,678 | 1,948,678 |
| November | 1,997,903 | 1,997,903 |
| **TOTAL** | **23,625,664** | **23,625,664** |

# PART II – AUDIT OBSERVATIONS AND RECOMMENDATIONS

## AUDIT OBSERVATIONS AND RECOMMENDATIONS

### A. Financial Audit

**Cash and Cash Equivalents**

1. **The existence, accuracy and validity of the year-end consolidated balance of Cash in Bank – Corporate reported at P1.397 billion could not be ascertained due to: (a) variances amounting to P94.094 million, P96.269 million and P0.664 million between the balances per books and the balances per bank confirmation in PPC Central Office, Postal Area 3 and Postal Area 8, respectively; (b) identified reconciling items for PPC Central Office, Postal Areas 1 and 6 which remained unadjusted; (c) delayed and/or non-submission of monthly Bank Reconciliation Statements (BRS) in Postal Areas 1, 2, 4, 6, 8, and 9; (d) inclusion of dormant accounts with balance of P1.901 million in Postal Area 4 which are unutilized for more than four years; and (e) 11 stale checks worth P141,621.66 in PPC Central Office were not restored to cash account at year end, contrary to International Public Sector Accounting Standard (IPSAS) 1 and other issuances.**

1.1 Our audit is guided by the following criteria:

1.1.1 Paragraph 27 of IPSAS 1 – Presentation on Financial Statements :

> "*Financial statements shall present fairly the financial position, financial performance and cash flows of an entity. Fair presentation requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, revenue and expenses set out in IPSASs. The application of IPSASs, with additional disclosures when necessary, is presumed to result in financial statements that achieve a fair presentation.*"

1.1.2 The National Guidelines on Internal Control System as circularized in DBM Circular Letter No. 2008-8 dated October 23, 2008 and COA Memorandum 2009-004 dated February 16, 2009:

> "*Operating procedures of every office require that the cash records of the Accounting and the Cash units should be regularly reconciled. The records of the depository banks pertaining to the cash accounts of an agency should be reconciled with the records of the Accounting and Cash units. This process will detect errors of fraud either by the bank, the Accounting unit or the Cash unit."*

1.1.3 Section 74 of P.D. No. 1445, otherwise known as the State Audit Code of the Philippines:

> "x x x *At the close of each month, depositories shall report to the agency head, in such form as he may direct, the condition of the agency account standing on their books. <u>The head of</u>*

*<u>the agency shall see to it that a reconciliation is made between the balance shown in the reports and the balance found in the books of agency.</u>*" (underscoring ours)

1.2 Sound accounting practice dictates that one of the purposes of the preparation of BRS is to compare the records of the agency against the bank statements to see if there are any differences between these two sets of records for cash transactions.

1.3 Audit of Cash in Bank - Corporate with balance amounting to P1.397 billion as of December 31, 2019 showed the following:

a. **Variances amounting to P94.094 million, P96.269 million and negative P.664 million existed between balance per books in PPC Central Office, Postal Area 3 and Postal Area 8, respectively, against confirmed bank balances**

Cash in Bank – Corporate balances of PPC Central Office, Postal Area 3 and Postal Area 8 as of December 31, 2019 showed variances of negative P94.094 million, P96.269 million and negative P.664 million, with the balances confirmed by the banks as shown below:

| Area | Per Book | Per Bank | Variance |
|---|---:|---:|---:|
| PPC - Central Office | 1,187,522,166.12 | 1,093,428,087.08 | 94,094,079.04 |
| Postal Area 3 | 150,929,164.95 | 54,659,964.10 | 96,269,200.85 |
| Postal Area 8 | 9,180,182.04 | 9,844,558.54 | (664,376.50) |

**PPC Central Office:**

PPC Central Office maintains 10 bank accounts in various banks for its domestic and international financial transactions covering general fund, operating fund, and dollar savings fund.

The results of the bank confirmations conducted on the 10 bank account balances as of December 31, 2019 disclosed a total confirmed balance of P1,093.428 million. Thus, comparing the amount viz-a-viz the book balances of P1,187.522 million resulted to a difference of P94.094 million. Details are shown in the table below:

| Bank | Account Name | Bank Balance as of December 31, 2019 | Book Balance as of December 31, 2019 | Variance |
|---|---|---:|---:|---:|
| Bank A | Current | 51,424.02 | 51,424.02 | 0 |
| Bank B | Current | 19,511.23 | 19,511.23 | 0 |
| Bank C | Savings | 357,522,299.00 | 357,699,116.46 | (176,817.46) |
| Bank D | Savings | 511,075,170.03 | 638,000,419.64 | (126,925,249.61) |
| Bank C | Savings | 1,874,639.38 | 1,874,639.38 | 0 |
| Bank B | Savings | 122,457.46 | 122,457.46 | 0 |
| Bank C | Savings | 186,549,186.97 | 186,549,186.97 | 0 |
| Bank E | IPG | 313,574.58 | 313, 574.58 | 0 |
| Bank D | Current | 35,889,822.62 | 2,881,834.59 | 33,007,988.03 |
| Bank E | Savings | 10,001.79 | 10,001.79 | 0 |
| **Total** | | **1,093,428,087.08** | **1,187,522,166.12** | **(94,094,079.04)** |

The net variance of P94.094 million as shown in the preceding table represents reconciling items that were shown as adjustments upon the preparation of the BRS of the 10 bank accounts. However, no journal entries were made to effect the necessary adjustments in the books due to non-availability of supporting documents. Thus, the book balances of the said bank accounts remained unadjusted as of December 31, 2019.

**Postal Area 3:**

Postal Area 3 or the Mega Manila Administrative Center maintains corporate depository accounts in various banks for its operating and general funds, as shown in the following table:

| Bank Name | No. of Deposit Accounts |
|---|---|
| Bank B | 2 |
| Bank D | 5 |
| Bank E | 2 |
| Bank C | 62 |
| **Total** | **71** |

The Bank C accounts maintained by Postal Area 3 were approved by the Department of Finance (DOF) in its Letter dated June 6, 2016, subject to conditions.

The year-end book balances of the different depository banks of Postal Area3 as reflected in the General Ledger balances showed a variance of P96.269 million as compared viz-a-viz with the bank statements submitted. This condition is violative of Section 74 of P.D. 1445 and of the National Guidelines on Internal Control System.

The variance of P96.269 million between the GL and bank balances of Postal Area 3 was computed as follows:

| Bank Name | Per GL | Per Bank | Variance |
|---|---|---|---|
| Beginning Balance (no specific bank) | 53,984,024.45 | 0 | 53,984,024.45 |
| Bank B | 13,046,655.33 | 3,049,099.00 | 9,997,556.33 |
| Bank D | 51,338,296.92 | 41,969,903.27 | 9,368,393.65 |
| Bank C | 24,321,371.10 | 1,411,526.18 | 22,909,844.92 |
| Bank E | 8,238,817.15 | 8,229,435.65 | 9,381.50 |
| **Total** | **150,929,164.95** | **54,659,964.10** | **96,269,200.85** |

**Postal Area 8:**

The Postal Area 8 maintained 15 current bank accounts with the LBP and BDO for Operating and General Funds, and 16 bank accounts with the same banks for Money Order Funds (MOF) and Cash Conditional Transfers (CCT).

Cash in Bank, Local Currency Savings Accounts include all bank accounts for Operating and General Funds, while Cash in Bank, Local Currency Current

Accounts include bank accounts for Money Order Fund and Cash Conditional Transfer.

Comparison of book and bank ending balances, as of December 31, 2019 showed a net variance of negative P.664 million, details are shown below:

| Account | Per Book | Per Bank | Variance |
|---|---|---|---|
| Cash in Bank, Local Currency Savings Account | 8,367,884.44 | 9,102,341.41 | (734,456.97) |
| Cash in Bank, Local Currency Current Account | 812,297.60 | 742,217.13 | 70,080.47 |
| **Total** | **9,180,182.04** | **9,844,558.54** | **(664,376.50)** |

Similar with the Audit Teams findings in Postal Area 3 above, the variance of negative P664,376.50 is indicative of the non-conformity with Section 74 of P.D. 1445 and the National Guidelines on Internal Control System.

b. **Identified reconciling items for PPC Central Office, Postal Areas 1 and 6 which remained unadjusted**

**PPC Central Office:**

The net variance of P94.094 million previously mentioned are the same identified reconciling items that were presented in the BRS in Calendar Years 1999 to 2017 with no supporting documents.

**Postal Area 1:**

The total Cash in Bank of P9.779 million for all funds of Postal Area 1 could not be ascertained due to failure of Management to record valid reconciling items in the books as reflected in the BRS.

Journal Entry Vouchers (JEV) to record valid reconciling items requiring adjustments in the books as reflected in the BRS were not promptly prepared. The affected accounts remained unadjusted for a long period of time and resulted to the accumulation of reconciling items requiring debit to cash amounting to P5.663 million and credits to cash amounting to P3.501 million as shown in the following table.

| Fund | Debit | Credit |
|---|---|---|
| General Fund | 4,985,857.14 | 1,087,372.81 |
| Trust Fund | 480,987.57 | 2,317,475.51 |
| Combo Account | 196,404.89 | 96,294.97 |
| **Total** | **5,663,249.60** | **3,501,143.29** |

**Postal Area 6:**

Book and bank reconciling items properly and correctly identified in the net amount of negative P16,784,414.86 and negative P452,637.57, respectively, were not recorded as adjustments.

During the verification of the latest BRS of all bank accounts maintained by Postal Area 6 as of December 31, 2019, the Audit Team noted that there were book reconciling items properly and correctly identified but were not yet adjusted in the books from year 2013, 2017, 2018 to earlier months of CY 2019.

In addition, all bank reconciling items identified should be communicated immediately to the bank for them to make the necessary adjustments.

c. **Delayed and/or non-submission of monthly BRS in Postal Areas 1, 2, 4, 6, 8, and 9**

Audit of Cash in Bank – Corporate account in Postal Areas 1, 2, 4, 6, 8 and 9 disclosed delay in the preparation of BRS or no preparation at all. The details are discussed in the table below:

| Postal Area | Observation |
|---|---|
| Postal Area 1 | A total of 35 bank accounts were maintained with various depository banks as of December 31, 2019 which comprised of 18 Cash in Bank – Corporate and 17 Cash in Bank – Trust Fund. Of the total number, 26 BRS were delayed in submission, 5 have incomplete monthly BRS and 4 have no BRS submitted. |
| Postal Area 2 | A total of 52 bank accounts were maintained with various depository banks as of December 31, 2019 which comprised of 28 Cash in Bank - Corporate and 24 Cash in Bank - Trust Fund accounts. BRS for all accounts for the months of September to December 2019 are not submitted to the Audit Team for verification. |
| Postal Area 4 | A total of 103 bank accounts were maintained in 2019. 55 accounts for General Fund and 48 for Trust Fund. Out of the 103 accounts, 39 were with BRS prepared only for the month of February 2019, one (1) for the month of January 2019 and 22 prepared for different months of the prior years. No BRS were prepared for all the bank accounts maintained at OFWB as well as PNB where all the bank accounts were declared dormant. |
| Postal Area 6 | A total of 44 bank accounts were maintained: 12 accounts with OFWB, 16 accounts with BDO and 16 with LBP.<br><br>The agency was not able to submit complete BRS for all the 44 bank accounts for the year 2019. The latest BRS submitted was for the month of September 2019. |
| Postal Area 8 | PPC Area 8 maintained 15 current bank accounts with the LBP and BDO for Operating and General Funds, and 16 bank accounts with the same banks for Money Order Funds and Cash Conditional Transfers (CCT). Monthly |

| Postal Area | Observation |
|---|---|
| | reconciliation of the accounts was not done by Accounting Unit to ensure that balances are reported. |
| Postal Area 9 | A total of 31 bank accounts were maintained as of December 31, 2019: 14 accounts with BDO, 13 accounts with LBP, and four accounts with OFWB. No BRS for December 2019 were submitted. |

d. **Inclusion of dormant accounts with balance of P1.901 million in Postal Area 4 which are unutilized for more than four years**

In Postal Area 4, 26 accounts maintained in four depository banks with total balance of P1.901 million have been dormant and unutilized for more than four years.

The dormant accounts were at LBP Lipa and Lubang Branches which earn interests and were not charged dormancy fees.

Moreover, all of the 16 accounts maintained with the Philippine National Bank were reported as dormant.

All dormant accounts should be reported and fully disclosed to achieve fair presentation on the financial statements in compliance with Paragraph 27 of IPSAS 1.

e. **11 stale checks worth P141,621.66 in PPC Central Office were not restored to cash account at year end**

Verification of bank reconciliation statements disclosed stale checks amounting to P141,621.66 that were not restored to Cash and Cash Equivalent account. The list of stale checks as of December 31, 2019 is as follows:

| Count | Date | Check Number | Amount |
|---|---|---|---|
| 1 | 6/26/2019 | 1335550 | 5,760.00 |
| 2 | 6/26/2019 | 1335551 | 7,440.00 |
| 3 | 6/26/2019 | 1335552 | 7,440.00 |
| 4 | 6/26/2019 | 1335553 | 7,440.00 |
| 5 | 6/26/2019 | 1335554 | 5,760.00 |
| 6 | 6/26/2019 | 1335555 | 3,360.00 |
| 7 | 6/26/2019 | 1335556 | 1,680.00 |
| 8 | 6/26/2019 | 1335557 | 21,345.05 |
| 9 | 6/26/2019 | 1335558 | 14,400.00 |
| 10 | 6/26/2019 | 1335559 | 26,892.91 |
| 11 | 6/26/2019 | 1335560 | 40,103.70 |
| **Total** | | | **141,621.66** |

These stale checks remained unadjusted as of December 31, 2019 thereby understating the balance of Cash and Cash Equivalent account and the corresponding liability account in contrary with the fair presentation requirement provided in the Section 27 of the IPSAS 1 - *Presentation of Financial Statements*.

1.4 ***We recommended that Management:***

***a. Coordinate and make representation with the concerned depository banks to identify unrecorded reconciling items;***

***b. Effect necessary adjusting entries for those identified reconciling items and furnish the Audit Team with the related Journal Entry Voucher/s together with the pertinent supporting documents;***

***c. Require the Accountant to prepare the necessary Bank Reconciliation Statements and effect the reconciling items in the books furnishing the Audit Team with copies of the Journal Entry Vouchers together with the supporting documents;***

***d. Require Postal Area 4 to make representations with the PPC Central Office for the closure of all dormant accounts with PNB, considering that it is no longer an authorized government depository bank so that the idle funds amounting to P1.901 million could be utilized for funding other PPC project(s); and***

***e. Prepare a Journal Entry Voucher to restore to cash and cash equivalent the stale checks amounting to P141,621.66.***

1.5 Shown on the following table are the Management comments and the Audit Team's rejoinder.

| Postal Area | Management Comment | Rejoinder |
|---|---|---|
| Central Office | Management commented that on June 18, 2019 they issued PHLPost Office Order No. 19-29 creating a task to reconcile and substantiate Balance Sheet Accounts.<br><br>Based on the office order created, the activities to be performed particularly for the Cash accounts are as follows:<br><br>1. Encoding of monthly bank statements from May 1996 to December 2012.<br>2. Tagging of book reference with the encoded monthly bank statements; and<br>3. Untagged transactions will be checked if it is the possible reconciling items and will be | The Audit Team expects that in the next Calendar Year, the variances will decrease if not totally eliminated. |

| Postal Area | Management Comment | Rejoinder |
|---|---|---|
| | recorded.<br><br>Management in the Central Office commented that the variance of P176,817.46 was adjusted under JEV No. 20-05-0072 dated May 31, 2020.<br><br>The stale checks amounting to P141,621.66 was adjusted under JEV No. GJ 20-04-0060 dated April 30, 2020. | |
| Postal Area 1 | Management commented that they already sent communications to the concerned banks regarding bank adjustments.<br><br>They commented that the amount of P5.127 million was already adjusted in the Postal Area books as of December 31, 2019. | The adjustments made as stated by Management is different from the adjustments required by the Audit Team. |
| Postal Area 2 | The Area Accountant has committed to submit all the Bank Reconciliation Statements of all the bank accounts. | The Audit Team expects full compliance with their commitment. |
| Postal Area 3 | Management agreed to reconcile and effect the necessary adjustments on the discrepancies between the book and bank balances. | The Audit Team expects full compliance with their commitment. |
| Postal Area 4 | The Area Office will follow the recommendation of COA to verify all PNB accounts that are considered dormant for immediate transfer to Central Office account.<br><br>The Management is already in coordination with the Central Office for the closure of dormant bank accounts. | The Audit Team expects the Management request to Central Office for the closure of dormant accounts. |
| Postal Area 6 | Management had to contend with resignations and retirement of employees who were not replaced, hence, some duties were set aside. | |
| Postal Area 8 | According to the Acting Chief, Administration and Finance, the | Unless the subject revised bank |

| Postal Area | Management Comment | Rejoinder |
|---|---|---|
| | balances reflected some errors and a revised Bank Reconciliation Statement was submitted to the COA Team on March 3, 2020. | reconciliation statements are duly verified by the Team and found to be in order, the finding remains. |
| Postal Area 9 | The Accountant commented that the BRS for the months of January to June 2019 for all bank accounts maintained with BDO and LBP were already submitted to the Audit Team and that there is an on-going reconciliation of records between the Cashier and the Accountant. | The Audit Team maintains, however, that timely submission of all BRS and its supporting documents is required. |

2. **The accuracy and validity of the year-end consolidated balances of the Cash – Collecting Officers (CCO) account for the Corporate and the Trust Funds totaling P163.400 million is doubtful due to the: (a) variances between book balances and the Postmaster's financial Reports in Postal Areas 1, 2 and 7; and (b) inclusion of the balance of P4.198 million in the Cash-Collecting Officer – Trust – PhilHealth in Postal Area 6 which should have been already closed, thus contrary to IPSAS 1 on fair presentation of accounts in the Financial Statements and Section 111 of P.D. 1445.**

2.1 Section 111 of P.D. 1445 states that:

> "x x x *The accounts of an agency shall be kept in such detail as is necessary to meet the needs of the agency and at the same time be adequate to furnish the information needed by fiscal or control agencies of the government.*
>
> *x x x The highest standards of honesty, objectivity and consistency shall be observed in the keeping of accounts to safeguard against inaccurate or misleading information.*"

2.2 PPC Circular No. 12-44 dated December 26, 2012 requires the Postmasters to submit to the Accounting Section and to COA on or before the 5$^{th}$ day of the following month the financial reports, such as Postmaster's Monthly Transaction Report.

2.3 Cash, Collecting Officers are cash on hand of Postmasters, Cashiers, and other designated Collecting Officers. The details of the Cash, Collecting Officers for the Corporate and Trust funds as of December 31, 2019 are as follows:

| Funds | Balance |
|---|---|
| Corporate | 105,601,063 |
| Trust | 57,799,104 |
| **Total** | **163,400,167** |

2.4 Audit of the above accounts disclosed the following:

a. **Noted variances between book balances and the Postmaster's financial Reports in Postal Areas 1, 2 and 7**

**Postal Area 1:**

In Postal Area 1, the Statement of Financial Position presented a balance of P0.933 million for the CCO account as of December 31, 2019. The analysis of the account showed a difference/discrepancy of P0.513 million between the balance per books and the Postmasters' cashbooks. The differences are:

| Accounts | Per Books | Per Postmasters' Cash Book | Variance |
|---|---|---|---|
| General Fund | 1,041,801.16 | 660,739.81 | 381,061.35 |
| Trust Fund Money Fund | 11,280.88 | 16,237.51 | (4,956.63) |
| Trust Fund PhilHealth | 134,597.81 | 0 | 134,597.81 |
| Trust Fund Bayad Center | 1,869.49 | 0 | 1,869.49 |
| **Total** | **1,189,549.34** | **676,977.32** | **512,572.02** |

The Audit Team conducted cash examination on the accounts of 73 Accountable Officers. Examination of the subsidiary ledgers maintained by the area accountant disclosed that some reconciling items reported in the reconciliation statement of accountability as of cash examination date were not recorded in the books.

**Postal Area 2:**

In Postal Area 2, comparison of amounts appearing in the Financial Statements against the figures reported in the financial reports of Postmasters for the CCO account under the Corporate Fund and Trust Fund – Money Order disclosed total discrepancy of P2.583 million accounted as follows:

| Accounts | Per Books | Per Postmasters' Cash Book | Variance |
|---|---|---|---|
| General Fund | 2,027,952 | 570,201 | 1,457,751 |
| Trust Fund MO | 539,170 | (23,874) | 563,044 |
| Trust Fund PHIC | 562,668 | 0 | 562,668 |
| **Total** | **3,129,790** | **546,327** | **2,583,463** |

Verification disclosed difference as the result from prior years' adjustments made by retired/relieved/reassigned and current postmasters that were not taken up in the financial statements.

Interview with the Accountant revealed that reconciliation is actually being undertaken but hardly completed due to voluminous transactions and large number of Accountable Officers/Postmasters in the Area and considering that the period of transactions to be reconciled is from 2013 to 2019.

Audit of the CCO-Trust Fund-PHIC account showed that all PHIC collections had been deposited by the Postmasters. However, the Philhealth subsidiary ledgers were not updated and the balances did not tally with the amount reported in the financial statements

This observation is a reiteration of an audit finding discussed in the 2018 Management Letter. Material variances were still noted despite the additional personnel who were assigned to reconcile the discrepancies.

**Postal Area 7:**

In Postal Area 7, accounting records were not reconciled with the cash books of the Postmasters from CY 2014 to the date of cash examination on September 9, 2019 resulting to a net variance of P3.271 million. Thus, the correct accountability of the Postmaster was not determined and caused further delay in the preparation of cash examination reports in violation of PHLPost Circular No. 12-44 dated December 26, 2012 which laid down the duties and responsibilities of a Postmaster:

> *"Postmasters are mandated to record in their respective cashbooks the daily collection and deposit based on the issued official receipts and deposit slip. Forward the Postmaster's monthly transactions report (PMTR) to PHLPost Area 7 Accounting Section for posting in the books of account within five (5) days after end of the month.*
>
> *The Accounting Section, on the other hand is also required to check the accuracy of the supporting documents as reported in the PMTR before it is posted in the books. Any discrepancy found by the account In-charge is to be relayed to the concerned Postmaster for his information and further action."*

Review of the cash and accounts of Postmasters under the Compostela Valley, Davao Oriental, Davao Norte, Metro Davao, Davao del Sur and Kidapawan Clusters for the period covering CY 2014 to September 9, 2019 disclosed that the posted amount in the Subsidiary Ledger (SL) of both collections and deposits did not reconcile with the amount reflected in cashbooks and in the PMTR and in the SL of the concerned Postmasters. The unreconciled variance forwarded until September 9, 2019 is shown below:

| Per Cluster | Variance |
|---|---:|
| Compostela Valley | 185,432.02 |
| Davao Oriental | 38,087.00 |
| Davao Del Norte | (79,678.75) |
| Metro Davao | 3,073,592.57 |
| Davao Del Sur | (38,068.95) |
| Kidapawan | 92,596.04 |
| **Total** | **3,271,959.93** |

Verification of the Postmaster's cashbook revealed that the amount posted were different from the amount shown in PMTR which were forwarded to the Accounting Section, thus resulting in a variance.

b. **Doubtful Cash Collecting Officer-Trust PhilHealth balance of P4.198 million as of December 31, 2019 in Postal Area 6**

Cash Collecting Officer – Trust PhilHealth balance in the books of Postal Area VI – Iloilo City totaled P7.613 million as of December 31, 2019.

Out of the total amount, the Audit Team observed that Cash-Collecting Officer – Trust – PhilHealth showed a balance of P4,198,457.77 as of December 31, 2019 when PPC was discontinued as remittance agent of PhilHealth last September 2018; thus, this account should have been reconciled and closed already.

2.5 ***We recommended and Management agreed to:***

***a. Require the Area Accountant to record the adjustments/reconciling items identified in the Reconciliation Statement of Accountability which form part of the Cash Examination Reports transmitted to Management;***

***b. Conduct thorough analysis and reconciliation of subsidiary ledger and financial reports;***

***c. Instruct the OIC-Chief Administrative and Finance Division to assign personnel who will check the veracity of the supporting documents of the PMTR before it is journalized, and***

***d. Require the Accountant to immediately conduct reconciliation of collections and remittances for Cash-Collecting Officer – Trust – PhilHealth and to close the said account.***

2.6 Management commented that some of the reconciling items identified in the Cash Examination Reports were adjusted. The remaining reconciling items consisting mostly of deposits are for adjustments once verified in the bank reconciliation statements.

Management informed the Audit Team that thorough analysis and reconciliation of subsidiary ledgers and financial reports prepared by Postmasters have been conducted and corresponding adjustments of discrepancies have been effected.

During the exit conference, the Management explained that some balances were already adjusted based on the cash examination report.

3. **The Investment in Time Deposits account amounting to P1.492 billion is presented as Investments in the Non-Current Assets portion of the Statement of Financial Position contrary to Paragraphs 27 and 76 of IPSAS No. 1 thereby understating the Current Assets and Overstating the Non-Current Assets by the said amount.**

3.1 Paragraph 27 of IPSAS 1 on the Presentation of Financial Statement states that:

*"Financial statements shall present fairly the financial position, financial performance and cash flows of an entity. Fair presentation requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, revenue and expenses set out in IPSASs. The application of IPSASs, with additional disclosures when necessary, is presumed to result in financial statements that achieve a fair presentation."*

3.2 Paragraph 76 of IPSAS 1 on the Presentation of Financial Statement states that:

*"An asset shall be classified as current when it satisfies any of the following criteria:*

*(a) It is expected to be realized in, or is held for sale or consumption in, the entity's normal operating cycle;*

*(b) It is held primarily for the purpose of being traded;*

*(c) It is expected to be realized within twelve months after the reporting date; or*

*(d) It is cash or a cash equivalent (as defined in IPSAS 2, unless it is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting date.*

*All other assets shall be classified as non-current."*

3.3 Verification of the Investment in Time Deposits account showed that the investments will mature within a year from the reporting date and not restricted from being exchanged or used to settle a liability for at least twelve months after the reporting date. Details are shown in the table below:

| Count | Bank | Roll Over Date | Maturity Date | Remaining Days Before Maturity from the Reporting Date December 31, 2019 | Balance per Bank | Balance Balance per Ledger |
|---|---|---|---|---|---|---|
| 1 | Bank D | 10/1/2019 | 1/2/2020 | 2 | 152,723,850.00 | 152,723,850.00 |
| 2 | Bank E | 12/3/2019 | 3/3/2020 | 63 | 102,746,153.66 | 102,746,153.66 |
| 3 | Bank E | 12/3/2019 | 3/3/2020 | 63 | 255,968,489.33 | 255,968,489.33 |
| 4 | Bank E | 11/26/2019 | 2/25/2020 | 56 | 5,509,958.68 | 5,509,958.68 |
| 5 | Bank D | 8/12/2019 | 2/10/2020 | 41 | 21,645,405.47 | 21,645,405.47 |
| 6 | Bank D | 12/5/2019 | 6/4/2020 | 156 | 32,546,863.26 | 32,546,863.26 |
| 7 | Bank E | 12/9/2019 | 6/8/2020 | 160 | 15,841,047.11 | 15,841,047.11 |
| 8 | Bank E | 11/26/2019 | 2/25/2020 | 56 | 15,918,540.56 | 15,918,540.56 |
| 9 | Bank E | 11/1/2019 | 2/25/2020 | 56 | 315,413.09 | 315,413.09 |
| 10 | Bank E | 7/20/2019 | 1/27/2020 | 27 | 31,283,834.46 | 31,283,834.46 |
| 11 | Bank E | 7/29/2019 | 1/27/2020 | 27 | 4,548,398.91 | 4,548,398.91 |

| Count | Bank | Roll Over Date | Maturity Date | Remaining Days Before Maturity from the Reporting Date December 31, 2019 | Balance per Bank | Balance Balance per Ledger |
|---|---|---|---|---|---|---|
| 12 | Bank D | 8/15/2019 | 2/13/2020 | 44 | 39,043,784.21 | 39,043,784.21 |
| 13 | Bank E | 12/16/2019 | 6/15/2020 | 167 | 46,604,680.40 | 46,604,680.40 |
| 14 | Bank E | 10/11/2019 | 1/10/2020 | 10 | 114,973,554.23 | 114,973,554.23 |
| 15 | Bank E | 7/4/2019 | 1/3/2020 | 3 | 108,425,850.53 | 108,425,850.53 |
| 16 | Bank E | 10/11/2019 | 1/10/2020 | 10 | 13,810,841.93 | 13,810,841.93 |
| 17 | Bank E | 11/5/2019 | 5/5/2020 | 126 | 138,292,350.13 | 138,292,350.13 |
| 18 | Bank D | 12/12/2019 | 3/12/2020 | 72 | 103,041,159.81 | 103,041,159.81 |
| 19 | Bank D | 7/17/2019 | 1/15/2020 | 15 | 189,167,240.58 | 189,167,240.58 |
| 20 | Bank D | 12/12/2019 | 3/12/2020 | 72 | 50,445,878.52 | 50,445,878.52 |
| 21 | Bank E | 10/11/2019 | 1/10/2020 | 10 | 50,000,000.00 | 50,000,000.00 |
| **Total** | | | | | **1,492,853,294.87** | **1,492,853,294.87** |

3.4 The amount of P1.493 billion is presented as Investments in the Non-Current Assets portion of the Statement of Financial Position in contravention with Paragraphs of IPSAS No. 1 understating the Current Assets and Overstating the Non-Current Assets by the said amount.

For proper presentation, the amount of P1.493 billion that will mature in less than a year from the reporting period shall be presented as short-term financial asset or temporary investments and presented separately as part of current assets.

3.5 ***We recommended that Management present in the Statement of Financial Position the account Investment in Time Deposit as part of Current Assets in accordance with IPSAS No. 1.***

3.6 Management commented that they will be submitting the Restated Statement of Financial Position with additional caption of Short Term Investment under the Current Assets Account Grouping.

## Trust Accounts

4. **Cash in bank – Trust account of PPC Central Office and Postal Area 3 totaling P398.878 Cash in bank – Trust account are not sufficient to cover the corresponding Trust Liability amounting to P768.018 million. Hence, the timely settlement of the trust obligation is at risk and indicative that the funds received for specific purposes were utilized for other purpose contrary to Section 3(4) of PD 1445.**

**Further, the presence of negative balance in the Trust Liabilities accounts amounting to P321.951 million casts doubts on the reliability of account balances contrary to the Framework for the Preparation and Presentation of Financial Statements.**

**Lastly, the existence of errors totaling P64.421 million in the accounts of Postal Area 3 affects the reliability and accuracy of the Cash in Bank – Trust account contrary to IPSAS 1.**

4.1 Section 3(4) of P.D. 1445 defined Trust Funds as *funds which have come officially into the possession of any agency of the government or of a public officer as* *trustee, agent, or administrator, or which have been received for the fulfillment of some obligation*.

Paragraph 31 of the Framework fo the Preparation and Presentation of Financial Statement says:

> *"To be useful, information must also be reliable. Information has the quality of reliability when it is free from material error and bias and can be depended upon by users to represent faithfully that which it either purports to represent or could reasonably be expected to represent"*

4.2 Audit of the Cash in Bank-Trust and Trust Liabilities accounts of the PPC Central Office and Postal Area 3 revealed the following:

| Particulars | Central Office | Postal Area 3 | Total |
|---|---|---|---|
| **Cash In Bank - Trust** | 355,038,128.90 | 43,839,975.08 | 398,878,103.98 |
| | | | |
| **Trust Liability** | | | |
| Trust Liabilities-Domestic Money Order | 901,024,649.13 | 32,288,525.37 | 933,313,174.50 |
| Trust Liabilities-Outbound IMO | 10,973,132.82 | 868,943.96 | 11,842,076.78 |
| Trust Liabilities-Inbound MO | 15,642.38 | (15,500.26) | 142.12 |
| Trust Liabilities-Premiums/Bills Payment Collections-PhilHealth | (321,259,614.37) | 38,412,140.48 | (282,847,473.89) |
| Trust Liabilities- ePMO | 22,497,945.94 | 146,206.43 | 22,644,152.37 |
| Trust Liabilities-Premiums/Bills Payment-Bayad Center | (675,457.81) | 14,629,424.93 | 13,953,967.12 |
| Trust Liabilities-Premiums/Bills Payment Collections-Consignment | 117,463.89 | 2,696,593.34 | 2,814,057.23 |
| PDIC | 6,553,871.91 | 0 | 6,553,871.91 |
| Cash Transfers Program | 2,619,976.35 | 0 | 2,619,976.35 |
| SPISC | 1,116,500.00 | 0 | 1,116,500.00 |
| Philatelic | 10,330.00 | 0 | 10,330.00 |
| Premium/bills - Provident | 55,997,645.57 | 0 | 55,997,645.57 |
| Total | 678,992,085.81 | 89,026,334.25 | 768,018,420.06 |
| **Variance** | **(323,953,956.91)** | **(45,186,359.17)** | **(369,140,316.08)** |

Cash in Bank – Trust account refers to the amount sent by various remitters/senders thru the partner-postal administrations/banks due for remittance/payment/transmission to various addresses/beneficiaries, while the Trust Liabilities Account is the contra account to recognize the corresponding liability/obligation for the fund collected/entrusted for payment/remittance to specific beneficiaries.

Ideally, the amount of Trust Liabilities recorded in the books should have corresponding cash in bank that will guarantee payment of such liabilities. Otherwise, the reliability of both accounts will be highly questionable, contrary to fair presentation requirement in IPSAS 1.

The variance of P369.140 million signifies the insufficiency in cash to cover the various trust liabilities recorded in the books thus, affected the reliability and accuracy of the balance presented in the Financial Statements as of December 31, 2019.

Audit of the accounts of Postal Area 3 further disclosed errors totaling P64.421 million in recording of collections, deposit and sweeping of trust funds which affect the reliability and accuracy of the trust accounts, details as follows:

a. As a practice, PhilHealth collections are directly deposited to the PHLPost Central Office bank account hence, an outright deduction to Trust Liabilities-PhilHealth account. However, deposit of Philhealth collections totaling P64.080 million were inadvertently recognized as debit to *Cash-in-Bank-Trust-Manual MO/Philhealth* instead of *Trust Liabilities-Philhealth* resulting in overstatement of Trust Liabilities-Philhealth and understatement of the affected accounts by P64.080 million.

b. The sweeping of ePMO trust funds totaling P20,995.00 were recorded in the books as credit to *Cash-in Bank-Trust-Manual MO/Philhealth instead of Cash-in-Bank-Trust-ePMO* thereby, overstating the Cash-in Bank-Trust-ePMO and understating the Cash-in-Bank-Trust-Manual MO/PhilHealth by the same amount.

c. PM's deposit of ePMO collections of P2,000.00 under CRDJ/2017-05-144 was recognized as credit to *Cash-Collecting-Officer-Trust-Manual MO* instead of *Cash-Collecting-Officer-Trust-ePMO* resulting to understatement of Cash-Collecting-Officer-Trust-Manual MO and overstatement of Cash-Collecting-Officer-Trust-ePMO both by P2,000.00.

d. The Trust-Liabilities-Outbound IMO totaling P233,234.89 for the periods April to October 2019 remained recorded in the books despite sweeping in of trust funds under various General Journals.

e. The proceeds from disposal of unserviceable equipment and discarded records totaling P84,916.72 were improperly taken in the books under CRDJ/2019-02-010 as *Cash-Collecting Officer-Trust-Consignment*, upon receipt and *Cash-in-Bank-Trust-Consignment,* upon deposit. The proceeds should have been recognized in the appropriate corporate accounts.

4.3 In addition, the Trust Liabilities accounts in the Statement of Financial Position are shown normally with credit balance; however, as can be gleaned from the preceding table the balances of three Trust Liability accounts have an accumulated abnormal balance of P321.951 million as shown below:

| Trust Liabilities | Book Balance |
|---|---:|
| Bayad Center | (675,457.81) |
| PhilHealth | (321,259,614.37) |
| Inbound MO | (15,500.26) |
| **Total Balance** | **(321,950,572.44)** |

These negative amounts are abnormal balances in the books that have accumulated because of erroneous entries that should have been immediately adjusted. There should be regular reconciliation of Cash-Trust Funds and the corresponding Trust Liabilities accounts to avoid the accumulation of reconciling items.

The huge negative amount casts doubts on the reliability of account balances contrary to Paragraph 31 of Framework for the Preparation and Presentation of Financial Statement which says:

> "*31. To be useful, information must also be reliable. Information has the quality of reliability when it is free from material error and bias and can be depended upon by users to represent faithfully that which it either purports to represent or could reasonably be expected to represent."*

4.4 Moreover, verification of the BRS of Central Office showed that reconciling items added/deducted to the balance per books to reconcile with the adjusted bank balance amounting to P184.357 million are not taken up in the books resulting in the overstatement of Cash in Bank – Trust as of December 31, 2019 in contrary to IPSAS 1.

| Bank | Balance per Book | Reconciling Items | Adjusted Book Balance |
|---|---|---|---|
| Bank D | 293,549,428.71 | (223,190,713.12) | 70,358,715.59 |
| Bank C | 4,463,748.30 | 38,833,411.35 | 43,297,159.65 |
| **Total** | | **(184,357,301.77)** | |

4.5 ***We recommended that Management:***

***a. Strictly monitor its cash flows to ensure that trust funds are disbursed only for the intended specific purposes;***

***b. Reconcile regularly the balances of trust accounts and the corresponding bank accounts to facilitate early detection of error/discrepancies and effect adjustments when necessary and effectively monitor its cash flows for trust fund accounts to ensure that sufficient funds are maintained to settle obligations;***

***c. Analyze the Trust Fund accounts and prepare the necessary adjustments duly supported with pertinent documents on the following errors of recording:***

***i. Deposit of PhilHealth collections totaling P64.080 million and ePMO collections of P2,000.00;***

***ii. Sweeping of ePMO trust funds totaling P20,995.00 and Outbound IMO trust funds of P233,234.89; and***

***iii. Collection and deposit of proceeds from disposal totaling P84,916.72.***

*d. Reconcile the negative/abnormal balances of trust liabilities accounts and effect necessary adjustments for erroneous entries, if warranted;*

*e. Validate all reconciling items and prepare and record the adjusting entries as necessary; and*

*f. Furnish the Audit Team copy of Journal Entry Voucher once adjustments are made.*

4.6 Management commented that composition of Cash Account Trust against Trust Liabilities Accounts is not limited to Cash in Bank only. There are accounts that comprise the total debit balance of the transactions to tally with the Trust Liabilities Account. (Cash Collecting, Cash Disbursing, AR-Shortages);

They have already adjusted in the books the amount of P65.125 million representing unrecorded Cleared PMO (initial adjustments for the months Oct-December 2012) adjusted under JEV No. GJ-20-01-0014 dated January 31, 2020.

Also, the negative balance in the Trust Liabilities- for Premiums/Bills-PhilHealth was due to misclassification of accounts from the Trust Liabilities-DMO.

The collection and deposits of trust accounts are properly monitored; and deposits and sweeping are reconciled monthly.

One of the factors on the variance between Cash Collecting-DMO and Trust Liabilities-DMO was due to lack of Journal Entry when the Money Order Check was not accepted by the bank and encashment done thru corporate fund Collection.

The discrepancies between Cash Collecting and Trust Liabilities reconciliation was due to improper classification of recording of collections, deposits and sweeping from prior years CY 2014 below. The lack of supporting documents for the CRDJs from CYs 2011-2014 posed difficulty to establish the exact amount of collections, deposits and sweeping particularly for Bayad Center and PhilHealth Transactions. The PHLPost Central Office is the one maintaining the bank accounts for these transactions and they also request for the reconciliation this year so they can adjust the said accounts.

4.7 As a rejoinder, Management should ensure that all cash held in trust are sufficient to pay all outstanding trust obligations.

## Receivables and Related Accounts

5. **The consolidated balance of Accounts Receivable – Trade (AR - Trade) amounting to P638.890 million could not be relied upon due to: (a) inclusion of abnormal balances amounting to P3.885 million; (b) accounts that remained uncollected for over three to more than 10 years amounting to P258.678 million; and (c) negative and unfavorable results of confirmation results showing a difference amounting to P18.587 million, which are contrary to COA Circular No. 2015-010, Paragraph 27 of IPSAS No. 1 and Section 112 of P.D. 1445.**

**Further, the low collection efficiency rate was due to non-enforcement of PHLPost's Policy on Delinquency Management of PCA.**

**a. Unusual negative balances amounting to P3.885 million and infrequent changes in Aging of AR – Trade classification.**

Chapter 3 Paragraph 3.10 of the Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities states that:

> *"to be useful in financial reporting, information must be a faithful representation of the economic and other phenomena that it purports to represent. Faithful representation is attained when the depiction of the phenomenon is complete, neutral, and free material error."*

**i. PPC Central Office**

Examination showed that Management had unusual negative balances and infrequent change in its aging AR – Trade schedules from CYs 2018 to 2019.

Two of the 49 customers showed negative balances amounting to P355,443 in aging of AR – Trade schedules.

Moreover, the Management cannot justify the infrequent changes on aging classification of the receivable accounts of the four customers in aging schedule from CYs 2018 to 2019 as shown in the next table:

| Customer Name | Aging Schedule CY 2019 | Aging Schedule CY 2018 | Remarks |
|---|---|---|---|
| Comelec | 462,010.44 | 462,010.44 | From over the 5 yrs. classification in CY 2018, it goes backward to over the 3 yrs. classification in CY 2019 |
| DFA | 4,761,587.30 | 2,846,555.72 | Reflected a higher figure than it supposed to be amounting to P1,915,031.58. |
| PS-DBM | 3,942,082.45 | 3,613,683.79 | Reflected a higher figure than it supposed to be amounting to P328,398.66. |
| SSS | 5,173,985.35 | 5,072,865.33 | Reflected a higher a figure that it supposed to be amounting to P101,120.02, in addition to wrong classification of category. |

Although the classification does not affect the total balance of AR – Trade, the correct presentation of Aging AR – Trade will help Management to determine if the company is taking greater risk in its sales practices. It is used as a gauge to know the financial status of a customer by simply identifying who among them are failing behind on their payments.

**ii. Postal Area 3:**

The AR - Trade included accounts subject to verification/reconciliation of P1.264 million and accounts with negative balances totaling P3.530 million which affects the accuracy of the reported account balance, viz:

| PCA Holder | | Amount |
|---|---|---|
| 1. | Client A | (2,090.97) |
| 2. | Client B | (1,780,755.00) |
| 3. | Client C | (125.00) |
| 4. | Client D | (54,524.00) |
| 5. | Client E | (1,437,928.00) |
| 6. | Client F | (249,999.99) |
| 7. | Client G | (4,659.00) |
| | **Total** | **(3,530,081.96)** |

We noted that the negative/abnormal balances have significantly increased by P3.332 million as compared to CY 2018 negative balance totaling to P198,152.18 only.

**b. Accounts that remained uncollected for more than three to more than 10 years amounting to P258.678 million.**

**i. PPC Central Office**

In the PPC Chart of Accounts, AR – Trade is defined as amounts due from customers arising from services rendered, trading/business transactions or sale of postage/philatelic items/PHLPost products (including postage charge accounts). Thus, it is shown under current asset in the agency's Statement of Financial Position since these assets are expected to be converted to cash within one year.

Verification disclosed that P127.379 million of the AR – Trade have been outstanding for more than three (3) years, an alarming increase of P21.923 million from last year, hence, the percentage of non-collection is high.

**ii. Postal Area 3:**

The AR - Trade refers to the amount due from customers arising from regular trade and business transactions. This is particularly used by Postal Area 3 - Mega Manila to recognize transactions pertaining to Postage Charge Accounts (PCA) or bulk/business mails on account.

As of December 31, 2019, the reported balance of the AR - Trade amounted to P359,754,321.

Dormant Receivable Accounts, as defined in COA Circular No. 2016-005, refer to accounts which balances remained inactive or non-moving in the books of accounts for 10 years or more and where settlement or collectability could no longer be ascertained.

Analysis of the Aging Schedule of the AR - Trade as of December 31, 2019 showed that P128.138 million or 36 per cent of the total receivables have been dormant for over five to more than 10 years thus, their collectability could not be ascertained, to wit:

| Age | Balance | % to Total |
|---|---|---|
| 1 to 60 days | 51,446,460.55 | 14% |
| 61 to180 days | 62,950,976.61 | 18% |
| 181 to 1 year | 54,651,257.76 | 15% |
| Over 1 to 3 years | 21,892,510.75 | 6% |
| Over 3 to 5 years | 40,674,603.31 | 11% |
| Over 5 to more than 10 years | 128,138,511.94 | 36% |
| **Total** | **359,754,320.92** | **100%** |

**iii. Postal Area 4:**

Long outstanding Accounts Receivable, Trade-Postage Charge Accounts (PCA) amounting to P8.029 million remained uncollected as of December 31, 2019 due to the Management's non-enforcement of collection contrary to the provisions of PHLPost Circular No. 14-88 dated November 13, 2014 and Item B of the Terms and Conditions of the Postage Charge Account, thereby depriving the Management the opportunity to use the fund to sustain its significant plans and programs for the improvement of agency's operation.

Postage Charge Account (PCA) refers to the acceptance of bulk / business mails on account.

Section IV of PHLPost Circular No. 14-88 states among others the Policy Guidelines for the following:

*"4.2 Billing and Collection management:*

4.2.8 *All PCA permits shall be valid until December 31 of the year applied for. Permits become invalid when:*

*a. the permit was not renewed after the expiration period; and*
*b. when the customers have not paid their accounts for two (2) consecutive months.*

*4.2.9 PCA permits shall be renewed within thirty (days) prior to expiration.*

*4.3 Delinquency Management:*

*4.3.2. In case of default in payment by PCA account holders, the following shall apply:*

*a. Regular Postage Charge Account – immediate suspension of the PCA permit when Billing Statements are not paid in full within the prescribed period of fifteen (15) working days. Subsequent mailings shall be accepted on a cash basis only.*

*b. With Guaranty Deposit Scheme – immediate application of the amount deposited when Billing Statements are not paid in full within the prescribed* *period as stipulated in the agreement. When deposit is fully applied, subsequent mailings shall be accepted on a cash basis only.*

*4.3.3 A penalty of 0.1% (.001) of the outstanding balance shall be imposed for every day of delay of payment by PCA holders. This provision shall be adopted as policy and shall be included in all Memorandum of Agreement with customers."*

Item B of the Terms and Conditions of the Postage Charge Account states the penalties in case of default.

*"B.1. Accounts paid after the due date shall be considered in default and shall be charge a penalty of 0.1% (.001) of the outstanding and unpaid amount for every day of delay in payment.*

*B.2. Unpaid accounts for two (2) consecutive billing periods shall be considered delinquent and the service shall be suspended immediately. The account maybe re-activated upon payment of past due accounts plus the applicable penalty."*

Our audit of receivables disclosed that the AR – Trade has increased to P11.190 million from the CY 2018 balance of P8.979 million. Out of the recorded amount, P3.161 million or 28.25 per cent was the receivables aged 0 to 120 days. However, the remaining amount of P8.029 million or 71.75 per cent pertains to receivable aged 121 days to 10 years that remained uncollected.

Further analysis showed that out of P8.029 million long outstanding receivables, P5.837 million belong to 36 clients (mostly government agencies) with outstanding balance of aged one to 10 years and remained dormant.

Moreover, the Management of PPC-SLA 4 did not impose the penalty of 0.1 per cent for daily delay of payment of PCA on the defaulting PCA account holders.

**c. Negative and unfavorable results of accounts confirmation amounting to P18.600 million.**

Section 112 of PD 1445 and IPSAS 1 Paragraph 27, for fair presentation state respectively:

"x x x *Each government agency shall record its financial transactions and operations conformity with generally accepted accounting principles and in accordance with pertinent laws and regulations.*"
*"x x x Fair presentation requires the faithful representation of the effects of transactions, other events and conditions in accordance with*

*the definitions and recognition criteria for assets, liabilities, revenue and expenses set out in the IPSASs. x x x"*

**i. PPC Central Office**

Two of the thirteen (13) Confirmation Letters (CLs) sent to debtors to verify the accuracy in recording of the AR – Trade of PPC Central Office disclosed different figures as shown in the following table while the rest did not reply at all:

| Customer Name | Type of AR - Trade | Balances | Confirmation Reply | Difference Over/(Under) |
|---|---|---|---|---|
| Department of Education | Logistics | 6,551,998.80 | 806,291.00 | 5,745,707.80 |
| Department of Health | Logistics | 16,253,434.50 | 3,411,700.00 | 12,841,734.50 |
| **Total** | | **22,805,433.30** | **4,217,991.00** | **18,587,442.30** |

According to the Accounting Department, the differences were due to returned billings that lack supporting documents and multiple accounts under one customer name. With this case the AR – Trade account reported was overstated by P18.600 million, contrary to the Management's assertion on the fairness of presentation of their financial statements.

**d. Low collection efficiency rate due to non-enforcement of PHLPost's Policy on Delinquency Management of PCA.**

**i. Postal Area 3:**

Paragraph 4.3, Delinquency Management of PCA, of PHLPost Circular No. 14-88 dated November 13, 2014 re: Policy Guidelines and Procedures of PCA, states that:

*"In case of default in payment of PCA account holder, the following shall apply:*

*a. Regular Postage Charge Account – Immediate suspension of the PCA permit when Billing Statements are not paid in full within the prescribed period of Fifteen (15) working days. Subsequent mailings shall be accepted on a cash basis only.*

*b. With Guaranty Deposit Scheme – Immediate application of the amount deposited when Billing Statements are not paid in full within the prescribed period as stipulated in the agreement. When deposit is fully applied, subsequent mailings shall be accepted on a cash basis only.*

*<u>A penalty of 0.1% (.001) of the outstanding balances shall be imposed</u> for every day of delay of payment by PCA holders. This provision shall be adopted as a policy and shall be included in all Memorandum of Agreement with customers."* (underscoring supplied)

The General Ledger of the AR - Trade showed low collection efficiency of 45 per cent which may be attributed to non-enforcement of the aforementioned provision. The collection efficiency rate is arrived at by dividing total collections for the year including adjustments, to the total of prior and current year receivables including adjustments.

| Prior Years' Receivables | Current Year Receivables | Total Collections | % of Collection |
|---|---|---|---|
| 267,085,860.72 | 386,686,814.37 | 294,018,354.19 | 45% |

In addition, the continuous acceptance of bulk/business mails on account from delinquent PCA clients adversely affected the Agency's collection efficiency rate, to wit:

| PCA Client | Total | Age of Receivables | | | |
|---|---|---|---|---|---|
| | | 1 to 60 days | 61 to 180 days | 181 days to 1 year | Over 1 year to more than 10 years |
| Citibank-BMSO | 42,926,021.74 | 1,181,260.60 | 0 | 1,961,928.25 | 39,782,832.89 |
| PhilamLife | 30,097,150.41 | 9,400,797.00 | 5,317,602.00 | 8,136,181.00 | 7,242,570.41 |
| BDO-Binondo | 19,631,935.91 | 0 | 2,461,873.92 | 4,997,080.18 | 12,172,981.81 |
| Pru Life UK | 18,719,082.00 | 1,796,283.00 | 8,244,848.00 | 7,255,583.00 | 1,422,368.00 |
| BPI-PhilamLife | 18,088,314.85 | 2,471,688.00 | 4,862,920.00 | 7,877,190.00 | 2,876,516.85 |
| Phil AXA Life | 15,763,408.63 | 1,987,330.24 | 5,062,702.23 | 5,368,441.12 | 3,344,935.04 |
| Sun Life of Canada | 14,043,344.69 | 2,577,584.00 | 4,699,711.00 | 115,268.00 | 6,650,781.69 |
| RCBC (c/o Bankard-Xytron) | 4,762,648.61 | 1,643,579.75 | 0 | 0 | 3,119,068.86 |
| RCBC (c/o Bankard) | 4,021,173.91 | 379,959.00 | 68,344.49 | 0 | 3,572,870.42 |
| RCBC Savings Bank | 4,715,849.60 | 494,552.50 | 1,526,258.25 | 783,326.50 | 1,911,712.35 |
| BDO-Makati | 3,916,550.88 | 374,024.68 | 789,263.00 | (24,506.00) | 2,777,769.20 |
| CTBC Bank of the Phil | 998,930.00 | 103,807.00 | 293,659.00 | 177,883.00 | 423,581.00 |
| Teletech | 724,069.83 | 37,527.00 | 60,112.00 | 210,249.00 | 416,181.83 |
| Manulife | 2,001,255.00 | 557,031.00 | 583,399.00 | 296,092.00 | 564,733.00 |
| **Total** | **180,409,736.06** | **23,005,423.77** | **33,970,692.89** | **37,154,716.05** | **86,278,903.35** |

Further, it was previously observed that no penalties for late payment were imposed to the defaulting PCA client which is not in accordance with PHLPost Circular No. 14-88.

In its AAPSI for CY 2018, Management explained that non-imposition of penalties is due to (a) discrepancies of billing and Certificate of Mailings (COM) provided by the Post Office and as presented by the client; (b) late collection/pick-up of check payment; (c) late posting of payments due to late reporting of Postmasters.

But, Management should have strictly observed and implemented its own *Policy Guidelines and Procedures for PCA* to attain better collection efficiency rate in order to achieve financial sustainability.

5.1 ***We recommended that Management:***

***a. PPC Central Office:***

***i. Reconcile the accounts of the two above mentioned customers to establish and determine the correct outstanding balances;***

***ii. Avoid making changes in schedule of Aging of AR – Trade PPC Central Office and update the status and personal circumstances of the persons/companies listed to establish collectivity, and***

***iii. Endorse to PPC Legal Department the accounts that were long overdue for appropriate action such as filing of cases, if warranted, or file or request for write-off of Accounts Receivable to the Commission of Audit, to bring the account to correct realizable value.***

***b. Postal Area 3:***

***i. Intensify collection efforts for long outstanding receivables by sending demand letters or institute legal remedies, if warranted;***

***ii. Evaluate the long outstanding and dormant receivables and request for authority to write-off as prescribed in COA Circular No. 2016-005 dated December 19, 2016;***

***iii. Continue efforts to analyze and reconcile the negative account balances of P3.530 million and accounts subject for reconciliation/verification of P1.264 million, and effect the necessary adjustments; and***

***iv. Implement PHLPost Circular No. 14-88 dated November 13, 2014 re: Policy Guidelines and Procedures on Postage Charge Accounts or revisit the same policy guidelines for possible improvement or revisions to harmonize the existing policies with current practice/condition.***

***c. Postal Area 4:***

***i. Collate the documents including the approved Application for Postage Charge Account and signed Terms and Condition of clients with long outstanding receivables for proper review of the account;***

***ii. Compute for the amount of penalty per client according to Terms and Conditions of PCA;***

***iii. Send confirmation letters and Statement of Account with computed penalties; and***
***iv. Exhaust all possible remedies to enforce collection.***

5.2 Management commented the following:

a. The negative balances are already in coordination with clients as they did not indicate which billing statement or COM is being paid when paying to the Area Cashier or Post Offices' Cashier;

b. The imposition of penalty to clients with outstanding balances are not implemented due to some factors: (a) Lack of communication from clients if the checks were already picked-up and sometimes checks are already made but not yet picked-up by the Cashier and (b) No copies of updated MOA were transmitted to Accounting Section as a basis for penalties;

c. The processing of requirements for the write-off of dormant accounts receivable is still on-going. Documents were already gathered since last year and had requested for write-off but returned due to lack of Barangay Clearance/Certificate for each dormant account; and

d. As of to date, no PCA Head is assigned to the PCA Unit to properly monitor and analyze the AR-Trade.

5.3 As our rejoinder for Postal Area 3, Management could have formulated and implemented control system on the collection of payments from PCA Holders.

Further, in order to cleanse the Accounts Receivable account, Management should comply with COA Circular No. 2016-005 which prescribes the Guidelines and Procedures on the Write-off of Dormant Receivable Accounts, Unliquidated Cash Advances, and Fund Transfers of Government-Owned and Controlled Corporations.

6. **In Postal Area 3, non-collection of rental receivables from Food and Drug Administration (FDA) totaling P5.911 million despite its continued use of the 520 sq. m. space at the Pasay City Post Office for the years 2017 to 2019 deprived PPC the additional income for its operations. PHLPost did not enforce the remedies in case of default by the Lessee as provided for in Sections IV and XXVII of the Lease Agreement entered into with FDA; thus, contributing to the increase of uncollected rental receivables.**

6.1 Section 2 of P.D. No. 1445 states that:

> *"x x x It is the declared policy of the State that all resources of the government shall be managed, expended or utilized in accordance with law and regulations, and safeguarded against loss or wastage through illegal or improper disposition, with a view to ensuring efficiency, economy and effectiveness in the operations of government. The responsibility to take care that such policy is faithfully adhered to rests directly with the chief or head of the government agency concerned."*

6.2 Section IV of the Lease Agreement entered into by and between PHLPost and FDA provides the remedies that PHLPost may exercise at its option, as follows:

*"In case of default by the LESSEE in the payment of the rent, meaning failure to pay the rent or any incidental charges after it has become due and demandable, the LESSOR, after complying with due process requirements, at its option, may:*

*a. Impose an interest of five per cent (5%) of the amount due and demandable; or*
*b. Exercise its right to padlock the premises when the LESSEE is in default of payment for three (3) consecutive months, and forfeit whatever rental deposit or advances previously given by the LESSEE; or*

*c. Terminate this Agreement and eject the LESSEE."*

6.3 Moreover, Item c(i) of Section XXVII of the same Lease Agreement states that:

*"c. The LESSOR may cancel or terminate this Agreement, upon the happening of any of the following events:*

*i. The LESSEE fails to pay its monthly rent or charges when the same fall due; xxx"*

6.4 A Lease Agreement was executed by and between the PHLPost and FDA on July 13, 2016 for the lease of 520 sq. m. of the ground floor of the Pasay City Central Post Office. The FDA shall pay a monthly rental fee of P350.00 per sq. m. or P182,000.00 per month, plus 12 percent VAT for five (5) years.

6.5 Audit of the Operating Lease Receivable account with a reported balance of P6.077 million disclosed the following:

a. **Non-collection of rental receivables totaling P5.911 million**

For the years 2017 to 2019, the total rental receivables from FDA per General Ledger amounted to P5.518 million, computed as follows:

| Year | Annual Rental Fee | Lease Payments | | Outstanding balance |
|---|---|---|---|---|
| | | Amount | Period Covered | |
| 2017 | 2,446,080.00 | 1,019,200.00 | Jan to May 2017 | 1,426,880.00 |
| 2018 | 2,446,080.00 | 392,896.00 | Jan 2018 | 2,053,184.00 |
| 2019 | 2,446,080.00 | 407,680.00 | Feb and Mar 2019 | 2,038,400.00 |
| **Total** | **7,338,240.00** | **1,819,776.00** | | **5,518,464.00** |

Verification of the Bill No. FDA-19-04-0005, however, showed that the total uncollected/unpaid rent of FDA is P6.319 million, which is more than the rental receivable per books of P5.518 million, or a difference of P800,576.00. This pertains to lease payments for the months of January 2018 and February and March 2019 as shown in the table above.

These lease payments are received by the PHLPost-Central Office and then transferred to Area 3-Mega Manila thru inter-office transfer advice to record the transaction.

We further noted that the amount of P392,896.00 as lease payment in January 2018 is doubtful since it is not equivalent to monthly rental rate of P203,840.00 including VAT and that the disbursement voucher of FDA only indicates: *"payment for the PHLPost Services with SOA No. 00004 dated June 30, 2017."* and not as lease payment. Hence, the total rental receivables from FDA should have been P5,911,360.00, as shown in the next table:

| Description | Amount |
|---|---|
| GL balance of Rental Receivables from FDA, as of December 31, 2019 | 5,518,464.00 |
| Add: Payment for PHLPost Services with SOA No. 00004 inadvertently recorded as lease payment | 392,896.00 |
| **Audited balance of Rental Receivables from FDA** | **5,911,360.00** |

b. **Non-enforcement of the remedies in case of default**

Inquiry with Management further disclosed that they have already coordinated with the Lessee in CY 2018 and also issued a demand letter, but to no avail.

In spite of the delay in payment and continued use of the leased asset by the Lessee, the Lessor did not enforce its remedies as stipulated under Sections IV and XXVII of the Lease Agreement. Thus, it resulted to accumulation of uncollected rental receivables.

6.6 Considering the foregoing, Postal Area 3 - Mega Manila is deprived of funds which could have been utilized for the operations of the Agency.

6.7 ***We recommended that Postal Area 3 - Mega Manila Management:***

***a. Demand immediately the payment of lease rentals totaling P5.911 million including the penalties from the lessee;***

***b. Effect the necessary reclassification entries on the collection of P392,896.00; and***

***c. Enforce the provisions of Sections IV and XXVII c(i.) of the Lease Agreement, if not, institute other legal remedies to collect the amount due and demandable.***

6.8 Management commented that rental payments of FDA are made directly to the PHLPost Central Office. There might be a possibility that lease payments were already received by the PHLPost Central Office but not yet transferred to Postal Area 3 – Mega Manila, hence the outstanding rental receivable.

6.9 As a rejoinder, we further recommend that Management should coordinate with the PHLPost Central Office on the collection of rental receivable to report in the books the actual account balance.

7. **The Accounts Receivable (AR) – Mail Remunerations in the amount of P1.627 billion as at December 31, 2019 is overstated by P48.851 million and AR Trade (under contract) is understated by the same amount due to the erroneous credit to AR Trade (under contract) instead of AR – Mail Remunerations of remittance of identified designated operators contrary to IPSAS 1.**

7.1 The following criteria were used for this observation:

7.1.1 Paragraph 27 of IPSAS 1 on Presentation of Financial Statements.

7.1.2 The definition of the following terms as provided under Notes to Financial Statements:

**Accounts Receivable (AR) – Mail Remunerations** refers to the amount due from designated operators arising from the services rendered to deliver all inbound international mail matters. It consists of receivables already accepted by various designated operators which are still outstanding as of December 31, 2019 and receivables billed during the year accepted by the designated operators.

**Other Deferred Credits – Remunerations** refers to the temporary account used for the collections/payment received from unidentified designated operators due to inadequacy of documents. This amount is closed during year end by debiting Other Deferred Credits – Remunerations and crediting Accounts Receivable – Mail Remunerations.

**Accounts Receivable Trade (under contract)** refers to charges to corporate clients with contracts for acceptance of bulk mail items for delivery to other countries.

7.2 Audit of the account disclosed the following:

a. **Erroneous credit to Accounts Receivable Trade (under contract) instead of Accounts Receivable – Mail Remunerations**

Initially, the account Other Deferred Credits – Remunerations (ODC Remunerations) is credited in lieu of AR – Mail Remunerations, to record the remittances made by designated operators which remained unidentified due to insufficient documentation. The Accounting Department (AD) used the account Other Deferred Credits Remunerations as a temporary account until the designated Operators are identified.

Once the AD receives the required documents and was able to identify the designated operators, Other Deferred Credits – Remunerations is reclassified to AR – Mail Remunerations. To reclassify the remittance, AR – Mail Remunerations is credited and Other Deferred Credits – Remunerations is debited.

This is part of last year's audit observation wherein we stated that the Accounts Receivable Mail Remuneration was overstated due to failure of the AD to identify the designated operators at year end thus, precluding the reclassification of the ODC Remunerations to AR Remunerations.

The ODC Remunerations was used as a temporary account to record the collections from unidentified designated operators. This account should be reclassified to AR Remunerations at year end to reflect in the book the correct balance of AR Remunerations.
However, our audit of the General Journal showed that the amount of P48.851 million was credited under JEV 19-03-0094 to the Account Receivable Trade International (under contract) instead of AR Remunerations to record the remittance of the identified designated operators at year end. Thus the account AR Remuneration is overstated and AR Trade (under contract) is understated by the same amount.

b. **Non-submission of the accompanying Aging Schedule of Accounts Receivable**

Paragraph 6.1 and 6.2 of COA Circular 2016-005 states that:

> "6.1 All government entities shall conduct regular monitoring and analysis of receivable accounts to ensure that these are collected when these become due and demandable x x x"
>
> "6.2 All government entities shall prepare the schedule of all receivables, x x x"

The Audit Team requested the Accounting Department to furnish the schedules of the AR Remuneration and the necessary Aging Schedules. The Accounting Department has informed the team that the subject schedules will be coming from the Service Regulatory Department (SRD) but as of the date of this Report, no schedules were received by the team.

The Team would like to emphasize the need for the schedules to be submitted/attached to support the year-end balance of the account as shown in the financial statements. The absence of these documents gives doubt to the accuracy and reliability of the account.

7.3 ***We recommended that Management:***

***a. Reclassify the amount of P48.851 million credited to AR - Trade (under contract) to AR Remunerations; and***

***b. Furnish to Audit Team the necessary Aging Schedules of AR.***

7.4 Management commented that the APMG for Administration and Finance already notified the concerned office to submit the required schedules and Ageing of said Account.

## Inventories

8. **The existence and accuracy of the consolidated balance of the Inventory accounts as at December 31, 2019 in the aggregate amount of P172.054 million is unreliable due to unsubstantiated or "For Reconciliation" accounts in the PPC Central Office and the non-submission of report on and non-conduct of physical count of inventories by PPC – Central Office and Postal Area 1, respectively, thus, affecting the fair presentation of the financial statements as required in IPSAS 1.**

8.1 Paragraph 27 of IPSAS No. 1 provides that fair presentation requires *the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, revenue and expenses set out in IPSASs.*

8.2 Audit of the consolidated balances of the Inventory accounts showed:

a. **Unsubstantiated or "For Reconciliation" accounts**

The presence of unsubstantiated or "For Reconciliation" accounts/items totaling P6.442 million or 5.58 per cent of the aggregate costs of Inventories thus, affected the fair presentation of the financial statements.

*This audit finding had been the subject of previous years' audit observations and recommendations.*

As of December 31, 2019, the balance of accounts comprising the Inventories are as follows:

| Account Title | Code | | Good Accounts | For Reconciliation | Total Amount |
|---|---|---|---|---|---|
| Merchandise Inventory | 10401010 | 000 | 54,084,838.80 | 5,680,438.91 | 59,765,277.71 |
| Accountable Forms, Plates and Stickers Inventory | 10404020 | 000 | 1,130,442.86 | 761,499.26 | 1,891,942.12 |
| Office Supplies Inventory | 10404010 | 000 | 42,391,648.59 | 0 | 42,391,648.59 |
| Fuel, Oil and Lubricants Inventory | 10404080 | 000 | 2,214,930.88 | 0 | 2,214,930.88 |
| Construction Materials Inventory | 10404130 | 000 | 858,912.45 | 0 | 858,912.45 |
| Semi-Expendable Office Equipment | 10405020 | 000 | 0 | 0 | 0 |
| Semi-Expendable Office Ict Equipment | 10405030 | 000 | 336,325.89 | 0 | 336,325.89 |
| Semi-Expendable Other Machinery and Equipment | 10405190 | 000 | 0 | 0 | 0 |
| Semi-Expendable Furniture and Fixtures | 10406010 | 000 | 1,215,455.72 | 0 | 1,215,455.72 |
| Other Supplies and Materials Inventory (Spare Parts - Metered Machine) | 10404990 | 100 | 0 | 0 | 0 |
| Other Supplies and Materials Inventory (Spare Parts - Office & It Equipment) | 10404990 | 200 | 0 | 0 | 0 |

| | | | | | |
|---|---|---|---|---|---|
| Other Supplies and Materials Inventory (Spare Parts - Motor Vehicles) | 10404990 | 300 | 6,702,430.45 | 0 | 6,702,430.45 |
| **Total** | | | **108,934,985.64** | **6,441,938.17** | **115,376,923.81** |

During CY 2018, the "For Reconciliation" account balances were Merchandise Inventory – For Recon, P5.680 million and Accountable Forms, Plates and Stickers Inventory – For Recon, P5.237 million or a total of P10.917 million. In 2019, a Journal Entry Voucher (JEV) was drawn by the Accounting Department to reclass Accountable Forms, Plates and Stickers Inventory – For Recon to good account. Details of the JEV are presented hereunder:

| Date | Particulars | Account | Code (Sub-code) | Debit | Credit |
|---|---|---|---|---|---|
| 4/30/19 | To reclass accountable forms inventory – for recon to accountable forms inventory | Accountable Forms, Plates and Stickers Inventory | 10402020 (000) | 4,745,767.52 | |
| | | Accountable Forms, Plates and Stickers Inventory – For Recon | 10402020 (000 FR) | | 4,745,767.52 |

After the reclassification, the balance of Accountable Forms, Plates and Stickers Inventory – For Recon was decreased to P761,499.26 and the total balance of "For Recon" Inventory accounts amounted to P6,441,938.17. The "For Recon" accounts represent the unsubstantiated balances covering the period from CYs 1992 to 2011 without pertinent supporting documents.

The aggregate balance of Inventory accounts still included P6.441 million unsubstantiated balances thus, casts doubt on the existence of inventories and accuracy of the reported balances.

b. **Non-submission of Report on Physical Count of Inventories (RPCI) in PPC – Central Office and no physical count of Inventories conducted in Postal Area 1**

For CY 2018, an RPCI was submitted but with a variance amounting to P84.524 million between the aggregate book balances and RPCI. Physical count/ inventory, which is required semi-annually, is an indispensable procedure for checking the integrity of property custodianship. To date, no RPCI for CY 2019 was submitted.

The RPCI is used to report each type of inventory which are owned by the agency including the semi-expendable property wherein the issuance is covered by Inventory Custodian Slip. This shall be prepared semi-annually by the Inventory Committee.

Absence of an RPCI casts doubts on the property custodianship and affected considerably the fair presentation of the inventory account in the financial statement as this report supports the reflected amounts of Inventory accounts.

Also, in Postal Area 1, the amount of inventories totaling P1.814 million cannot be ascertained due to the failure of Management to conduct physical count of inventories.

8.3 ***We recommended that Management:***

   a. ***Exhaust all means to analyze and identify the accounts "For Reconciliation" and prepare the necessary adjusting entries, if warranted;***

   b. ***Submit the RPCI for all types of inventory and reconcile the difference between the balance per accounting records and the balances per physical inventory count in reiteration of previous year's audit finding and recommendation; and***

   c. ***In Postal Area 1, conduct physical count of inventories.***

8.4 Management commented the following:

   a. There is still on-going collation of documents needed for the unsubstantiated accounts since the assigned personnel has resigned;

   b. The RPCI for the different types of Inventories were already submitted on July 14, 2020;

   c. Postal Area 1 management commented that they had conducted physical count of Inventories only in certain areas and that by July 2020, the management assured the audit team that they will start the inventory count of its assets in the entire PPC Northeast Luzon Area.

8.5 The Audit Team, as a rejoinder, emphasizes to management the need for the timely submission of the RPCI.

## Property, Plant and Equipment

9. **The consolidated balance of Property, Plant and Equipment (PPE) accounts amounting to P5.975 billion was unreliable due to: (a) inclusion of unsubstantiated or "For Reconciliation" balances in an aggregate amount of P757.720 million in the PPC Central Office's books; (b) discrepancy amounting to P314.759 million between Report on Physical Count of Property, Plant and Equipment (RPCPPE) amounting to P209.901 million and balance per books in Postal Areas 3, in the total amount of P524.660 million; (c) incomplete Property, Plant and Equipment Ledger Card (PPELC) maintained by PPC Central Office; (d) late submission of Inventory Report in PPC Central Office, while no physical count conducted in Postal Area 1 and no physical Inventory Report submitted by Postal Area 3 (e) non-provision of depreciation for the account "Other Land Improvements" and the existence of a debit balance of P23.278 million for the account "Accumulated Depreciation – Furniture and Fixtures"; and (f) inclusion of P13.932 million worth of unserviceable/obsolete items in Postal Areas 5, 6 and 9, contrary to Section 79 of PD 1445 and IPSAS 1.**

9.1 Paragraph 27 of IPSAS No. 1 requires faithful representation of the effects of transactions in the financial statements.

9.2 Audit of PPE accounts totaling P5.957 billion as of December 31, 2019 showed non-conformity to IPSAS 1 in view of the following:

a. **Inclusion of unsubstantiated or "For Reconciliation" balances in an aggregate amount of P757.720 million in the PPC Central Office's books**

This is a reiteration of our previous year's audit observation.

The balance of PPE as of December 31, 2019 in the PPC Central Office books is presented below:

| Accounts | RCA Code | Good Accounts Amount | % | For Recon Amount | % | Total |
|---|---|---|---|---|---|---|
| Land | 10601010 | 2,948,749,330.00 | 100 | 0 | 0 | 2,948,749,330.00 |
| Land Improvements | 10602990 | 5,545,628.75 | 100 | 0 | 0 | 5,545,628.75 |
| Buildings | 10604010 | 421,477,633.81 | 100 | 0 | 0 | 421,477,633.81 |
| Machineries | 10605010 | 112,988,215.41 | 100 | 0 | 0 | 112,988,215.41 |
| Office Equipment | 10605020 | 290,260,267.22 | 100 | 0 | 0 | 290,260,267.22 |
| Information and Communication Technology Equipment | 10605030 | 74,096,417.25 | 41 | 104,695,885.85 | 59 | 178,792,303.10 |
| Tools | 10605990 | 362,321.21 | 100 | 0 | 0 | 362,321.21 |
| Motor Vehicles | 10606010 | 115,756,543.25 | 100 | 0 | 0 | 115,756,543.25 |
| Furniture and Fixtures | 10607010 | 10,176,466.28 | 2 | 653,031,917.16 | 98 | 663,208,383.44 |
| Other Heritage Assets | 10610990 | 3,100,300.00 | 100 | 0 | 0 | 3,100,300.00 |
| **Total** | | **3,982,513,123.18** | **84.01%** | **757,727,803.01** | **15.99%** | **4,740,240,926.19** |

Comparison of "For Reconciliation" balances between CY 2019 and CY 2018 is shown hereunder:

| Account | RCA Code | "For Recon" Balances CY 2018 | Amount reconciled during 2019 | Balance, CY 2019 |
|---|---|---|---|---|
| Information and Communication Technology Equipment | 10605030 | 104,695,885.85 | 0 | 104,695,885.85 |
| Furniture and Fixtures | 10607010 | 683,580,448.16 | 30,548,531.00 | 653,031,917.16 |
| **Total** | | **788,276,334.01** | **30,548,531.00** | **757,727,803.01** |

On December 31, 2019, Journal Entry Voucher (JEV) was drawn affecting "For Reconciliation" PPE balances. Details of the JEV are as shown in the next table:

| Date | Particulars | Account | Code (Sub-code) | Debit | Credit |
|---|---|---|---|---|---|
| | | | | | |
| 12/31/19 | To reclass and drop items under Furniture and Fixture with unit cost below P15,000 | Accumulated Depreciation – Furniture and Fixture | 10607011 (000) | 27,472.077.90 | |
| | | Retained Earnings / (Deficit) | 30701010 (900) | 30,524,531.00 | |
| | | Furniture and | 10607010 | | 30,524,531.00 |

| | | | |
|---|---|---|---|
| | Fixture – For Recon | (000 FR) | |
| | Semi-expendable Furniture and Fixture | 10406010 (000) | 27,472,077.90 |

Examination revealed that items dropped were those acquired during years 2006 and 2007. Of the P788.276 million "For Reconciliation" balances, only P30.548 million or 3.88 per cent were reconciled during 2019. The remaining P757.727 million or 96.12 per cent remained unsubstantiated/unreconciled.

Management did not fully exhaust means to examine and substantiate "For Reconciliation" accounts for fair presentation of PPE accounts as per Recommendation 8(a) of the previous year's Audit Observation Memorandum (AOM) No. PPC-HO-030 (2018).

b. **In Postal Area 3, discrepancy amounting to P314.759 million existed between the RPCPPE amounting to P209.901 million and the balance per books in the total amount of P524.660 million contrary to Paragraph 27 of IPSAS 1 and COA Circular No. 80-124**

COA Circular No. 80-124 provides that *Inventory reports shall be properly reconciled with accounting and inventory records.*

As of December 31, 2019, the Property, Plant and Equipment with a net book value of P188.790 million is composed of the following:

| Account Name | Cost | Accumulated Depreciation | Net Book Value |
|---|---|---|---|
| Land Improvements | 10,822,611 | 6,980,584 | 3,842,027 |
| Buildings | 448,030,574 | 286,400,074 | 161,630,500 |
| Motor Vehicles | 29,550,245 | 18,466,054 | 11,084,191 |
| Furniture and Fixtures | 779,944 | 637,194 | 142,750 |
| IT Equipment and Software | 16,405,610 | 8,248,702 | 8,156,908 |
| Office Equipment | 29,893,515 | 26,543,308 | 3,350,207 |
| Leased Assets Improvements-Building | 710,924 | 127,966 | 582,958 |
| **Total** | **536,193,423** | **347,403,882** | **188,789,541** |

However, analysis of the account disclosed that the accuracy and existence of PPE remained doubtful due to the existence of an unreconciled variance of P314.759 million between the Accounting records and Physical Inventory Report, as summarized below:

| Account Name | Per Accounting Records | Per Physical Inventory Report | Variance |
|---|---|---|---|
| Buildings | 448,030,574 | 108,765,820 | 339,264,754 |
| Motor Vehicles | 29,550,245 | 50,223,819 | (20,673,574) |
| Furniture and Fixtures | 779,944 | 1,395,529 | (615,585) |
| IT Equipment and Software | 16,405,610 | 9,307,534 | 7,098,076 |
| Office Equipment | 29,893,515 | 40,208,107 | (10,314,592) |
| **Total** | **524,659,888** | **209,900,809** | **314,759,079** |

The variances were attributed to the following:

*For Buildings:*

a. Nine (9) buildings with book value of P328.224 million were recorded in the Accounting books but not found in the Inventory Report. This substantially pertains to NCR Building and Parañaque Domestic Area Building valued at P304.853 million and P20.125 million, respectively.

b. 17 buildings costing P12.297 million were included in the Inventory Report but not recorded in the Accounting books.

c. 14 buildings with book value totaling P61.329 million per Accounting records differed with the cost per Inventory Report of P33.651 million or a variance of P27.678 million.

d. Some items included in the Accounting records were not clearly identified/described, hence, cannot be reconciled with the Inventory Report, to wit:

| Description | Book Value |
|---|---|
| No stated description | 288,810.00 |
| No stated description | 173,580.78 |
| Dacion En Pago (AOM 2014-09) | (8,224,000.00) |
| Capitalizable Construction (GJ/2015-12-545) | 3,420,924.32 |
| **Total** | **(4,340,684.90)** |

*For Motor Vehicles:*

e. 16 motor vehicles with book value of P8.866 million were recorded in the Accounting books but not found in the Inventory Report.

f. 65 motor vehicles costing P28.779 million were included in the Inventory Report but not recorded in the Accounting books.

g. Motor vehicles reported a balance of P7.098 million per Inventory Report which is higher than the book value per Accounting records of P6.338 million or a difference of P0.760 million.

*Office Equipment, Furniture and Fixtures, and IT Equipment and Software*

The items of Office Equipment, Furniture and Fixtures, and IT Equipment and Software included in the Inventory Report and Accounting records were not adequately described/identified which prohibits reconciliation of the results of physical count with the accounting records.

c. ***Incomplete PPE Ledger Card (PPELC) maintained by PPC Central Office***

In the PPC Central Office, 84.94 per cent of the PPE were not recorded in the PPELC; contrary to Section 42, Chapter 10 Volume I of the Government Accounting Manual (GAM).
Section 42 of Chapter 10, Volume I of the GAM provides:

> "*The Chief Accountant shall maintain the Property, Plant and Equipment Ledger Card (PPELC) for each category of PPE including work and other animals, livestock etc. The PPELC shall be kept to record promptly the acquisition, description, custody, estimated useful life, depreciation, impairment loss, disposal and other information about the asset. For check and balance, the Property and Supply Office/Unit shall likewise maintain PC for PPE in their custody to account for the receipt and disposition of the same. The balance per PC should always reconcile with PPELC maintained by the Accounting Unit. They should also reconcile with other property records like Property Acknowledgement Receipt (PAR).*"

Items comprising the PPE good account balances of P3.462 million were not supported by complete list of PPE under the PPELC. The previous year's AOM showed that only P263.11 million out of the P3.986 billion or 6.60 per cent of PPE were included in the PPELC.

For CY 2019, only 13.06 per cent of PPE items were recorded in the PPELC, as presented below:

| Accounts | RCA Code | Good Accounts | PPELC CY 2019 | Variance |
|---|---|---|---|---|
| Land | 10601010 | 2,948,749,330.00 | 0 | 2,948,749,330.00 |
| Land Improvements | 10602990 | 5,545,628.75 | 0 | 5,545,628.75 |
| Buildings | 10604010 | 421,477,633.81 | 0 | 421,477,633.81 |
| Machineries | 10605010 | 112,988,215.41 | 112,988,215.41 | 0 |
| Office Equipment | 10605020 | 290,260,267.22 | 297,710,033.04 | (7,449,765.82) |
| Information and Communication Technology Equipment | 10605030 | 74,096,417.25 | 96,267,979.11 | (22,171,561.86) |
| Tools | 10605990 | 362,321.21 | 389,642.64 | (27,321.43) |
| Motor Vehicles | 10606010 | 115,756,543.25 | 0 | 115,756,543.25 |
| Furniture and Fixtures | 10607010 | 10,176,466.28 | 12,777,730.03 | (2,601,263.75) |
| Other Heritage Assets | 10610990 | 3,100,300.00 | 0 | 3,100,300.00 |
| **Total** | | **3,982,513,123.18** | **520,133,600.23** | **3,462,379,522.95** |

Analysis of PPE "Good Accounts" and PPELC

| | |
|---|---|
| PPE "Good accounts", CY 2019 | P 3,982,513,123.18 |
| Total cost of PPE recorded in the PPELC | ( 520,133,600.23) |
| Unrecorded in PPELC | P 3,462,379,522.95 |
| Percentage of PPE recorded in PPELC | 13.06% |
| Unrecorded PPE items | 86.94% |

The submitted PPELC as of December 31, 2019 did not include Motor Vehicles amounting to P115.75 million. The Accounting Department did not comply with the previous year's audit recommendation to exhaust all means in retrieving the records from prior years to 2013 in order to update the PPELC.

d. **Late submission of Inventory Report in PPC Central Office, incomplete Physical Count conducted in Postal Area 1; and no Physical Inventory Report in Postal Area 3**

In PPC Central Office, the Physical Inventory Report of Motor Vehicles and Motorcycles was submitted on July 16, 2020 to this Office COA Circular No. 80-124 dated January 18, 1980.

COA Circular No. 80-124 dated January 18, 1980 states that**:**

> *"Physical inventory of fixed assets shall be made at least once a year as of December 31 in accordance with the guidelines enumerated herein.*
>
> *Inventory reports of regional/branch offices, shall be submitted to the head of the agency not later than January 20 for consolidation and the consolidated inventory shall be submitted to the Auditor not later than January 31 of each year, unless extended by the Chairman upon prior request of the head of agency concerned."*

In Postal Area 1, the Audit Team noted through an interview that physical count of inventories, properties and equipment was conducted only in the Post Offices where there was turnover of accountabilities between the out-going Postmaster and the incoming Postmaster.

In CY 2019, turn-over of accountabilities took place in only 10 post offices over the area covered by PPC NELA. This means that PPC NELA was only able to conduct physical count and ascertain the existence of its properties on 13.89% (10 out of the 72 post offices) of its field offices. No physical inventory count was conducted for the bulk of the agency's assets.

In Postal Area 3, the Audit Team disclosed that no Physical Inventory Report was prepared/submitted for Land Improvements and Leased Assets Improvements-Buildings.

e. **Non-provision of depreciation for the account "Other Land Improvements" and the existence of a debit balance of P23.278 million for the account "Accumulated Depreciation – Furniture and Fixtures**

PPC Management commented that there is an on-going reconciliation of collated documents, and that for the Land and Motor Vehicle, the report were not submitted but the data are already available.

In the PPC Central Office books, the Accumulated Depreciation of P726.92 million could not be established due to non-provision of depreciation for the account "Other Land Improvements" and the existence of a debit balance of P23.278 million for the account "Accumulated Depreciation – Furniture and Fixtures.
Paragraph 71 of IPSAS 17 provides that:

> *"Depreciation of an asset begins when it is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by the management."*

This has been subject of the Audit Team's previous years' audit observation and recommendation. The non-implementation of our recommendation has resulted in the non-provision of the required depreciation expense on "Other Land Improvements" account. Non-provision of depreciation expense has understated the CY 2019 Depreciation Expense in the Statement of Comprehensive Income and the corresponding Accumulated Depreciation in the Statement of Financial Position.

The Audit Team noted the presence of a debit balance of P23.278 million for the account "Accumulated Depreciation – Furniture and Fixtures. The normal balance of this account is a credit balance thus, raising doubt on the accuracy of the account as shown in the financial statements.

No provision for depreciation expense for Other Land Improvements since these accounts pertains to prior years and still for further verification.

f. **Inclusion of P13.932 million worth of unserviceable/obsolete items PPE – Motor Vehicle in Postal Areas 5, 6 and 9 contrary to Section 79 of P.D. 1445**

Section 79 of P.D. 1445 provides that:

> "x x x When government property has become unserviceable for any cause, or is no longer needed, it shall, upon application of the officer accountable therefor, be inspected by the head of the agency or his duly authorized representative in the presence of the auditor concerned and, if found to be valueless or unsalable, it may be destroyed in their presence. If found to be valuable, it may be sold at public auction to the highest bidder under the supervision of the proper committee on award or similar body in the presence of the auditor concerned or other duly authorized representative x x x"

The following table shows the breakdown of unserviceable properties per Postal Area:

| Postal Area | Amount |
|---|---|
| 5 | 6,850,647.60 |
| 6 | 4,420,589.54 |
| 9 | 2,660,473.25 |
| **Total** | **13,931,710.39** |

The Audit teams noted that the disposal of these assets should be prioritized so that the agency can still recover any remaining salvage value and free up storage spaces to be used for more valuable properties of the agency.

9.3 ***We recommended that Management agreed to:***

***a. In PPC Central Office, reconcile the aggregate amount of P757.720 million of PPE and comply with the regular and timely submission of complete RPPE as required under Section 38, Chapter 10 of GAM Volume I and provide depreciation expense for "Other Land Improvements" and explain the debit balance of "Accumulated Depreciation – Furniture and Fixtures" account;***

***b. In Postal Area 1, adhere strictly to COA Circular 80-124 and conduct physical count of inventory at least annually and prepare a report on physical count of inventories;***

***c. In Postal Area 3, submit the Physical Inventory Report for Land Improvements and Leased Assets Improvements-Buildings with clear description/identification of each item and to require the concerned personnel to reconcile the discrepancies noted between the Accounting records and the Physical Inventory Report to establish accuracy of the recorded balances of the PPE accounts; and***

***d. Dispose immediately all unserviceable motor vehicles totaling P13.931 million in all Postal Areas to avoid further losses.***

**Liabilities**

10. **The validity of the balance of Due to Officers and Employees in the amount of P210.903 million was not ascertained due to inclusion of accrued benefits and allowances amounting to P39.429 million which were not documented and remained outstanding for more than two years contrary to Section 98 of P.D. 1445.**

10.1 Section 98 of Presidential Decree No 1445, states that:

> *"x x x The Commission, upon notice to the head of agency concerned, may revert to the unappropriated surplus of the general fund of the national government, any unliquidated balance of accounts payable in the books of the national government, which has been outstanding for two years or more*

*and against which no actual claim, administrative or judicial, has been filed or which is not covered by perfected contracts on record. x x x"*

The Aging Schedule of the Due to Officers and Employees account showed that benefits and allowances in the amount of P39.429 million were not documented and remained outstanding for more than two years. Thus, the amount of P39.429 million should be reverted back to the General Fund pursuant to Section 98 of PD 1445.

10.2 ***We recommended that Management:***

***a. Revert to General Fund the audited amount of P39.429 million of Due to Officers and Employees pursuant to Section 98 of P.D. 1445; and***

***b. Prepare the necessary adjusting journal entries regarding the negative balance of P1.280 million transactions.***

11. **In Postal Area 3, the accuracy and reliability of the Deferred Tax Liabilities account with a year-end balance of P40.585 million cannot be ascertained due to improper recognition and derecognition of deferred tax liabilities which was attributable to late submission of monthly VAT Reports by the Postmasters, to wit: (a) the output tax on cash sales of various Post Offices were temporarily recognized as Deferred Tax Liabilities instead of direct credit to Output Tax; (b) deferred Tax Liabilities were not immediately derecognized upon actual collection of Accounts Receivables on Postage Charge Accounts; and (c) adjustments to Output Tax were made against the Deferred Tax Liabilities to bring the Output Tax account to zero balance even without relevant supporting documents, contrary to IPSAS 1.**

11.1 Our audit is guided by the following:

Paragraph 36 of the IPSAS 1:

> "*x x x an item of information would conflict with the objective of financial statements when it does not represent faithfully the transactions, other events and conditions that it either purports to represent or could reasonably be expected to represent and, consequently, it would be like to influence decisions made by users of financial statements. x x x*"

As described in COA Circular No. 2020-002, *Deferred Tax Liabilities (DTL)* account is credited to recognize future tax liability arising from an income, which is temporary and not taxable, and excess of net income per financial statements over taxable income multiplied by the tax rate. This account is debited upon reversal of temporary difference which resulted to the recognition of deferred tax liabilities, and/or adjustments.

Also, *Output Tax* account is credited to recognize the value added tax on the sale of goods/property and services. This account is debited upon offsetting against Input Tax/Creditable Input Tax, set up of VAT Payable, and/or adjustments.

PHLPost Circular No. 18-26 states that:

> "*xxx to ensure that the amounts reported in the* Summary *List of Vatable Sales and Postmaster's Monthly Transaction Report (PMMTR) were complete, accurate and reconciled, all postmasters and other accountable officers concerned are hereby directed to submit a Certification on the Vatable Sales (Attached as Annex "A") as additional attachment to their monthly reports."*

PHLPost Circular No. 15-66 requires that: *The reports enumerated above shall be prepared in four (4) copies and be submitted to the concerned offices on or before the 5$^{th}$ day of the succeeding month.*

11.2 As of December 31, 2019, the reported balance of the Deferred Tax Liabilities amounted to P40.585 million.

11.3 Analysis of the account disclosed the following observations:

a. **Output taxes on cash sales of various Post Offices temporarily recorded as Deferred Tax Liabilities instead of direct credit to Output Tax**

Deferred Tax Liabilities arise when recognizing revenue from Postage Charge Account (PCA)/bulk or business mails on account and accrual of income from space rentals, among others.

Audit of the account, however, disclosed that output taxes on cash sales of various Post Offices were recorded in *Deferred Tax Liabilities account* instead of *Output Tax account* due to delayed submission of the VAT Reports by the Postmasters. It is only when the Postmaster submitted the late VAT Report that the output taxes are recorded in the *Output Tax account*.

b. **Deferred Tax Liabilities were not immediately derecognized upon actual collection of Accounts Receivables on Postage Charge Accounts**

Audit of the account further disclosed that deferred tax liabilities on Accounts Receivable on PCA were not derecognized despite actual collections of these receivables. Consequently, output taxes are yet to be recognized, thus, affecting the fair presentation of the Deferred Tax Liability and the Output Tax accounts in the financial statements.

In the same manner, it becomes Management practice to retain in the books these deferred tax liabilities pending the submission of corresponding VAT Reports by the Postmasters.

c. **Adjustments to Output Tax were made against the Deferred Tax Liabilities to bring the Output Tax account to zero balance even without relevant supporting documents**

There were adjustments to deferred tax liabilities account which are brought by adjustments to the output tax without proper documentation or even a list of Post Offices to which these adjustments originated and pertained to. This poses doubt on the validity of these adjustments and so as to the balance of the deferred tax liabilities.

11.4 The above practice shows that the recognition of output tax and derecognition of deferred tax liabilities were merely based on whether or not the Postmasters have submitted monthly VAT Reports instead of complying with IPSAS 1 which requires faithful representation of the effects of transactions. Further, it affects the accuracy of the output tax that should have been reported and remitted to the Bureau of Internal Revenue.

11.5 ***We recommended and Management agreed to:***

***a. Stop the practice of deferring the recognition of output taxes and the non-immediate derecognition of deferred tax liabilities to establish the accuracy and reliability of the account balance of Deferred Tax Liabilities pursuant to IPSAS 1;***

***b. Ensure that all adjustments to the account are duly supported with relevant and complete documents to ascertain validity of the claim; and***

***c. Require the Postmasters to strictly observe timely submission of VAT Reports pursuant to PHLPost Circular Nos. 18-26 and 15-66.***

## Reciprocal Accounts

12. **The inability of Management to reconcile and eliminate the two reciprocal accounts Due from Area Offices in the CO books and Due to CO in all nine PPC Area Offices resulted to cumulative net variance of negative P242.752 million, thereby affecting the reliability and accuracy of PPC's financial statements contrary to Paragraph 27 of IPSAS 1, Paragraphs 38 and 40 of IPSAS 35 and Section III of PHLPost Circular No. 17-73.**

12.1 This condition is contrary with Paragraph 38 and Paragraph 40 of IPSAS 35, on the consolidation of financial statements, which provides that:

> *"38. A controlling entity shall prepare consolidated financial statements using uniform accounting policies for like transactions and other events in similar circumstances."*
>
> *"40. Consolidated financial statements:*
>
> *(a) Combine like items of assets, liabilities, net assets/equity, revenue, expenses and cash flows of the controlling entity with those of its controlled entities.*
>
> *(b) Offset (eliminate) the carrying amount of the controlling entity's investment in each controlled entity and the controlling entity's portion of net assets/equity of each controlled entity (the relevant international or national*

*accounting standards explain how to account for any related goodwill).*

*(c) Eliminate in full intra-economic entity assets, liabilities, net assets/equity, revenue, expenses and cash flows relating to transactions between entities of the economic entity (surpluses or deficits resulting from intra-economic entity transactions that are recognized in assets, such as inventory and fixed assets, are eliminated in full). Intra-economic entity losses may indicate an impairment that requires recognition in the consolidated financial statements."*

Also, Section III of PHLPost Circular No. 17-73 states that the balances of the reciprocal accounts at the end of the month or at the end of the year may not be the same because of the usual reconciling items that may occur and that **reconciliation is necessary at the end of the period to bring the reciprocal accounts in agreement**. (Emphasis Ours)

12.2 Verification disclosed that the year-end balances of Due from Area Offices in the CO books and account Due to CO in the Area Office books, negative P280,675,350.48 and negative P37,922,417.78, respectively, are different, resulting to a net variance of negative P242,752,932.70. These reciprocal accounts should be properly reconciled in the consolidated financial statements to have equal balances at the end of the year.

The details of said variance are accounted as follows:

| Area Offices | CO Books (Due from Area Offices) | Area Office Books (Due to CO) | Variance |
|---|---|---|---|
| Area 1 – NELA | 155,368,515.42 | 18,919,256.53 | 136,449,258.89 |
| Area 2 – NWLA | 46,222,923.72 | 375,232.80 | 45,847,690.92 |
| Area 3 – MEGA | (2,229,373,523.29) | (610,910,254.26) | (1,618,463,269.03) |
| Area 4 – SLA | 486,819,574.41 | 354,508,071.66 | 132,311,502.75 |
| Area 5 – CEVA | 336,578,179.46 | (29,749,140.67) | 366,327,320.13 |
| Area 6 – WEVA | 344,455,401.02 | 67,282,271.45 | 277,173,129.57 |
| Area 7 - EMA | 273,178,855.58 | 65,643,861.84 | 207,534,993.74 |
| Area 8 – CEMA | 54,081,544.40 | 38,073,634.11 | 16,007,910.29 |
| Area 9 - WEMA | 251,993,178.80 | 57,934,648.76 | 194,058,530.04 |
| **Total** | **(280,675,350.48)** | **(37,922,417.78)** | **(242,752,932.70)** |

The variance between the two accounts was mainly attributed to the following practices:

a. Sweeping-in of funds from Area Office bank accounts by the CO was recorded in the CO books but not yet reflected in the Area books. The Area Auditors noted that it was the practice of Area accountants to wait for the monthly bank statements to arrive before recording/posting the amount of cash transferred/swept to/by the CO.

Further, the amounts swept in by the CO from the area offices were not directly credited to the account Due from Area Offices because the origin of the funds cannot be identified.

b. Delay in the recording in the Area Offices of the transfer of inventories from the CO to the different Area Offices.

   Inventories such as, supplies and materials and other accountable forms procured from CO and transferred to the PPC Area Office should be recorded immediately in the Area Offices a Payable to (Due to) CO and reciprocally recorded as Due from (receivable) in the CO books.

c. Fund transfers from the CO to Area offices recorded in the CO books were not immediately recorded in the Area Office books due to lack of proper coordination and monitoring from both parties. These funds represent cash allocations from the CO to the Area Offices through depository banks such as Banco de Oro (BDO), Overseas Filipino Workers Bank (OFWB) formerly Philippine Postal Savings Bank Inc. (PPSBI), Land Bank of the Philippines (LBP) and Philippine National Bank (PNB).

12.3 It is noteworthy that the variance between the two reciprocal accounts decreased from previous year's balance of negative P567,432,384 to current year's balance of negative 242,752,932.70 or by 324,679,451.30 (57.21%). We commend Management for their continuous effort to minimize the amount subject to reconciliation.

12.4 ***We reiterated our previous audit recommendations and Management agreed to:***

***a. Exert more effort to substantiate and reconcile the variances noted on a per Area Office to reduce further the total variance; and***

***b. Comply with the provisions of Section III of PHLPost Circular No. 17-73 and effect year-end reconciliation of reciprocal accounts.***

12.5 Management commented that the reconciliation of the reciprocal accounts for prior years is still on-going and that for the current year only four percent (4%) was not eliminated due to the following:

a. Sweeping of funds from Area Office bank accounts were recorded by the Central Office but not yet recorded in the Area Office due to late submission of bank statements

b. Variance in recognition of supplies, materials, accountable forms and inventory due to late submission of reports from other concerned offices

Also, Management commented that it is in the process of developing a computerized accounting system with the private developer wherein the Reciprocal Account is one of the modules to be developed.

**Unreconciled/Unverified Accounts**

13. **In Postal Area 3, the amount of P244.925 million or 31.4 percent of P779.650 million of various assets and liabilities accounts remained unreconciled thereby affecting the fair presentation of said accounts in the Statement of Financial Position.**

13.1 Paragraph 36 of IPSAS 1 states that:

*"xxx an item of information would conflict with the objective of financial statements when it does not represent faithfully the transactions, other events and conditions that it either purports to represent or could reasonably be expected to represent and, consequently, it would be likely to influence decisions made by users of financial statements. xxx"*

COA Circular No. 2016-005 dated December 19, 2016 prescribes the guidelines and procedures in reconciling and cleaning the books of accounts of NGAs, LGUs and GOCCs of dormant receivable accounts, unliquidated cash advances, and fund transfers for fair presentation of accounts in the financial statements. Section 8 thereof provides the specific procedures in the write-off of dormant accounts.

13.2 As of December 31, 2019, the following accounts presented in the Statement of Financial Positon remained inclusive of items/accounts subject for reconciliation totaling P244.925 million:

| Account Title | Balance | Unreconciled Balance | % to Total Balance |
|---|---|---|---|
| Cash-Collecting Officers | 106,807,417.00 | 10,202,878.62 | 9.6% |
| Cash-CO-Corporate | | 4,962,483.10 | |
| Cash-CO-Trust-Manual MO | | 5,240,395.52 | |
| Advances for Operating Expenses | 59,789.00 | 41,907.37 | 70.1% |
| Advances for Payroll | 9,949,351.00 | 1,067,100.21 | 10.7% |
| Due from Officers and Employees | 29,774,947.00 | 11,462,263.33 | 38.5% |
| Operating Lease Receivable | 6,077,381.00 | 81,367.39 | 1.3% |
| Receivables-Disallowances/Charges | 8,037,945.00 | 8,052,944.69 | 100.2% |
| Other Assets | 76,445,476.00 | 75,185,495.26 | 98.4% |
| Due to GSIS | 25,930,915.00 | 12,004,363.68 | 46.3% |
| Due to Others | (36,549.00) | 4,364,387.32 | (119.41%) |
| **Total Assets** | **263,046,672.00** | **122,462,707.87** | |
| Trust Liabilities-DMO | 147,171,292.00 | 58,144,957.69 | 39.5% |
| Due to Central/Home/Head Office | 369,431,886.00 | 64,317,750.18 | 17.4% |
| **Total Liabilities and Equity** | **516,603,178.00** | **122,462,707.87** | |
| **Grand Total** | **779,649,850.00** | **244,925,415.74** | **31.4%** |

We observed further that the unreconciled balance of P81,367.39 in the account Operating Lease Receivable pertains to the difference between the reported ending balance in CY 2017 of P1,985,796.51 and the beginning balance in CY 2018 of P1,904,429.12.

The existence of these items for reconciliation challenges the accuracy and reliability of the account balances, contrary to IPSAS 1.

13.3 We recognize Management's efforts to cleanse the books as we observed a decrease of P10.238 million compared to last year's balance of unreconciled accounts, to wit:

| Account Title | Amount |
|---|---:|
| Accountable Forms, Plates and Stickers Inventory | 3,792,796.52 |
| Merchandise Inventory | 5,439,593.83 |
| Office Supplies Inventory | 66,713.81 |
| Due from NGAs | 509,303.82 |
| Deferred Charges/Losses | 427,473.86 |
| Guaranty Deposits | 2,000.00 |
| **Total** | **10,237,881.84** |

13.4 However, examination of the adjustments made under GJ/2019-04-113 and GJ/2019-10-428 revealed the following:

a. For Inventory accounts, a mere certification/letter that the inventories no longer exist was only signed by the Supply Officer and Stamps Custodian which may be deemed as self-serving.

b. For Deferred Charges and Guaranty Deposits, no supporting documents were attached to the journal voucher to substantiate the adjustment made.

13.5 ***We recommended and Postal Area 3 Management agreed to:***

***a. Conduct a thorough analysis and facilitate the immediate reconciliation of the unreconciled accounts for fair presentation of the Statement of Financial Position;***

***b. Request authority from the Commission on Audit to write-off unreconciled accounts that are dormant, particularly Due from Officers and Employees, pursuant to COA Circular No. 2016-005; and***

***c. Ensure that the adjustments made are duly supported with relevant documents.***

13.6 Management agreed to the audit finding and promised to make a reconciliation of the account.

## B. Other Audit Observations

14. **Significant amount of unliquidated cash advances were noted in PPC Central Office and Postal Areas 3 and 6 as of December 31, 2019 contrary to Section 1 of COA Circular No. 2012-004 dated November 28, 2012.**

14.1 Section 1 of COA Circular 2012-004 states that:

> "*Under existing regulations, cash advances must, as a rule, be liquidated within the prescribed periods depending upon the nature and purpose of the cash advance (e.g. for salaries and wages; petty and field operating expenses; local travel and foreign travel). Included among operating expenses are cash advances for the payment of honoraria and similar payments to officials and employees; operating expenditures for special projects and activities like anniversary celebration; and special purpose and time bound activity like cultural and athletic activities. These must be liquidated within twenty (20) days from accomplishment of the purpose.*"

**PPC Central Office**

14.2 In PPC Central Office, the amount of P2.808 million represents unliquidated cash advances for more than a year, the details are shown in the following table:

| Particulars | Amount |
|---|---|
| PETTY CASH | |
| A. Advances for Special purposes | |
| 1. Special Activities/Projects | 10,000.00 |
| ADVANCES FOR OPERATING EXPENSES | |
| A. Advances to Regular Disbursing Officer | |
| 1. Payroll | 0 |
| ADVANCES FOR CCT - PANTAWID PAMILYA TO VARIOUS AREAS | 2,283,191.56 |
| ADVANCES TO OFFICERS AND EMPLOYEES | |
| A. Advances for special purposes | |
| 1. Local Travel | 350,512.22 |
| 2. Foreign Travel | 64,054.70 |
| 3. Special Activities/Projects | 28,629.00 |
| B. Advances to regular Disbursing Officer | |
| 1. Seminar/Conferences | 72,000.00 |
| **TOTAL** | **2,808,387.48** |

Verification disclosed that P472,198.22 of the above P2,808,387.48 unliquidated cash advance pertains to cash advances granted to officers and employees who already retired, absconded and some were already deceased as of December 31, 2019 while P2.283 million corresponds to cash advances granted to various PPC Paymasters for the payment of Conditional Cash Transfer to qualified beneficiaries in 2013. However, the amount remained unliquidated and considered as cash shortage of the Special Disbursing officer.

The existence of long outstanding and unliquidated cash advance with very slim chance or zero probability of collection have affected the reliability and accuracy of the account as of December 31, 2019.

**Postal Area 3:**

14.3 In Postal Area 3, Cash advances for payroll totaling P9.145 million remained unliquidated.

The total unliquidated cash advances for payroll amounted to P9.145 million or 91.9 per cent of the P9.949 million account balance. Out of the unliquidated balance of P9.145 million, P6.080 million pertains to the cash advances for payroll granted in December 2019. Nonetheless, Section 5.8 of COA Circular No. 97-002 requires that all cash advances shall be liquidated at the end of each year.

**Postal Area 6:**

14.4 The financial statements as of December 31, 2019 showed that Cash - Disbursing Officers were with huge balances at the end of the year. Cash - Disbursing Officer – Trust – Save the Child International (SCI) showed a balance of P13.284 million as of December 31, 2019. The project ended last December 2017 and after two years full liquidation has yet to be made.

Further, Cash - Disbursing Officer – Trust – SPISC showed a balance of P12.636 million as of December 31, 2019. This project ended on the first quarter of 2017 with last liquidation on the 4$^{th}$ quarter of 2016. This account should have been reconciled and closed already.

14.5 ***We recommended and Management agreed to:***

***a. Require the active employees for the immediate settlement of their outstanding account or require the deduction from their salaries until fully settled;***

***b. File cases against officers who have unaccounted CCT funds, if warranted;***

***c. Require the concerned accountable officers to immediately settle their outstanding cash advances and to comply with the liquidation period pursuant to COA Circular Nos. 2012-001 and 97-002; and***

***d. Require the Accountant to immediately conduct reconciliation of liquidation for Cash-Disbursing Officer – Trust – SCI and Cash-Disbursing Officer – Trust - SPISC and to close the said accounts after two years if no longer in use.***

15. **The monthly reimbursable expenses claimed by members of the Board of Directors (BOD) exceeded the maximum amount allowed under GCG Memorandum Circular No. 2016-01 dated May 10, 2016 and Section 59-b, General Provisions of the General Appropriations Act (GAA) of 2019.**

15.1 Paragraph 10, Section III of GCG Memorandum Circular No. 2016-01 dated May 10, 2016, provides the following:

*"10. Reimbursable Expenses. – There shall be no abuse of the structure of reimbursement of expenses as a means to gain indirect compensation by:*

x x x

*10.2. The only time that Directors obtain a reimbursement of expenses can be:*

*(a) When due only to the exigency of the service and subject to the submission of receipts;*

*(b) Limited to actual and reasonable transportation expenses for attending meetings; expenses for official travel; communications expenses; and meals during business meetings; and*

*(c) Provided that the amount that may be reimbursed* ***shall not be higher than the monthly RATA of an Undersecretary."*** *(Emphasis ours)*

Also, Section 59-b of the General Appropriations Act (GAA) of 2019, provides the equivalent Representation and Transportation Allowance (RATA) for Department Undersecretary amounting to P11,000.00 for each type of allowance.

15.2 Audit disclosed that the total amounts claimed by the members of the BOD exceeded the maximum allowable reimbursable expenses by P1,746,493.77, viz:

| Name of BOD | Actual | Ceiling | Excess |
|---|---|---|---|
| Board Chairman | 644,510.58 | 220,000.00 | 424,510.58 |
| Director A | 533,865.14 | 242,000.00 | 291,865.14 |
| Director B | 347,401.88 | 198,000.00 | 149,401.88 |
| Director C | 513,299.10 | 242,000.00 | 271,299.10 |
| Director D | 545,933.22 | 242,000.00 | 303,933.22 |
| Director E | 547,483.85 | 242,000.00 | 305,483.85 |
| **Total** | **3,132,493.77** | **1,386,000.00** | **1,746,493.77** |

The excess in the allowable maximum amount of P22,000.00 per month under the above-mentioned GCG Memorandum is without legal basis.

15.3 ***We recommended that Management:***

***a. Require the refund of the excess amount paid in the total amount of*** **P1,746,493.77,** ***otherwise, the same shall be disallowed in audit*****; and**

***b. Henceforth, ensure the strict compliance with GCG Memorandum No. 2016-01 and the General Provisions of the General Appropriations Act***

***(GAA) for each year in the payment of reimbursable expenses to the members of the BOD.***

15.4 The Management commented that the application of PHLPost of E.O 24, s. 2011 and not GCG Memorandum Circular 2016-01 (GCG MC 2016-01) is based on its appreciation of Article 16 (Transitory Clause) of GCG MC 2016-01 that GOCCs with pending approval of their "xxx Total Compensation Framework and Index of Occupational Services, Position Titles and Job Grades (IOS) pursuant to Executive Order No. 203, s. 2016 xxx shall maintain the compensation framework of their Appointive Directors approved for under E.O. 24, s. 2011 xxx."

It is PHLPost's sincere belief that since it did not have the approved Compensation and Position Classification System (CPCS) and IOS yet with GCG pursuant to E.O. 2013, s. 2016, therefore, it falls under Transitory Clause if GCG NC 2016-01. In turn, said transitory clause references E.O. 24, s. 2011 with respect to the Appointive Directors.

15.5 As a rejoinder, we reiterate that PHLPost submitted its proposed Modified Salary Schedule on December 29, 2017 which was approved by GCG on November 29, 2018. Considering that the Modified Salary Schedule/CPCS was approved on said date, Management should have adopted GCG MC 2016-01. Hence, the contention that PHLPost falls under the Transitory Clause is baseless.

16. **The cost of audit services totaling P457.813 million remained unpaid as at December 31, 2019 contrary to Section 4 of Republic Act (R.A.) 10924, Section 44, Chapter 5, Book VI of EO No. 292 and Joint COA-DBM Circular No. 88-1 dated July 29, 1998.**

16.1 Section 4 of R.A. 10924 or the General Appropriations Act for FY 2018 states that:

> *"As a general rule, all fees, charges, assessments, and other receipts or revenues collected by x x x including Constitutional Offices enjoying fiscal autonomy x x x shall be deposited with the National Treasury as income of the General Fund x x x."*

Also, Section 44, Chapter 5, Book VI of EO No. 292 provides that:

> *"Accrual of Income to Unappropriated Surplus of the General Fund. — Unless otherwise specifically provided by law, all income accruing to the departments, offices and agencies by virtue of the provisions of existing laws, orders and regulations shall be deposited in the National Treasury or in the duly authorized depository of the Government and shall accrue to the unappropriated surplus of the General Fund of the Government x x x."*

Likewise, Item 3.1 of Joint COA – DBM Circular No. 88-1 dated July 29, 1998 states that:

> *"The cost of regular audit services rendered by the Commission on Audit (COA) shall be based on the cost of the audit function in the corporation concerned plus ten percent (10%) thereof to cover overhead expenses."*

16.2 Verification disclosed that the assessed cost of COA Audit Services for CY 2019 is P17,466,402.00 while payments in 2019 are only P10,000,000; thus, leaving a balance of P457,813,616, accounted for as follows:

| | | |
|---|---|---|
| **Balance, January 1, 2019** | | **P450,347,214.00** |
| Add: Assessed Cost of Audit for CY 2019 | | 17,466,402.00 |
| **Total Cost of Audit Due as at CY 2019** | | **467,813,616.00** |
| Less: Payments in 2019 | | |
| Check # 1335046, dated 5/14/2019 | P 5,000,000.00 | |
| Check # 0003143, dated 12/27/2019 | 5,000,000.00 | 10,000,000.00 |
| **Balance, December 31, 2019** | | **P457,813,616.00** |

In accordance to R.A. 10924 – General Appropriations Act 2017 and to the pertinent provision of EO 292, fees and charges for the account of Commission on Audit shall be deposited with the National Treasury as income of the General Fund.

Lastly, Section 5 of Joint COA-DBM Circular No. 88-1 states that any official or employee who refuses, fails, or neglects to perform the responsibilities as required under above-mentioned provisions shall be held liable for neglect of duty, and shall be subject to disciplinary or administrative action under the existing laws, rules and regulations.

16.3 ***We recommended that Management consider the COA Cost of Audit Services as one of its priorities in settling its obligations in compliance with R.A. 10924, Section 44, Chapter 5, Book VI of EO No. 292 and Joint COA-DBM Circular No. 88-1 dated July 29, 1998.***

16.4 Management commented that it has projected to increase the remittance by year 2020 but due to the pandemic that the whole world is facing now, the agency will be remitting the same with that of the previous years since they are prioritizing the payments of Personal Services and MOOE particularly expenses affecting the operations of PHLPost.

## C. Gender and Development (GAD)

17. **Various deficiencies were noted in the audit of (GAD) funds, thus not compliant to RA 9170, such as:**

a. **PPC implemented Programs, Activities and Projects (PAPs) amounting to P1.600 million that were not included in the submitted approved GAD Plan and Budget (GPB) for CY 2019 to Philippine Commission on Women (PCW) thus, raise to uncertainty whether the economy, efficiency and effectiveness of PAPs were attained.**

17.1 Section 36, Chapter VI of RA No. 9710 and EO No. 273 mandate, respectively:

Section 36:

> *"x x x The Commission on Audit (COA) shall conduct an annual audit on the use of the GAD budget for the purpose of determining its judicious use and the efficiency, and effectiveness of interventions in addressing gender issues x x x"*

EO No. 273:

> *"that all government agencies, departments bureaus, offices and instrumentalities, including government-owned and/or controlled corporations, at the national, sub-national and local levels, are directed to take appropriate steps to ensure the full implementation of the policies/strategies and programs/projects outlined in the Philippine Plan for Gender-Responsive Development and to institutionalize GAD efforts in government by incorporating GAD concerns, as spelled out in the Plan in their planning, programming and budgeting processes."*

17.2 Eight out of 14 PAPs in the GAD Accomplishment Report for CY 2019 furnished to the COA Audit Team last February 13, 2020 were not originally included in the submitted approved GPB 2019 as shown in the following table:

| No. | Activity | Approved Budget | Actual Cost |
|---|---|---|---|
| 1 | Construction of waiting area | 1,440,000.00 | 863,380.00 |
| 2 | Installation of breast feeding room | 0 | 3,000.00* |
| 3 | PHLPost-wide events | 550,000.00 | 157,339.32 |
| 4 | Conduct of Gender Sensitivity Training | 750,000.00 | 1,226,634.40 |
| 5 | Conduct Seminar/Workshop on GAD | 1,500,000.( | 2,221,027.79 |
| 6 | Seminar on GAD Area 4 | 0 | 231,370.00* |
| 7 | Seminar on GAD Area 2 | 0 | 8,314.00* |
| 8 | Orientation Seminar Anti-VAWC | 600,000.00 | 1,180,784.39 |
| 9 | 18 Day Campaign to end VAWC | 0 | 162,220.97* |
| 10 | Install GAD Corner | 0 | 26,250.00* |
| 11 | Revisit CODI functions | 0 | 2,000.00* |
| 12 | GAD Planning & Budgeting | 460,000.00 | 262,255.50 |
| 13 | Rehabilitation of Comfort Rooms | 0 | 825,345.31* |
| 14 | Rehabilitation of Comfort Rooms (Area 2) | 0 | 370,154.25* |
| **Total** | | **5,300,000.00** | **7,540,075.93** |
| ***% Utilization of Budget*** | | | ***142.27%*** |

**Not included in the submitted approved GPB*

Proper incorporation of GAD concerns as written in the GPB will ensure its responsiveness on gender issues being hold by Management. Moreover, it assures that expenditures on PAPs would addressed accordingly the gender issues that had been determined by the GAD Focal Point. PPC's Management failed to incorporate what was written in the GPB CY 2019, thus, casts doubt whether the gender issues are addressed effectively.

b. **PPC's Actual GAD Expenditure for CY 2019 amounting to P7.500 exceeded the approved GPB of P5.300 million that was duly endorsed to the PCW, contrary to PCW-NEDA-DBM Joint Circular No. 2012-01, Section 9, 9.2 Implementation and Monitoring of the GAD Plan and Budget.**

17.3 Section 9, 9.2 of PCW-NEDA-DBM Joint Circular No. 2012-01 states:

> *"Agencies shall inform the PCW in writing if there are changes in the PCW - endorsed GPBs as a result of revising the GPB based on the approved GAA and/or the need to implement additional PAPs relevant to current gender issues or GAD-related undertakings as needed. PCW, in turn, shall acknowledge receipt of adjusted GPB and shall inform the agencies if the GAD PAPs or activities in the adjusted GPB are acceptable"*

17.4 Upon examination of the submitted GAD Accomplishment Report for CY 2019, the Audit Team determined that the Management utilized 42.27 percent more than the approved GPB for CY 2019 as shown in the table in paragraph 20.2 above.

PPC's inability to inform the PCW of the changes in the implementation of additional PAPs relevant to current gender issues or GAD related undertakings was a clear violation of the stated guideline.

Accordingly, the variance between GAD Accomplishment and Budget Plan Reports was the result of PAPs from other area that were not properly coordinated and the supplemental programs that were approved in the later part of the year.

c. **The PPC GFPS has not yet established nor set up a GAD database that will serve as basis for gender-responsive planning, programming and policy formulation as required under Section 37 (D), Rule VI of the IRR of RA No. 9710 and Section 4, 4.4 of PCW-NEDA-DBM Joint Circular No. 2012-01.**

17.5 Section 37 (D), Rule VI of the IRR RA No. 9710 and Section 4, 4.4 of PCW-NEDA-DBM Joint Circular No. 2012-01 state that:

*Section 37 (D), Rule VI of the IRR RA No. 9710*

> *"x x x The head of agency or LCE shall ensure that GAD Plans, Programs, and activities are provided with adequate resources.x x x"*

*Section 4, 4.4 of PCW-NEDA-DBM JC No. 2012-01*

> *"Institutionalizing GAD Database/Sex-disaggregated Data: The agency shall develop or integrate in its existing database GAD information to include gender statistics and sex-disaggregated data that have been systematically produced or gathered as inputs or bases for planning, budgeting, programming and policy formulation."*

17.6 Since 2012 PCW-NEDA-DBM had been mandating all Government Departments to institutionalize GAD Database Program, unfortunately, PPC GFPS has not established a GAD Database until now.
As a result, PPC GFPS was unable to produce remarkable programs and activities that have value to their beneficiaries and stakeholders.

Inquiry with the Management disclosed that GAD database was partially implemented in 2019 and partial amount was already allocated. However, it was not included in the Accomplishment Report submitted last February 13, 2020 because it was still under deliberation until the latter part of CY 2019.

17.7 ***We recommended that Management*:**

a. ***Require the Heads of implementing departments/offices to ensure that GAD programs, projects and activities are implemented as planned to attain the GAD objectives; and***

b. **Require *the GAD Focal Point System to:***

**i.** ***Institutionalize the GAD database with adequate and systematically gathered sex-disaggregated data which will provide the bases for gender analysis, planning, programming and policy formulation; and***

**ii.** ***Undertake gender analysis to identify and confirm existing gender issues and ensure that programs, projects and activities are responsive to the said issues.***

17.8 Management commented that they will spearhead the planning, implementation and monitoring of all GAD plans and budget and will require the Postal Areas to generate sex disaggregated database (SDD) in their respective offices. Thus, SDD will be established and will be generated manually, while waiting for the full run of the Human Resource Information System.

Further, Management is willing to improve their competencies with regard to the gender analysis and gender mainstreaming and execute more remarkable programs addressing existing gender issues. Thus, a close coordination with the PCW experts are being done, and hopefully, a GAD specialist within PHLPost can be accredited by PCW to save cost.

## D. Compliance with Tax Laws

18. **The filing and remittance of taxes totaling P277,813,877 were made under BIR Forms 1601-C, 1600, 0619-E and 2550-Q/2550-M for CY 2019 were compliant to Sections 58(A) and 114 of Republic Act (R.A.) No. 8424 otherwise known as the National Internal Revenue Code (NIRC) of 1997, as amended.**

18.1 Section 58(A), Chapter IX, Title II of RA 8424 referring to Returns and Payment of Taxes Withheld at source states that:

> *"(A) Quarterly Returns and Payments of Taxes Withheld - Taxes deducted and withheld under Section 57 by withholding agents shall be covered by a return and paid to, except in cases where the Commissioner otherwise permits, an authorized Treasurer of the city or municipality where the withholding agent has his legal residence or principal place of business, or where the withholding agent is a corporation, where the principal office is located.*
>
> *x x x*
> *The return for final withholding tax shall be filed and the payment made within twenty-five (25) days from the close of each calendar quarter, while the return for creditable withholding taxes shall be filed and the payment made not later than the last day of the month following the close of the quarter during which withholding was made x x x"*

Section 114, Chapter II, Title IV of RA 8424 pertaining to Returns and Payment of Value-Added Tax (VAT) provides that:

> **"***(A) In General - Every person liable to pay the value-added tax imposed under this Title shall file a quarterly return of the amount of his gross sales or receipts within twenty-five (25) days following the close of each taxable quarter prescribed for each taxpayer: Provided, however, That VAT-registered persons shall pay the value-added tax on a monthly basis. x x x*
> *x x x*
>
> *The value-added tax withheld under this Section shall be remitted within ten (10) days following the end of the month the withholding was made."*

18.2 Verification disclosed that filing and payment dates for BIR Forms 1601-C (Monthly Remittance Return of Income Taxes Withheld on Compensation), 1600 (Monthly Remittance Return of VAT), 0619-E (Monthly Remittance Return of Creditable Income Taxes Withheld (Expanded)) and 2550-Q (Quarterly VAT Return)/2550-M (Monthly VAT Return) were compliant with the above-mentioned provisions of R.A. 8424, as amended.

## E. Property Insurance with Government Service Insurance System (GSIS)

19. **PPC insured all its insurable assets with the GSIS in compliance with Section 5 of Republic Act (R.A.) No. 656, as amended by Presidential Decree (P.D.) No. 245 dated July 13, 1973. Also, PPC adapted the Property Inventory Form format for all its properties, except for Motor Vehicles, as provided under COA Circular No. 2018-002 dated May 31, 2018.**

19.1 Verification disclosed that all insurable fixed and movable assets of PPC-CO totaling P904.425 million were insured with the GSIS-GIF for CY 2019-2020 as the Corporation observes centralized payment of insurance premiums of all assets/properties including those located in the Area Offices to avoid double payment. The details are as follows:

| PPE | Amount Insured |
|---|---|
| Buildings | 539,114,000.00 |
| IT Equipment | 41,388,495.38 |
| Office Equipment | 38,226,801.19 |
| Furniture and Fixtures | 13,906,611.04 |
| Tools | 1,904,906.00 |
| Machineries | 135,075,994.36 |
| Motor Vehicles | 134,808,644.97 |
| **Total** | **904,425,452.94** |

However, evaluation of the schedules of PPC's insurable assets submitted to GSIS disclosed that the required PIF format was not yet adapted for PPC's motor vehicles contrary to the above-mentioned circular.

Nevertheless, we appreciate the actions taken by Management in ensuring that all insurable properties of PPC are insured with the GSIS-GIF, in compliance with R.A. No. 656, as amended, and for adapting the Property Inventory Form format for most of its properties as provided under COA Circular No. 2018-002.

19.2 ***We recommended that Management adapt the required PIF format for its motor vehicles as soon as possible to fully comply with the provisions of COA Circular No. 2018-002.***

## F. Compliance with Statutory Deductions and Remittances

20. **PPC complied with Republic Act (RA) No. 9679 – the Home Development Mutual Fund/ Pag-IBIG Fund Law of 2009, RA No. 8291 – the Government Service Insurance System Law and RA No. 7875 and its Implementing Rules and Regulations of the National Health Insurance Act of 1995, as amended by RA No. 9241 on withholding of premiums and loan amortizations from employees' compensation and in the remittances thereof together with the government share within the prescribe period.**

20.1 Verification of remittances for CY 2019 revealed that PPC remitted the premiums and loan amortizations including the government share to Pag-IBIG's Home Development Mutual Fund, GSIS and PhilHealth within the prescribed period, to wit:

a. **Schedule of remittance to Pag-IBIG for CY 2019**

| Month | Premium Contribution | Multi-Purpose Loan | Calamity Loan | Total | Date of Remittance | |
|---|---|---|---|---|---|---|
| | | | | | Actual Date | Due Date |
| January | 164,800.00 | 371,533.66 | 8,180.20 | **544,513.66** | February 8, 2019 | February 20-24, 2019 |
| February | 171,800.00 | 373,536.46 | 8,180.20 | **553,516.46** | March 8, 2019 | March 20-24, 2019 |
| March | 166,600.00 | 380,989.83 | 8,180.20 | **555,770.03** | April 10, 2019 | April 20-24, 2019 |
| April | 167,000.00 | 372,628.25 | 8,180.20 | **547,808.45** | May 10, 2019 | May 20-24, 2019 |

| Month | Premium Contribution | Multi-Purpose Loan | Calamity Loan | Total | Date of Remittance | |
|---|---|---|---|---|---|---|
| | | | | | Actual Date | Due Date |
| May | 166,800.00 | 369,069.18 | 6,082.49 | **541,951.67** | June 10, 2019 | June 20-24, 2019 |
| June | 164,800.00 | 368,322.11 | 6,531.12 | **539,653.23** | July 10, 2019 | July 20-24, 2019 |
| July | 164,000.00 | 367,093.87 | 6,531.12 | **537,624.99** | August 10, 2019 | August 20-24, 2019 |
| August | 165,200.00 | 353,953.02 | 6,531.12 | **525,684.14** | September 19, 2019 | September 20-24, 2019 |
| September | 164,000.00 | 345,253.03 | 6,531.12 | **515,784.15** | October 10, 2019 | October 20-24, 2019 |
| October | 162,700.00 | 325,405.78 | 6,531.12 | **494,636.90** | November 8, 2019 | November 20-24, 2019 |
| November | 162,200.00 | 347,509.36 | 13,618.87 | **523,328.23** | December 10, 2019 | December 20-24, 2019 |
| December | 162,600.00 | 357,270.90 | 7,319.55 | **527,190.45** | January 10, 2020 | January 20-24 2020 |
| **Total** | **1,982,500.00** | **4,332,565.45** | **92,397.31** | **6,407,462.76** | | |

## b. Schedule of remittances to GSIS for CY 2019

| Month | Amount Due | Remitted | Date of Remittance | |
|---|---|---|---|---|
| | | | Actual Date | Due Date |
| January | 5,027,012.41 | 5,027,012.41 | 2/8/2019 | 2/10/2019 |
| February | 5,670,422.26 | 5,670,422.26 | 3/8/2019 | 3/10/2019 |
| March | 5,300,575.29 | 5,300,575.29 | 4/10/2019 | 4/10/2019 |
| April | 5,329,964.20 | 5,329,964.20 | 5/10/2019 | 5/10/2019 |
| May | 3,535,505.63 | 3,535,505.63 | 6/10/2019 | 6/10/2019 |
| June | 5,243,403.22 | 5,243,403.22 | 7/10/2019 | 7/10/2019 |
| July | 5,378,169.07 | 5,378,169.07 | * 8/13/2019 | 8/10/2019 |
| August | 5,448,384.95 | 5,448,384.95 | 9/10/2019 | 9/10/2019 |
| September | 5,277,290.87 | 5,277,290.87 | 10/10/2019 | 10/10/2019 |
| October | 5,290,753.77 | 5,290,753.77 | 11/8/2019 | 11/10/2019 |
| November | 5,257,290.23 | 5,257,290.23 | 12/10/2019 | 12/10/2019 |
| December | 5,235,299.07 | 5,235,299.07 | 1/10/2020 | 1/10/2020 |
| **Total** | **61,994,070.97** | **61,994,070.97** | | |

*The liaison officer was not able to remit due to cut-off in the queue and was advised to return the next working day (no penalty was imposed to the agency)

## c. Schedule of remittance to PhilHealth for CY 2019

| Month | Amount Due | Remitted | Date of Remittance | |
|---|---|---|---|---|
| | | | Actual Date | Due Date |
| January | 74,504.79 | 374,504.79 | 2/12/2019 | 2/11-15/2019 |
| February | 75,208.38 | 375,208.38 | 3/11/2019 | 3/11-15/2019 |
| March | 378,316.38 | 378,316.38 | 4/15/2019 | 4/11-15/2019 |
| April | 376,026.51 | 376,026.51 | 5/14/2019 | 5/11-15/2019 |
| May | 375,679.31 | 375,679.31 | 6/13/2019 | 6/11-15/2019 |

| Month | Amount Due | Remitted | Date of Remittance | |
|---|---|---|---|---|
| | | | Actual Date | Due Date |
| June | 368,705.39 | 368,705.39 | 7/10/2019 | 7/11-15/2019 |
| July | 372,957.50 | 372,957.50 | 8/9/2019 | 8/11-15/2019 |
| August | 372,986.50 | 372,986.50 | 9/10/2019 | 9/11-15/2019 |
| September | 367,993.78 | 367,993.78 | 10/10/2019 | 10/11-15/2019 |
| October | 368,466.08 | 368,466.08 | 11/11/2019 | 11/11-15/2019 |
| November | 365,403.55 | 365,403.55 | 12/11/2019 | 12/11-15/2019 |
| December | 389,598.99 | 389,598.99 | 1/15/2020 | 1/11-15/2020 |
| **Total** | **4,485,847.16** | **4,485,847.16** | | |

The Human Resource Department prepares the list of employees and its corresponding amounts for remittance. On the other hand, the Finance and Administration Department is responsible for the remittances of the premiums/contributions and loan amortizations on time to ensure that the employees can avail benefits and privileges from Pag-IBIG, social security benefits from GSIS and affordable medical care from PHILHEALTH.

## G. Status of Audit Suspensions, Disallowances and Charges

The summary of the audit disallowances and suspensions issued for transactions ending December 31, 2019 is shown as follows:

| Particular | Beg. Balance as of Jan. 1, 2019 | This period Jan. 1 to Dec. 31, 2019 | | Ending Balance as of Dec. 31, 2019 |
|---|---|---|---|---|
| | | NS/ND/NC | NSSDC | |
| Notice of Suspension | 17,864,278.27 | 0.00 | 0.00 | 17,864,278.27 |
| Notice of Disallowances | | | | |
| Issued prior to RRSA 2009 | 102,078.08 | 0.00 | 0.00 | 102,078.08 |
| Issued in CY 2010 | 930,000.00 | 0.00 | 0.00 | 930,000.00 |
| Issued by Special Audit Team | 7,396,386.65 | 0.00 | 0.00 | 7,396,386.65 |
| Issued from 2011 to 2015 | 31,043,608.78 | 0.00 | (1,457,742.36) | 29,585,866.42 |
| Issued in CY 2018 | 654,599.57 | 0.00 | 0.00 | 654,599.57 |
| Issued in CY 2019 | 0.00 | 1,365,559.42 | (18,678.29) | 1,346,881.53 |
| Postal Area 3 issued from CY 2014 and 2015 | 3,017,928.57 | 0.00 | (85,100.00) | 2,932,828.57 |
| Subtotal | 43,144,602.05 | 0.00 | (1,561,520.65) | 42,948,640.82 |
| **TOTAL** | **61,008,879.92** | 1,365,559.42 | **1,561,520.65** | **60,812,919.09** |

# PART III – STATUS OF IMPLEMENTATION OF PRIOR YEAR'S AUDIT RECOMMENDATIONS

## STATUS OF IMPLEMENTATION OF PRIOR YEAR'S AUDIT RECOMMENDATIONS

Of the 104 audit recommendations contained in the 2018 Annual Audit Report, 33 were fully implemented, 63 were partially implemented and 8 were not implemented as discussed in the table below:

| 2018 AAR | Observation/s | Recommendation/s | Status of Implementation |
|---|---|---|---|
| *Audit Observation No. 1 Part II. (pages 45-53)* | The existence, accuracy and validity of the year-end consolidated balance of Cash in Bank – Corporate reported at P1.113 billion could not be ascertained contrary to International Public Sector Accounting Standard (IPSAS) 1 and other issuances due to the following:<br><br>a. The adjustment made to remove from the PPC Central Office (PPC – CO) books the previous year credit balance amounting to P334.137 million termed as "For Reconciliation" accounts without the supporting documents;<br><br>b. Consolidated total variance amounting to P75.857 million existed between balance per books in PPC Central Office and Postal Area 3 against confirmed bank balances;<br><br>c. Identified reconciling items for PPC Central Office and Postal Areas 1, 2, 3 | a. Coordinate and make representation with the concerned depository banks to identify unrecorded reconciling items;<br><br>b. Effect necessary adjusting entries for those identified reconciling items and furnish COA Resident Auditor with the related journal entry voucher/s together with the pertinent supporting documents;<br><br>c. Require the Accountant to prepare the necessary Bank Reconciliation Statements and effect the reconciling items in the books furnishing the audit team with copies of the Journal Entry Vouchers together with the supporting documents;<br><br>d. Prepare a Journal Entry Voucher to restore to cash and cash equivalent the unreleased checks and the stale checks amounting to | Partially Implemented<br><br>Lacking references to documents presented<br><br>Partially Implemented<br><br>(Central Office and Area 3 books), Partial adjustments made in the CO books.<br><br>Reiterated in Audit Observations and Recommendations No. 1 of Part II of the Report (pages 51-59)<br><br>Partially Implemented<br><br>Partial adjustments made<br><br>Partially Implemented<br><br>Ongoing verification |

| 2018 AAR | Observation/s | Recommendation/s | Status of Implementation |
|---|---|---|---|
| | and 5 amounting to P 85.991 million; P14.586 million; P6.436 and P10.576 million; P11.159 million and P18.332 million respectively remained unadjusted;<br><br>d. PPC Central Office's unreleased checks and stale checks totaling to P1.271 million were not restored to cash account at year end; | P375,344.53 and P895,898.01, respectively;<br><br>e. Require the Accountant to reconcile the Statement of Financial Position balance and the General Ledger balance and prepare the necessary adjusting entries, as warranted, with supporting documents; | <br><br><br>Fully Implemented |
| | e. Postal Area 8, variance of P4.495 million between the Statement of Financial Position and the General Ledger balance; and | f. Cause the submission of Monthly Bank Reconciliation Statement for each depository bank account to the Audit Team pursuant to Section 74 of PD No. 1445, and | Partially Implemented<br><br>Reiterated in Audit Observations and Recommendations No. 1 of Part II of the Report (pages 51-59) |
| | f. Delayed and/or non-submission of monthly Bank Reconciliation Statements (BRS) in Postal Areas 3, 4 and 6. | g. Require the Accounting Personnel to locate and secure the relevant documents pertaining to the "For Reconciliation" accounts. | Partially Implemented<br><br>Ongoing verification |
| *Audit Observation No. 2 Part II (pages 54-56)* | The accuracy and validity of the year end balances of the Cash – Collecting Officers (CCO) account totaling P5.225 million in various Postal Areas could not be | a. Instruct the Accountants in Postal Area 1, 2, 7 and 8 to conduct regular reconciliation of Subsidiary Ledgers and financial | Partially Implemented<br><br>Partial adjustments are continuously made |

| 2018 AAR | Observation/s | Recommendation/s | Status of Implementation |
|---|---|---|---|
| | ascertained contrary to IPSAS 1 on fair presentation of accounts in the Financial Statements and Section 111, Paragraphs 1 and 2 of PD 1445 due to the following:<br><br>a. Noted variances between book balances and the Postmaster's financial Reports in Postal Areas 1, 2 and 8;<br><br>b. In Postal Area 7, the CCO account balance of P15.473 million includes one negative balances amounting to P7.712 million and two accounts of former collecting officers who were either resigned, dismissed, retired, transferred or reassigned amounting to P10.694 million; | reports;<br><br>b. Record in the books reconciling items that were identified; and<br><br>c. Assign personnel to monitor the Cash Collecting Officers accounts for timely reconciliation. | <br><br>Fully Implemented<br><br><br><br>Partially Implemented<br><br>Monitoring of accounts are made |
| *Audit Observation No. 3 Part II (pages 56-57)* | In the PPC Central Office books, Cash Advances in the amount of P2.973 million remained unliquidated for more than one year as of December 31, 2018 contrary to Section 1 of COA Circular No. 2012-004 dated November 28, 2012. | a. Require the Accounting Personnel to reconcile the balance per books with the balance per Schedules and effect the necessary adjustment in the books;<br><br>b. For active employees require | Partially Implemented<br><br>Report on Cash Advances were partially adjusted<br><br><br><br><br>Partially Implemented |

| 2018 AAR | Observation/s | Recommendation/s | Status of Implementation |
|---|---|---|---|
| | | the immediate settlement of their outstanding cash advances or require the deduction from their salaries until fully settled; and | Deductions were partially made |
| | | c. Require the PPC Paymasters to liquidate their unliquidated cash advance for Conditional Cash Transfers, otherwise file appropriate charges. | Not Implemented<br><br>Reiterated in Audit Observations and Recommendations No. 14 of Part II of the Report (pages 98-99) |
| *Audit Observation No. 4 Part II (pages 57-58)* | The negative balance in the Trust Liabilities Account amounting to P324.601 million inaccurately recorded as of December 31, 2018 contrary to IPSAS 1.<br><br>In Postal Area 2, the account Trust Liabilities - Social Pension for Indigent Senior Citizens (SPISC) representing Fund transfers from the Department of Social Welfare and Development (DSWD) for SPISC showed a balance of P2.705 million, despite full liquidation as of December 31, 2018 thereby overstating the liability and Cash in Bank accounts by the same amount. | PPC Central Office:<br><br>a. Determine the reasons/causes for the negative balances of Liabilities accounts and adjust accordingly; and<br><br>Postal Area 2:<br><br>b. Require the Accountant to draw the necessary Journal Entry Voucher/s to record the liquidations of fund transfers to reflect the correct balances of the Trust Liabilities and Cash in Bank accounts. | Partially Implemented<br><br>Reiterated in Audit Observations and Recommendations No. 4 of Part II of the Report (pages 64-68)<br><br>Fully Implemented |

| 2018 AAR | Observation/s | Recommendation/s | Status of Implementation |
|---|---|---|---|
| Audit Observation No. 5 Part II (pages 58-60) | In PPC Central Office books, the Cash – Trust Funds of P309.989 million is insufficient to cover the Trust Liabilities amounting to P604.671 million due to a variance of P294.681 million thus, affects the reliability and accuracy of the balance presented in the Financial Statements as of December 31, 2018.<br><br>In Postal Area 3, the accuracy and reliability of the year-end balance of Cash, Collecting Officer Trust Fund – Bayad Center and Trust Liabilities – Premiums/Bills Payments Collection – Bayad Center Accounts amounting to P45.167 million and P14.678 million, respectively, is doubtful due to material discrepancy of P30.489 million. | a. In PPC Central Office, verify, analyze and reconcile all transactions related to Cash-Trust Funds for possible mispostings and errors and prepare necessary adjusting entries; and<br><br>b. In Postal Area 3, review and verify the correctness of accounting entries made for Bayad Center transactions since its inception in 2013 up to present, and likewise reconcile and effect the necessary adjustments in the books; and furnish COA copy of the Journal Entry Voucher (JEV) together with the supporting documents. | Partially Implemented<br><br>Postal Payment Division is monitoring transaction<br><br>Partially Implemented<br><br>Ongoing verification and monitoring of account |
| Audit Observation No. 6 Part II (pages 60-66) | The consolidated balance of Accounts Receivable – Trade (AR – Trade) amounting to P370.494 million could not be relied upon contrary to COA Circular No. 2015-010, Paragraph 27 of PPSAS No. 1, and Section 112 of P.D. 1445 due to the following: | *PPC Central Office*<br><br>a. Update the status and personal circumstances of the persons/companies listed in the Aging of AR – Trade to establish collectivity of the accounts;<br><br>b. Reclassify the non – trade receivables of | Partially Implemented<br><br>Requested submission of needed documents<br><br>Fully Implemented |

| 2018 AAR | Observation/s | Recommendation/s | Status of Implementation |
|---|---|---|---|
| | a. PPC Central Office:<br><br>i. negative and unfavorable results of accounts confirmation;<br><br>ii. inclusion of non-trade receivable amounting to P250,000;<br><br>iii. unreconciled balances between the General Ledger (GL) and Subsidiary Ledgers (SL) of Allowance for Impairment of AR – Trade amounting to P155,848.<br><br>iv. the high percentage of non-collection of outstanding receivables for more than three years amounting to P105.456 million;<br><br>b. Postal Area 3: P55.621 million or 21 per cent of the total AR – Trade of P267.085 million as of December 31, 2018 were dormant for more than 10 years; and, no penalty was imposed in case of default in payment by active Postage Charge Account (PCA) holders;<br><br>c. Postal Area 7: The accuracy of | P250,000 that was erroneously recorded as AR – Trade to Lease Receivable account;<br><br>c. Analyze the GL balances of allowance for impairment of AR – Trade to reconcile with the SL balance; and<br><br>d. Endorse to PPC Legal Department those accounts that were long overdue, for appropriate action such as filing of cases, if warranted, or filing of request to write-off of Accounts Receivable to the Commission on Audit to bring the account to correct realizable amount.<br><br>*Postal Area 3*<br><br>a. Strictly implement PPC Circular No. 14-88 dated November 13, 2014 to avoid the accumulation of PCA dormant accounts; and<br><br>b. File a Request for Write-off of Accounts Receivables-Dormant Accounts to Commission on Audit following the Guidelines and | Fully Implemented<br><br>Fully Implemented<br><br>Partially Implemented<br><br>Indorsed to Legal Department<br><br>Partially Implemented<br><br>Indorsed to Legal Department |

| 2018 AAR | Observation/s | Recommendation/s | Status of Implementation |
|---|---|---|---|
| | Accounts Receivable account amounting to P6.547 million is doubtful due to the variance of P0.787 million between the financial report and its supporting schedule.<br><br>d. Postal Area 8: Overdue receivables from PCA amounting to P1.071 million remained unsettled, PCA permits not suspended and necessary penalties not imposed and computed contrary to PPC PCA policies. | Procedures on the Write-off of Dormant Accounts<br><br>*Postal Area 7*<br><br>a. Conduct in depth verification of the Accounts Receivable – Trade account and continue reconciliation with clients' records;<br><br>b. Exert all possible remedies to collect the non-moving receivables; and<br><br>c. Revise the aging schedule to include three to four years; four to five years and beyond five years data to ensure its reliability and usefulness.<br><br>*Postal Area 8*<br><br>a. Suspend the PCA permits of those with accounts that are unpaid after the lapse of the prescribed 15 days and impose the 0.1 per cent penalty thereon; and<br><br>b. Intensify collection efforts for the overdue accounts by sending out demand letters. | <br><br><br><br>Partially Implemented<br><br>Ongoing verification<br><br>Partially Implemented<br><br>Ongoing verification<br><br>Partially Implemented<br><br>Partially updated schedule<br><br><br><br>Not Implemented<br><br>PCA permits not suspended<br><br>Fully Implemented |

| 2018 AAR | Observation/s | Recommendation/s | Status of Implementation |
|---|---|---|---|
| Audit Observation No. 7 Part II (pages 66-67) | The account Due from Officers and Employees in Postal Area 8 amounting to P5.320 million and in Postal Area 9 amounting to P11.921 million remained dormant and unsettled for several years | a. Exhaust all possible remedies to collect the receivables, including the filing of appropriate legal sanctions against the concerned accountable officers; and | Partially Implemented<br><br>Sent demand letters and indorsed to Legal Department |
| | | b. Coordinate with the PPC Central Office on the possibility of writing off these receivables for those Accountable Officers who have no pending case with the court. | Partially Implemented<br><br>Requested assistance with the Central Office for writing off the receivables |
| Audit Observation No. 8 Part II (pages 67-69) | In PPC Central Office, the amount of P198.171 million or 88.9 per cent of the total P222.850 million year-end balance of the Due from Subsidiaries account remained dormant for more than 10 years. The collectability of the said amount is nil and now the subject of an ongoing request for write-off based on COA Circular No. 2016-005 dated December 19, 2016. | Submit the lacking documents as required under COA Circular 2016-005 for early approval of the PPC's request for write-off of the dormant receivables. | Fully Implemented |
| Audit Observation No. 9 Part II (pages 69-72) | The Accounts Receivable – Mail Remunerations in the amount of P1.205 billion as of December 31, 2018 is unreliable due to transactions for | Require the AD and IAD to corroborate with each other to set standards and deadlines to avoid/prevent erroneous treatment of | Partially Implemented<br><br>Ongoing verification |

| 2018 AAR | Observation/s | Recommendation/s | Status of Implementation |
|---|---|---|---|
| | Calendar Year 2018 which were temporarily debited or credited to Other Deferred Credits-Remunerations account thereby understating the AR – Mail Remunerations by P86.231 million in contravention with Paragraph 27 of IPSAS 1 on Presentation of Financial Statements. | the transactions and consider the timing differences to properly reflect the balances of the accounts. | |
| Audit Observation No. 10 Part II (pages 72-73) | Accounting policies on the calculation of gains/losses on foreign exchange on both AR – Mail Remunerations and AP – Mail Remunerations accounts were not properly disclosed and itemized in the Notes to Financial Statements contrary to paragraph 135 of IPSAS 30. | a. Require the Accounting Department and International Affairs Division to corroborate and set deadlines on the submission of reports to ensure the proper recording of the transactions; | Partially Implemented<br><br>Ongoing verification |
| | | b. Prepare adjusting entries for appropriate accounts; | Partially Implemented<br><br>Ongoing verification |
| | | c. Present and itemize the Gain or Loss on Foreign Exchange in the Notes to Financial Statements and include/account the Gain on Foreign Exchange for the AP-Mail Remunerations amounting to P1.427 million; and | Partially Implemented<br><br>Gain or Loss are not totally presented |
| | | d. Disclose the accounting policy/ies used in | Partially Implemented<br><br>Disclosures are not |

| 2018 AAR | Observation/s | Recommendation/s | Status of Implementation |
|---|---|---|---|
| | | the calculation of gains/losses on foreign exchange in the Notes to Financial Statements. | made but gains/losses are recognized |
| Audit Observation No. 11 Part II (pages 73-76) | The existence and accuracy of the consolidated balance of the Inventory accounts as of December 31, 2018 in the aggregate amount of P172.054 million was unreliable affecting the fair presentation of the financial statements as provided in IPSAS 1 due to:<br><br>a. Unsubstantiated or "For Reconciliation" accounts;<br><br>b. Variances amounting to P84.524 million between book balance and Report on Physical Count of Inventories (RPCI); and<br><br>c. Management's inability to convert Philatelic Stamps into Regular Stamps in contravention with PHLPost Circular No. 16-50 dated August 8, 2016. | a. Analyze and identify carefully the accounts "For Reconciliation" included in the beginning balances and prepare the necessary adjusting entries, if warranted;<br><br>b. Submit complete RPCI for all types of inventory and reconcile the difference between the balance per accounting records and the balance per physical count, and;<br><br>c. For Postal Areas 1,2,3 and 6: Management to comply with PHLPost Circular No. 16-50. | Partially Implemented<br><br>Reiterated in Audit Observations and Recommendations No. 8 of Part II of the Report (pages 81-83)<br><br>Partially Implemented<br><br>RPCI were submitted with delays<br><br>Fully Implemented |
| Audit Observation No. 12 Part II (pages 76-77) | In Postal Area 7, the balance of the Office Supplies Inventory account amounting to | Management comply with Section 2 of P.D. 1445 and COA Circular No. 2012-003 on the | Fully Implemented |

| 2018 AAR | Observation/s | Recommendation/s | Status of Implementation |
|---|---|---|---|
| | P1.756 million exceeded the three months requirement of the area, thus, may result to expiration and obsolescence contrary to Section 2 of PD 1445. | three months requirement for Supplies and Materials. | |
| Audit Observation No. 13 Part II (pages 77-90) | The consolidated balance of Property, Plant and Equipment (PPE) accounts amounting to P5.975 billion was unreliable in violation of IPSAS 1 due to:<br><br>a. Inclusion of unsubstantiated or "For Reconciliation" balances in an aggregate amount of P788.270 million in the Central Office's books;<br><br>b. Discrepancy amounting to P373.997 million between Report on Physical Count of Property, Plant and Equipment (RPCPPE) amounting to P316.190 million and aggregate balance per books in Postal Areas 3, 5, 6 and 7 in the total amount of P690.187 million;<br><br>c. Incomplete Property, Plant and Equipment Ledger Card (PPELC) maintained by PPC | a. Management require the Accountant and other concerned personnel to completely examine "For Reconciliation" accounts and prepare the necessary journal entries for the fair presentation of PPE<br><br>In Postal Area 3:<br><br>b.1. Require the concerned personnel to verify the causes of and explain the discrepancies noted between the General Ledger and the Physical Inventory Report and effect the necessary adjusting entries, if warranted; in compliance with Section 491 of GAM, Volume 1; and<br><br>b.2. Identify the "various items" recorded in lump sum in order to | Partially Implemented<br><br>Reiterated in Audit Observations and Recommendations No. 9 of Part II of the Report (pages 83-90)<br><br>Partially Implemented<br><br>Ongoing reconciliation Is conducted<br><br>Partially Implemented<br><br>Sorting of various items are made |

| 2018 AAR | Observation/s | Recommendation/s | Status of Implementation |
|---|---|---|---|
| | CO and in Postal Areas 2 and 7;<br><br>d. Variance of P17.204 million in depreciation between the Lapsing Schedule and the General Ledger;<br><br>e. Inclusion of P6.842 million worth of unserviceable/ obsolete items in Postal Areas 3 and 6;<br><br>f. Repair/rehabilitation/ projects totaling P3.486 million were capitalized to building account;<br><br>g. Substantial addition of P624.070 million to Land account without sufficient supporting documents. | come up with the accurate valuation of PPE;<br><br>In Postal Area 5:<br><br>b.3. Direct the personnel concerned to check and reconcile the physical count report with property records and books of accounts; | Partially Implemented<br><br>Ongoing reconciliation |
| | | b.4. Take appropriate action and/or investigation regarding the variances and effect the adjustments as necessary; and | Partially Implemented<br><br>Partial adjustments are effected |
| | | b.5. Update the schedule supporting the PPE controlling account balance;<br><br>In Postal Area 6: | Partially Implemented<br><br>Partial update is made |
| | | b.6. Require the Accountant to prepare a Journal Entry Voucher (JEV) to record the correcting entries for the deficiencies noted to reflect the correct balance of PPE account as of December 31, 2018; and | Partially Implemented<br><br>Partial corrections are made |
| | | b.7. Require the Accounting Staff | Partially Implemented |

| 2018 AAR | Observation/s | Recommendation/s | Status of Implementation |
|---|---|---|---|
| | | and Property Officer to reconcile the accounting and property records quarterly to avoid unreconciled balances; | Reconciliation is being made |
| | | In Postal Area 7: | |
| | | b.8. Conduct immediate reconciliation between the RPCPPE and the Accounting records in order to resolve the differences and reflect the correct account balance; | Partially Implemented<br><br>Ongoing reconciliation |
| | | b.9. Reclassify the PPE items below the capitalization threshold of P15,000 to semi-expendable property; | Fully Implemented |
| | | b.10. Determine the PPE items which are unserviceable and make the necessary adjustments to arrive at the correct data to be reported; | Fully Implemented |
| | | b.11. Direct the Property Custodian to subsequently report all items for disposal in the Inventory and Inspection Report of Unserviceable | Fully Implemented |

| 2018 AAR | Observation/s | Recommendation/s | Status of Implementation |
| --- | --- | --- | --- |
| | | Property, and | |
| | | b.12. Dispose and derecognize the Unserviceable Property in the IIRUP. | Fully Implemented |
| | | c.1. In the PPC Central Office, update the PPELC and provide the related depreciation expense from January 2013 to December 2018; and | Partially Implemented<br><br>Reiterated in Audit Observations and Recommendations No. 9 of Part II of the Report (pages 83-90) |
| | | c.2. In Postal Areas 2 and 7, update and maintain PPELC for each category of PPE. | Partially Implemented<br><br>PPELC is being updated |
| | | d. Prepare adjusting entries on depreciation expense based on the provided lapsing schedule. | Partially Implemented<br><br>Adjusting entries are partially made |
| | | e.1. In Postal Area 3, reclassify the unserviceable assets to Other Property, Plant and Equipment account; and | Partially Implemented<br><br>Reclassified but not yet disposed |
| | | e.2. In Postal Area 6, dispose immediately all unserviceable motor vehicles totalling P3.646 million to avoid further losses. | Partially Implemented<br><br>Reclassified but not yet disposed |
| | | f. Reclassify to | Not Implemented |

| 2018 AAR | Observation/s | Recommendation/s | Status of Implementation |
|---|---|---|---|
| | | Repairs and Maintenance – Buildings account all disbursements pertaining to repair/ rehabilitation/ improvement of offices. | Awaiting report from the GSD |
| | | g. Submit supporting documents to substantiate adjustments to “Land” account. | Not Implemented<br><br>No documents were still not submitted |
| Audit Observation No. 14 Part II (pages 90-91) | In Postal Area 6, Other Assets account totaling P9.828 million at year-end is unreliable due to the inclusion of motor vehicles amounting to P7.118 million which could be reclassified to serviceable status and P1.898 million prior years' unsupported balance contrary to Section 13 of IAS 1 thus, affected the fair presentation in the financial statements. | a. Require the Accountant to prepare a Journal Entry Voucher (JEV) to record the above-enumerated deficiencies noted to reflect the correct balance of Other Asset account as of December 31, 2018; | Partially Implemented<br><br>Ongoing verification |
| | | b. Require the Accounting Staff concerned and Chief, Motor Vehicle Section to reconcile the accounting and property records quarterly to record any adjustments made if there is any and to avoid difficulty in the reconciliation of Other Asset account; and | Not Implemented<br><br>The accounting records and Physical Inventory Report do not tally |
| | | c. Require the Chief, Motor Vehicle Section to monitor the condition of the motor vehicles, | Fully Implemented |

| 2018 AAR | Observation/s | Recommendation/s | Status of Implementation |
|---|---|---|---|
| | | classify accordingly and submit status to Accounting Department. | |
| Audit Observation No. 15 Part II (pages 91-94) | The consolidated balance of the Accrued Expenses amounting to P642.744 million as of December 31, 2018 is doubtful due to the following:<br><br>a. Inclusion of long outstanding accounts payable amounting to P135.212 million despite the absence of documents to support the validity of entries in the books contrary to Section 4 (6) of P.D. No. 1445, R.A. No. 3526 and E.O. No. 228;<br><br>b. Erroneous credit to Accrued Expenses contrary to Paragraph 27 of Philippine Public Sector Standards (PPSAS) No. 1; and<br><br>c. In Postal Area 3, inclusion of long outstanding accounts for more than two years. | a. Revert to the General Fund the amount of P135.213 million pursuant to RA 3256 and EO No. 228;<br><br>b. Validate and ensure that all obligations are supported with complete supporting documents to comply with Section 4 (6) of PD 1445; and<br><br>c. In Postal Area 3, locate the documents needed to substantiate the remaining outstanding accounts of P50.464 million, make the necessary adjustments to the Accrued Expenses Account, and submit to COA copy of the Journal Entry Voucher/s (JEV) together with supporting documents. | Fully Implemented<br><br>Fully Implemented<br><br>Fully Implemented |
| Audit Observation No. 16 Part II (page 94) | The Due to Officers and Employees in the PPC Central Office books amounting to P277.482 million is | a. Revert to General Fund the audited amount of P164.308 million of Due to Officers and | Partially Implemented<br><br>Reiterated in Audit Observations and Recommendations |

| 2018 AAR | Observation/s | Recommendation/s | Status of Implementation |
|---|---|---|---|
| | doubtful due to P164.308 million that remained outstanding for more than two years in the books as of December 31, 2018. | Employees pursuant to Section 98 of P.D. 1445; and<br><br>b. Reformat the Schedule to effectively classify the account Due to Officers and Employees according to age such as those less than one year, those more than one year but less than two years, and those more than two years. | No. 10 of Part II of the Report (pages 90-91)<br><br>Fully Implemented |
| Audit Observation No. 17 Part II (pages 94-97) | The consolidated account Other Deferred Credits amounting to P764.417 million as of December 31, 2018 is unreliable due to erroneously recorded transactions amounting to P251.234 million, thus overstating the account by the same amount contrary to Paragraph 17 of IPSAS 1. | Make the necessary appropriate Adjusting Journal Entries (AJEs) to correct the entries made. | Partially Implemented<br><br>AJEs are partially made |
| Audit Observation No. 18 Part II (pages 97-99) | Inability of Management to reconcile and eliminate the two reciprocal accounts Due from Postal Area Offices in the Central Office books and Due to PPC Central Office in all nine Postal Area Offices resulted to a cumulative variance of (P567.432) million, and affected the reliability and accuracy of the | a. Substantiate and reconcile the variances noted on a per Postal Area Offices to reduce the variance if not totally eliminate the reciprocal accounts in the financial statements; and<br><br>b. Comply with Section III of PHLPost Circular no. 17-73 and effect year-end | Partially Implemented<br><br>Reiterated in Audit Observations and Recommendations No. 12 of Part II of the Report (pages 93-95)<br><br>Partially Implemented<br><br>Variances are minimized in the |

| 2018 AAR | Observation/s | Recommendation/s | Status of Implementation |
|---|---|---|---|
| | agency's financial statements as of year-end in contravention with IPSAS 1, IAS 27 and Section III of PHLPost Circular No. 17-73. | reconciliation of reciprocal accounts. | current year |
| Audit Observation No. 19 Part II (pages 99-101) | In the PPC Central Office and Postal Area 3 books, the amount of P2.973 million and P278,908, respectively, remained unliquidated for more than one year as of December 31, 2018 contrary to Section 1.0 of COA Circular No. 2012-004 dated November 28, 2012 and COA Circular No. 97-002 dated February 10, 1997 thus, deprived the Agency of funds that could have been used for other viable purposes. | a. Require the active employees to immediately settle their outstanding cash advances or require the deduction from their salaries until fully settled; and<br><br>b. Institute measures/actions against Accountable Officers with unliquidated cash advances. | Partially Implemented<br><br>Reiterated in Audit Observations and Recommendations No. 14 of Part II of the Report (pages 98-99)<br><br>Partially Implemented<br><br>Demand letters were sent and indorsed to Legal Department |
| Audit Observation No. 20 Part II (pages 101-103) | In Postal Area 8, P84.115 million received by different Postmasters from the Philippine Red Cross/International Committee of the Red Cross were disbursed without covering disbursement vouchers and approval of the Postal Area Director contrary to Section 4 of P.D. No. 1445 thus, considered irregular expenditures. | a. Require the concerned Postmasters to submit all Disbursement Vouchers and supporting documents covering the payments and thereafter ensure that all disbursements are supported with complete documentation and with the approval of the Area Director; and | Fully Implemented |

| 2018 AAR | Observation/s | Recommendation/s | Status of Implementation |
|---|---|---|---|
| | | b. Inform the PPC Central Office on this matter to consider providing specific guidelines for this PRC funds and implement adequate internal controls to ensure that the funds are protected from loss and unauthorized disbursements. | Fully Implemented |
| Audit Observation No. 21 Part II (page 103) | The receivables of the Joint Venture of PPC and Filmetrics, Inc. from Social Security System (SSS ID) are doubtful due to the difference of P27.004 million. | Identify the reasons and sources of the discrepancies between the books of PPC and SSS to arrive at the reconciled amount. | Partially Implemented<br><br>Ongoing verification |
| Audit Observation No. 22 Part II (pages 103-104) | The receivables from Joint Venture with SSS (SSS ID) and Filmetrics, Inc. (Postal ID) amounting to P140.369 million erroneously charged to Account Receivable-Trade last year were not yet presented in the 2018 Notes to Financial Statement to its appropriate account contrary to COA Circular No. 2015-010 and to faithful presentation under IPSAS No. 1. | Present the balances of receivables from Joint Venture as of December 2017 to “Due from Subsidiaries/Joint Ventures/ Affiliates account” in compliance with COA Circular No. 2015-010 and IPSAS No. 1 for fair presentation of the financial statements. | Partially Implemented<br><br>Ongoing verification |
| Audit | Deficiencies were | a. Require the General | Not Implemented |

| 2018 AAR | Observation/s | Recommendation/s | Status of Implementation |
|---|---|---|---|
| Observation No. 23 Part II (pages 104-109) | noted in the review of the Contract of Lease between PPC and the Proponent, contrary to IPSAS 1 and 17, and Section 4 of P.D. No. 1445, enumerated as follows:<br><br>a. Non recording of the lease rental and cost of rehabilitation per Section 3 of lease contract due to absence of pertinent documents as basis; | Services Department to instruct the Proponent to submit the original pertinent documents necessary for the enforcement of Section 3 of the Contract for the recognition of the cost of rehabilitation and the corresponding depreciation expense; | Sent demand letter to the proponent |
| | b. Inability of PPC to impose penalty of five per cent to the due and unpaid obligations of the Proponent contravened Section 3 of the Contract of Lease. | b. Designate personnel to monitor the status of payments and maintain the Subsidiary Ledger of the proponent and to impose penalty for delayed payments; | Not Implemented<br><br>Requested MOA from the Legal Department |
| | c. The difference of P1.846 million between the balance per book of P1.903 million and the confirmed amounts from the Proponent of P57.277 thousand casts doubt on the accuracy of the Rent Receivable account as of December 31, 2018. | c. After securing the documents for rehabilitation, implement Section 3 to minimize the difference between the respective books. Require the Proponent to pay unsettled monthly dues, then reconcile the difference; and | Partially Implemented<br><br>Ongoing verifications |
| | d. The errors in the application of VAT for the lease and in pertinent accounting entries affect the accuracies of Rent Receivable, Income | d. Make the necessary AJEs to correct the understatements of the affected accounts due to the incorrect computation of VAT and incorrect figures | Partially Implemented<br><br>Partial adjustments were made |

| 2018 AAR | Observation/s | Recommendation/s | Status of Implementation |
|---|---|---|---|
| | and VAT Payable accounts. | in the accounting entries and furnish COA copy of the AJEs. | |
| Audit Observation No. 24 Part II (pages 109-110) | The non-recognition of the rental income amounting to P30.569 million exclusive of VAT, from the lease of the Surface Mail Exchange Department Building of Philippine Postal Corporation to the Commission on Elections (COMELEC) for Calendar Year 2018 contravened PPSAS 1 thus, understated the Rent Receivables, Deferred Rental Income and VAT Payable accounts. | Instruct the Accounting Department to deliver regularly to COMELEC the Billing Statement for the immediate payment of its lease obligations to PPC. Also, we recommended Management to enter into a long-term lease contract with COMELEC as necessary. | Partially Implemented<br><br>Ongoing verifications |
| Audit Observation No. 25 Part II (pages 110-111) | The cost of audit services totaling P450.347 million remained unpaid as at December 31, 2018 contrary to Section 4 of Republic Act 10924, Section 44, Chapter 5, Book VI of EO No. 292 and Joint COA-DBM Circular No. 88-1 dated July 29, 1998. | Consider the COA Cost of Audit Services as one of its priorities in settling its obligations in compliance with RA 10924, Section 44, Chapter 5, Book VI of E.O. No. 292 and Joint COA-DBM Circular No. 88-1 dated July 29, 1998. | Partially Implemented<br><br>Board Resolution was passed for installment payment |
| Audit Observation No. 26 Part II (pages 111-113) | The contracts entered into by PPC with supplier for the procurements of 800,000 pcs. of Domestic Express Mail Service (DEMS) envelops and | We recommended that Management submit:<br><br>a. Photocopy of invitation to bid including for the NGO; | Fully Implemented |

| 2018 AAR | Observation/s | Recommendation/s | Status of Implementation |
|---|---|---|---|
| | registered Plastic Envelop of various prints, quantity and sizes with Approved Budget for the Contract (ABC) of P3.168 million and P3.368 million, respectively, violated several provisions of the 2016 Revised Implementing Rules and Regulations (RIRR) of RA 9184. | b. Certification evidencing the posting of the Invitation to Bid at conspicuous places in PPC premises; | Fully Implemented |
| | | c. Document showing the posting of Supplemental Bid Bulletin Nos. 2018-03 dated May 2 and 18, 2018; | Fully Implemented |
| | | d. Document showing the Notice of Award; | Fully Implemented |
| | | e. Document showing the posting of Notice to Proceed; | Fully Implemented |
| | | f. Document showing the NTP was issued to the successful bidder within (seven) CDs from the date of approval of the contract; | Fully Implemented |
| | | g. The Bid Evaluation report and the Minutes of Pre-Procurement Conference; and | Fully Implemented |
| | | h. Post-Qualification Report mentioning the “Affidavit regarding the warranty security”. | Fully Implemented |
| Audit Observation No. 27 Part II (pages 113-115) | PPC leased various venues as place for its seminar, workshop, planning, training, meeting and conference activities in the total amount of | Follow strictly the provisions of Section Nos. 9.a.ii, 9.b.c.ii of Annex H of the Lease of Real Property and Venue of RA 9184. | Fully Implemented |

| 2018 AAR | Observation/s | Recommendation/s | Status of Implementation |
|---|---|---|---|
| | P2.699 million using Shopping method of procurement instead of complying with Section Nos. 9.a.ii, 9.b. and 9.c.ii. of Annex H of the Lease of Real Property and Venue of RA 9184 as the prescribed alternative method of procurement. | | |
| Audit Observation No. 28 Part II (pages 115-117) | Various deficiencies were noted in the audit of (GAD) funds, thus not compliant to RA 9170, such as:<br><br>a. Inability to carry out all the identified GAD activities in the PPC approved Annual GAD Plan and Budget (GPB) for 2018 thus, the intended benefits of the plan was not fully achieved.<br><br>b. PPC's approved Corporate Operating Budget for CY 2018 amounted to P4.889 billion. However, the budget allotted for GAD was only P5.800 million which was only 0.1%, way below the minimum requirement of 5% of the COB which is P244.456 million contrary to General Provisions of the Annual General Appropriations Acts (GAA) of CY 2018. | a. Require the Heads of implementing departments/offices to ensure that GAD programs, projects and activities are implemented as planned to attain the GAD objectives;<br><br>b. Strictly implement the provision of the GAA, particularly on the provision of the required budget;<br><br>c. Strictly adhere to Item V of COA Circular No. 2014-001 dated March 18, 2014 for the timely submission of the said reports to the COA Audit Team; and<br><br>d. Require the GAD Focal Point System to:<br><br>- Institutionalize the GAD database with adequate and systematically gathered | Fully Implemented<br><br>Not Implemented<br><br>Budgeted but only small percentage<br><br>Fully Implemented<br><br>Partially Implemented<br><br>Database is updated |

| 2018 AAR | Observation/s | Recommendation/s | Status of Implementation |
|---|---|---|---|
| | c. Copy of Annual GAD Plan and Budget (GPB) for 2019 was not furnished to the Office of the Auditor within the given period of time prescribed under item V of COA Circular No. 2014-001 dated March 18, 2014.<br><br>d. The PPC GFPS has not established nor set up a GAD database that serves as basis for gender-responsive planning, programming and policy formulation as required under Section 37 (D), Rule VI of the IRR of RA No. 9710 and Section 4, 4.4 of PCW-NEDA-DBM Joint Circular No. 2012-01. | sex-disaggregated data which will provide the bases for gender analysis, planning, programming and policy formulation; and<br><br>- Undertake gender analysis to identify and confirm existing gender issues and ensure that programs, projects and activities are responsive to the said issues. | Partially Implemented<br><br>Ongoing analysis is made |
| Audit Observation No. 29 Part II (pages 118-120) | PPC Central Office compliance with tax laws showed the following observations:<br><br>a. The PPC Central office is compliant in the payment of taxes. The filing and payment of tax made under BIR Forms 1601-C, 1600, 1601-E and 2550-Q/2550-M for CY 2018 were made in compliant with Sections 58(A) and | a. Record the transactions on time; and<br><br>b. Make the appropriate Adjusting Journal Entries to correct the deficiencies in recording tax transactions. | Partially Implemented<br><br>Adjustments were made<br><br>Partially Implemented<br><br>Partial adjustments were made |

| 2018 AAR | Observation/s | Recommendation/s | Status of Implementation |
|---|---|---|---|
| | 114(A) of Republic Act No. 8424 (RA 8424) otherwise known as the National Internal Revenue Code (NIRC) of 1997.<br><br>b. Late recording of the November 2018 Value-Added Tax (VAT) filed and paid on December 2018 overstated the balances of both Cash and Net VAT Payable amounting to P15,954,673.09 as of December 31, 2018.<br><br>c. Due to BIR-EWT is overstated by P754,253.81 due to the difference in computation of December 2018 Debit and Credit Balances between the General Journal and General Ledger of the account. | | |
| Audit Observation No. 30 Part II (pages 120-121) | Premium contributions/loan amortizations withheld from employees' compensation totaling to P153,808.05 as of December 31, 2018 were not remitted to GSIS, Pag-IBIG, and PhilHealth within the prescribed period in violation of the provisions of Section 69 (1) of P.D. No. 1445, Section 6 (b) of R.A. | a. Request certification from Pag-IBIG and PhilHealth confirming outstanding receivables from PPC in their respective books; and<br><br>b. Ensure that all funds withheld from salaries of employees are promptly remitted to | Partially Implemented<br><br>Ongoing verifications<br><br>Partially Implemented<br><br>Ongoing verifications |

| 2018 AAR | Observation/s | Recommendation/s | Status of Implementation |
|---|---|---|---|
| | No. 8291 known as the GSIS Act of 1997, Section 3, Rule VII, Implementing Rules and Regulations of Republic Act No. 9679 or the Home Development Mutual Fund (HDMF) Law of 2009, otherwise known as Pag-IBIG. and Section 20 of the Implementing Rules and Regulation of Republic Act 7875 of PhilHealth. | concerned agencies within the prescribed period. | |
| Audit Observation No. 31 Part II (pages 121-123) | PPC properties at Central Office were insured with the GSIS in compliance with Section 5 of RA No. 656, as amended by P.D. No. 245 dated July 13, 1973. However, the required Property Inventory Form (PIF) format as mentioned under COA Circular No. 2018-002 dated May 31, 2018 was not yet adapted. | Adopt the required PIF format as soon as possible and to submit the same, copy furnish the GSIS-GIF, not later than April 30 of each year as provided under COA Circular No. 2018-002. | Fully Implemented |
| Audit Observation No. 32 Part II (pages 123-126) | PPC has a total unsettled suspensions and disallowances amounting to P17.864 million and P43.144 million, respectively, as of December 31, 2018 contrary to the provisions of COA Circular No. 2009-006 dated September 15, 2019 and Section 82 of P.D. No. 1445. | a. Require PPC Officials to enforce compliance on settlement of suspensions and disallowances by concerned responsible/persons liable pursuant to the provisions of COA Circular No. 2009-006; and<br><br>In the case of Notice | Partially Implemented<br><br>Monitoring are being made for compliance<br><br>Partially Implemented |

| 2018 AAR | Observation/s | Recommendation/s | Status of Implementation |
|---|---|---|---|
| | | of Suspensions, require the concerned Officials and employees to comply with the documentary requirements on or before end of the 90 days period to prevent the NS to mature into disallowance. | Strict enforcements are being conducted |

December 7, 2020

OFFICE OF THE SUPERVISING AUDITOR
RECEIVED
DEC 10 2020
By: Time: 3:17
PHILIPPINE POSTAL CORPORATION

**LIZA A. PERIDO**
OIC-Supervising Auditor
Commission on Audit - PHLPost

Dear Auditor Perido,

Greetings!

Submitting herewith is the Agency Action Plan and Status of Implementation of the Audit Observations and Recommendations (CY 2019) as of November 30, 2020.

We hope you find everything in order.

Thank you.

Very truly yours,

**JOEL L. ZAMUDIO**
Corporate Officer-in-Charge

OFFICE OF THE APMG FOR
ADMINISTRATION AND FINANCE
RECEIVED
DEC 11 2020
PHILIPPINE POSTAL CORPORATION

**Agency Action Plan and Status of Implementation**
**Audit Observations and Recommendations (CY 2019)**
**As of November 30, 2020**

| | Audit Observations | | Audit Recommendations | Agency Action Plan | | | | | Reason for Partial/Delay/Non Implementation | Actions Taken/ to be taken |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | Action Plan | Person/Dept Responsible | Target Implementation | | | | |
| | | | | | | From | To | Status | | |
| 1 | Cash in Bank - Corporate | | | | | | | | | |
| | a) variance between balance per book against bank confirmation | | | | | | | | | |
| | 94.094 million for 10 bank accounts | Central Office | | Request bank the documents/ particulars of amounts credited to accounts in prior years | AD/FMD/IAD | as necessary | | Implemented | | Already requested the concerned bank but was not able to provide the informations pertaining to priopr years |
| | 96.269 million | Area 3 | Coordinate with depository and make representation with the concerned depository banks to identify unrecorded reconciling items | Update the monthly bank reconciliation | Acctg. Sec. | Jan 2020 | Dec. 2020 | partially Implemented | lack of manpower | already requested additional manpower to be assigned in the preparation of bank reconciliation |
| | (0.664 million) | Area 8 | | Reconcile GL and SL for CIB accounts<br>Monthly reconciliation | Accounting Section | Jan 2020 | April 2020 | Inplemented | | Revised BRS were submitted on March 3, 2020<br>2020 |
| | b) identified reconciling items remain unadjusted | | Effect adjusting entry & furnish COA the JEV together with the supporting documents | | AD | | | partially implemented | availability of supporting documents | BDO-GF (Peso) adjustments: |
| | 94.094 million | Central Office | Require the Accountant to prepare | Substantiate and reconcile entries in the books against bank | | | | | | 176,817.46 under JV 20-05-72<br>141,621.66 under JV 20-04-60 |
| | 5.663 million debit<br>3.501 million credit | Area 1 | the necessary BRS and effect the reconciling items in the books | Immediate follow-up to PMs whose finaancial reports are not submitted on time | | | | partially implemented | | Adjusted in November and December 2019 |
| | (16.784 million) book reconciling items | Area 6 | | Require Dumaguete PO to | | | | | | BRS are updated |

| Audit Observations | | Audit Recommendations | Agency Action Plan: Action Plan | Person/Dept Responsible | Target Implementation: From | To | Status | Reason for Partial/Delay/Non Implementation | Actions Taken/ to be taken |
|---|---|---|---|---|---|---|---|---|---|
| (0.452 million) bank reconciling items | | | submit documents as basis for adjustment | ADFin/Acctg | April-20 | Dec 20 | partially implemented | | as of November 2020 and submitted to COA |
| **c. delayed/non-submission of BRS** | | Prepare BRS and effect the reconciling items | 1. Maintain SL<br>2. Prepare BRS | Acctg. Sec | monthly | | partially implemented | availability of bank statements | BRS up to Dec. 2019 submitted to COA as follows:<br>11 BDO accts - February 13 and March 2, 2020<br>LBP Combo - June 4, 2020<br>4 LBP accts. - Feb. 24, 2020<br>2 OFB accts BRS for August 2019 submittedon Feb. 11, and Feb. 15, 2020 |
| 35 bank accounts were maintained.<br>26 accounts - delayed BRS<br>5 accounts - incomplete BRS<br>4 accounts - no BRS | Area 1 | | | | | | | | |
| 52 accounts were maintained. BRS for all accounts for the months of September to December 2019 were not submitted to the audit team for verification | Area 2 | | | | | | Implemented | | Submitted to COA on February 28, 2020 |
| 103 bank accounts were maintained<br>39 with BRS as of February 2019<br>1 for the month of January 2019<br>22 were with BRS for different months of the prior years<br>No BRS for all OFWB and PNB accounts which were declared dormant | Area 4 | | 1. Update BRS<br>2 | Acctg. Sec | Jan. 20 | Dec. 20 | Partial inplementation | 1. delayed receipt of bank statement from OFB<br>2. only one employee is preparing the BRS | Continuous updating of BRS Target date of completion is completion is end of Dec. 2020 |
| 44 bank accounts mainrtained<br>12 OFWB (dormant accounts)<br>16 BDO<br>16 LBP | Area 6 | | To update BRS | ADFin/Acctg. | Aprl 20 | Dec 20 | partial | delayed receipt of bank statement from banks | 12 OFWB accounts reconciled and closed. BRS submitted to COA on 16 November 2020 |
| Note: Latest BRS submitted was for the month of September 2019 | | | | | | | | | 16 LBP accounts BRS updated as follows: |

| | Audit Observations | | Audit Recommendations | Agency Action Plan | | | | | Reason for Partial/Delay/Non Implementation | Actions Taken/ to be taken |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | Action Plan | Person/Dept Responsible | Target Implementation | | | | |
| | | | | | | From | To | Status | | |
| | | | | | | | | | | 1 account as of August 2020<br>14 accounts as of Sept. 2020<br>1 account as of October 2020 |
| | 31 bank accounts were maintained.Monthly reconciliation of the accounts was not done by Accounting to ensure that balances are reported | Area 8 | | | | | | | | Reconciled and BRS were submitted on December 29, 2019 to COA |
| | 31 bank accounts were maintained. No BRS for December 2019 were submitted | Area 9 | | | | | | | | Updated bank recon as of September 30, 2020 (BDO and LBP)<br>Updated bank recon as of June 30, 2019 (OFB)<br>OFB account closed on October 31, 2019 |
| | **d. Dormant account of 1.901 million** | Area 4 | make representation with CO for the closure of dormant accounts | | | | | Implemented | | Advice letter was already sent to Central Office |
| | e. 11 stale checks worth P141,621.66 | **Central Office** | Prepare JEV to restore to cash and cash equivalent | | | | | Implemented | | The 141,621.66 was restored to Cash under JEV No. 20-04-0060 on April 2020. |
| 2 | **Cash Collecting Officer - Corp. & Trust** | | | | | | | | | |
| | a. variance between book balances and PM financial reports | | Record the identified reconciling items reported in the reconciliation statement of accountability as of cash examination | To take up the adjustments identified in the Reconciliation Statement which form part of the cash exam report | Area Accountant | on the month the exam report is submitted | | non-implementation | The adjustments made as stated by management is different from the adjustments require by the Audit Team - COA Rejoinder | |
| | 512,572 | Area 1 | | | | | | | | |

| | Audit Observations | | Audit Recommendations | Agency Action Plan | | | | | Reason for Partial/Delay/Non-Implementation | Actions Taken/ to be taken |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | Action Plan | Person/Dept Responsible | Target Implementation | | | | |
| | | | | | | From | To | Status | | |
| | 2.583 million | Area 2 | OIC-Chief ADFin Division to assign personnel who will check the supporting documents of the PMTR | | | | | partially implemented | | various adjustments made which reduced the variance to P1.195 million as of October 2020 |
| | 3.271 million difference between cashbooks and susidiary ledgers | Area 7 | Thorough analysis and reconciliation of SL and financial reports | | | | | | | Provided PMs subsidiary ledgers for reconciliation with their cash books. |
| | b. doubtful Cash Collecting Officer-Trust PhilHealth balance of 4.198 million as of 31-Dec-19 | Area 6 | Immediately conduct reconciliation of collections and remittances for Cash Coll. Officer - Trust-PhilHealth and close the said account | Require the submission of Monthly Collection and Deposits together with deposit slips | AdFin/Acctg | April 20 | Dec. 20 | partial | On-going | Adjustments recognized and the amount was rfeduced to P4,370 84 as at Nov. 2020 |
| 3 | **Investment in Time Deposits of 1.492 B is presented as Non-Current Assets** | Central Office | Present as Current Assets | Submit restated statement financial position and present as short term investment under Current Assets | Bookkeeping Division | | | not implemented | | To observe proper presentation of investment in time deposit in the financial position starting 2020 |
| 4 | **Trust Accounts** | | | | | | | | | |
| | **Cash in Bank - Trust not sufficient to cover Trust Liability**<br>CIB - Trust 355.038 million<br>Trust Liability 678.953 million<br>(323.953 million) | Central Office | Strictly monitor cash flows to ensure **that trust funds are disbursed for** the intended purpose<br>Effect adjustment | Areas to monitor deposits of Postmasters | Area/FMD | monthly | | Implemented<br>partially implemented | availability of supporting documents | adjusted P65.125 million for unrecorded clleared MO on Jan 2020 under JEV 20-01-0014 |
| | CIB - Trust 43.839 million<br>Trust Liability 89.026million<br>(45.187 million) | Area 3 | Strictly monitor cash flows to ensure **that trust funds are disbursed for** the intended purpose | To prepare monthly Statement of Cash Flow & match collections against deposits | Bookkeeping Sec | 1st qtr CY 2021 | Dec. 20 | partially implemented | on-going | partial adjustment were recorded in the books in September - October 2020 |
| | | | | | | | | | | |
| | **Presence of negative balance cast doubts doubts on the reliability**<br>(321.259 million) Trust Liability-PhilHealth | Central Office | Reconcile regularly the balances of trust funds and the corresponding bank accounts to facilitate eaarly | To reconcile total collections against total remittances and effect adjustment | AD,FMD,PPD | | March '21 | partially implemented | availabilty of supporting documents | Prepare Reconciliation Working Paper |

| | Audit Observations | | Audit Recommendations | Agency Action Plan: Action Plan | Person/Dept Responsible | Target Implementation: From | To | Status | Reason for Partial/Delay/Non-Implementation | Actions Taken/ to be taken |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | detection of error/discrepancies and effect adjustment when necessary | | | | | | | Prepare adjusting/reclassification entry |
| | **existence of errors totaling 64.421 million in the Cash in Bank-Trust**<br><br>a. 64.080 million deposit of PhilHealth collections were recognized as debit to CIB-Trust Manual MO/PhilHealth instead of Trust Liabilities-PhilHealth | Area 3 | Prepare the necessary adjustments duly supported<br><br>Validate all reconciling items and prepare and record the adjusting entries as necessary | a. Reconcile the SL of Trust Liabilities account and the recorded deposit.[ | Bookkeeping Section | March 2020 | Dec. 2020 | partially implemented | on-going | adjusted P21,902,357.13 in October 2020 under JEV No. 2020-10-250 |
| | b. Sweeping of ePMO trust funds of 20,995. recorded as credit to CIB-Trust MO/PhilHealth instead of CIB-Trust-ePMO | | Furnish the audit team copy of JEV | b. To check the transaction and effect adjusting entry | Bookkeeping Section | March 2020 | Dec 2020 | implemented | | adjusted P20,995.13 in Sept. 2020 under JEV 2020-09-200A |
| | c. Deposit of ePMO P2,000.00 recognized as credit to Cash Coll. Officer-Trust Manual MO instead of Cash Coll. Officer Trust MO | | | c. To check the transaction and effect adjustment | Bookkeeping Section | March 2020 | Dec 2020 | implemented | | adjusted P2,000 in Sept. 2020 under JEV 2020-09-200A |
| | d. Trust Liabilities-Outbound IMO of P233,234.89 remained recorded in the books despite sweeping | | | d. To check the entry made for sweeping of Trust Liabilities transactions | Bookkeeping Section | March 2020 | Dec 2020 | implemented | | adjusted P233,234.89 in Sept. 2020 under JEV No. 2020-09-195A |
| | e. Proceeds of disposal of unserviceable equipment/records in the amount of P84,916.72 was improperly taken up as Cash Coll. Officer-Trust Consignment upon receipt an CIB-Trust-Consignment | | | e. To check the entry made and effect adjusting entries | Bookkeeping Section | March 2020 | Dec 2020 | not implemented | on-going | to adjust before theclosing of books. |
| 5 | **Receivables and Related Accounts** | | | | | | | | | |
| | negative balances & infrequent changes in Aging of AR- Trade Classification | | Avoid making changes in schedule of aging and update the status and | reconcile with client | | | | | | The negative amount (355,443) was adjusted in January 2020 |
| | Two customers with negative balances (355,443) in aging of Trade Receivables | Central Office | personal circumstances of the companies lidted to establish collectivity | | | | | | | under JEV No. 20-01-0016 |
| | | | | | | | | | | 1. Coordinate with client re |

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| Negative and unfavorable reasults of accounts confirmation (DepEd & DOH) | Central Office | reconcile the accounts of the 2 customers to establish and determine the correct balances | prepare adjusting entry | | | | partially implemented | some billings were returned due to lack of some supporting documents | lacking documents and treatment of billing with complete supporting docs<br><br>2. Require concerned office to complete the documents to support the endorsement to billi |
| P127.379 million of AR-Trade have been outstanding for more than 3 years | Central Office | endorse to Legal Department for appropriate action or request COA for f Write-off | review schedule submitted to COA | | | 1st Qtr CY 20201 | partially implemented | ongoing reconciliation clients | Legal Dept. issued Demand Letters<br><br>To request Authority to Write-off upon completion of the supporting documents |
| AR-Trade include P1.264 million subject for verification and P3.530 negative balances | Area 3 | Continue efforts to analyze & recon-cile and effect the necessary adjustments | 1. send collection letter or | PCA Unit/ Acctg. Sec. | | Dec 2020 | partial | on-going | Monthly Statement of Account are sent to client |
| P128.138 million AR=Trade have been dormant for more than 5 to more than 10 years | Area 3 | evaluate and request for Write-off as precribed in COA Circular No. 2016-005 dated December 19, 2016 | 2. request for write-off, if warranted | | | Dec 2020 | not implemented | lack of manpower | Already requested additional manpower to be assigned in the reconciliation of ARs |
| Low collection efficiency due to non-enforcement of PHLPost Policy on Delinquency Management of PCA enforcement of PHLPost Policy on | Area 3 | Implement PHLPost Circular No. 14-88 dated Nov. 13, 2014 or revisit the same policy guidelines 88 dated Nov. 13, 2014 or revisit the same policy guidelines | | | | Dec 2020 | not implemented | account is under verification | on going reconciliation with CO re account of FDA |
| | | | | | | | | | |
| Accounts Receivable, Trade-PCA of P8.029 remained uncollected contrary to PHLPost Circular No. 14-88<br><br>Non-imposition of penalty for daily delay of payment of PCA | Area 4 | Review the approved PCA application of customers with long outstanding receivable<br><br>Compute for the penalty, send confirmation letters and statement of | 1. Review prior years' receivables<br><br>2. Coordinate with the Marketing Section on the reconciliation with clients | Accounting Sec and Postmasters | Jan 20 | 20-Dec | partially implemented | on-going reconciliation with clients | Continuous effort in the collection of outstanding PCA<br><br>Statement of Account are sent regularly |

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| | | | account | 3. Send Demand Letter together with client's subsidiary ledger | | | | | | Non-renewal of PCA agreement outstanding Balances |
| 6 | **a. Non-collection of rental receivables from Food and Drug Administration totaling to P5.911 million** | Area 3 | Demand immediately the payment of lease rental of P5.911 million | a. Demand Letter will be sent to FDA | Acctg Sec/ ADFin | | Dec 2020 | Implemented | | Already sent Demand Letter to FDA, and has collected payment for April - July 2020 |
| | b. Non-enforcement of the remedies in case of default | | Enforce the provisions on remedies of the Lease Agreement | b. To implement charging of inerest on unpaid rent | | | | | | To charge interest on unpaid |
| | c. FDA payment of P392,896 inadvertently recorded as collection for rental | | Effect the necessary reclassification entry on the collection of P392,896 | | | | | | | To effect adjustment |
| 7 | **a. Accounts Receivable - Mail Remuneration is overstated by P48.851 million and AR Trade (under contract) is understated by the same amount due to erroneous credit to AR Trade (under contract) instead of AR-Mail Remunerations of remittance of designated operators** | Central Office | Reclassify the amount of P48.851 million credited to AR-Trade (under contract) to AR Remunerations | Verify entry made and reclass, if waranted | | | | Implemented | | Adjusted in March 2019 under JEV No. 19-03-004<br><br>Note: the amount pertains to AR Trade (under contract) and not AR Mail Remuneration |
| | b. Non-submission of Aging Schedule of Accounts Receivable | Area Central Office | Furnish the Audit Team the Aging Schedules of AR | | | | Dec. 2020 | Not implemented | | To require IAD to prepare the aging schedule |
| 8 | **Inventories** | | | | | | | | | |
| | a. Inclusion of unsubstantiated balance of P6.442 million<br><br>P5.680 million merchandise invty.<br>P5.237 million accountable forms | Central Office | Analyze and identify the accounts "for reconciliation" and prepare the necessary adjusting entries | 1. Conduct physical invty for CY 2020<br><br>2. reconcile results of physical count, LPMD and | Invty. Comm.<br><br>LPMD and Accounting | | Dec 2020 | implemented | on-going | We will request COA for the dropping from the books, the unsubstantiated balances based on the result of 2020 physical inventory |

| | Audit Observations | | Audit Recommendations | Agency Action Plan | | | | | Reason for Partial/Delay/Non Implementation | Actions Taken/ to be taken |
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| | | | | Accounting records<br><br>3. prepare adjustment if warranted | | | | | | |
| | b. Non-submission of Report on Physical Count of Inventories | Central Office | Submit the RPCI for all types of inventory and reconcile the difference between the balance per acctg. records and balance per inventory | To submit the RCPI | LPMD | | | implemented | | RPCI submitted to COA on July 14, 2020 |
| | No physical count of Inventories | Area 1 | To conduct physical inventory count | To conduct physiocal inventory for CY2020 | Invty. Comm./ Area | | | partial/delayed | only 10 offices during turn-over in 2019 | Conducted physical invty stared on October 2020 |
| 9 | **Property, Plant and Equipment** | | | | | | | | | |
| | a. incluson of unsubstantiated or for recon balances in an aggregate amount of P757.720 million | Central Office | Reconcile | 1. conduct physical invty.<br><br>2. reconcile results of physical count, LPMD and Accounting records<br><br>3. prepare adjustment if warranted | Invty. Comm.<br><br>LPMD/AD<br><br>Accounting Department | | Dec 2020 | implemented | on-going | We will request COA for the dropping from the books, the unsubstantiated balances based on the result of 2020 physical inventory |
| | b. P314.759 million discrepancy between RPCPPE against the books | Area 3 | Reconcile the duscrepancy to establish accuracy of the recorded balances | a. conduct physical inventiry and reconcile with the book | inventory committee | | Dec 2020 | not implemented | pandemic | to reconcile balance per books against balance per table inventory |
| | c. Incomplete PPE Ledger Card maintained by Central Offfice, PPELC as of Dec. 31, 2019 did not include Motor Vehicles amounting to 115.75 million | Central Office | submit complete PPELC | to complete PPELC starting CY 2021 | Acct. Dept | Jan 2021 | March 31, 2021 | partially implemented | | to complete physical inventory of PPEs for CY 2020 |
| | d. Late submission of Inventory Report | Central Office | Regular and timely submission of complete RPPE | To conduct physical inventory count | Invty. committee | | Dec. 2020 | partially implemented | started only on Sept. 2020 | on- going |

| Audit Observations | | Audit Recommendations | Agency Action Plan: Action Plan | Person/Dept Responsible | Target Implementation: From | To | Status | Reason for Partial/Delay/Non Implementation | Actions Taken/ to be taken |
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| | | | | | | | | beacause of the pandemic | |
| Incomplete physical count | Area 1 | Adhere strictly to COA Circular 80 - 124 and conduct physical count of inventory at least annually | To conduct physical inventory count | | Invty. Comm./ Area | | partially implemented | only 10 offices during turn-over | started physical invty in October. because of the pandemic |
| No physical Inventory Report | Area 3 | Submit the Physical Inventory Report for Land Improvements and Leased Assets Improvements-Building | To conduct physical inventory | | | | not implemented | lack of manpower | table inventory only for 2020 because of the pandemic |
| e. Non-provision of depreciation for the account "Other Land Improvements"t | Central Office | Provide depreciation expense for Other Land Improvements | Conduct physical inventory | Accgt. Dept. | | Dec. 2020 | | | To compute the depreciation expense based on the cost per book, pending the result of. physical inventory |
| . Debit balance of P23.278 million of Accumulated Depreciation-Furniture and Fixtures | Central Office | Explain the debit balance of Accumulated Depreciation | | | | | | | To recompute the accumulated depreciation |
| f. Inclusion of unserviceable/obsolete items PPE - Motor Vehicles<br>6.850 million | Area 5 | Dispose immediately all unserviceable motor vehicles to avoid further losses | | | | | delayed | Failure of bidding | Open for bidding this December 2020. |
| 4.420 million | Area 6 | | 1. Send instruction to PMs re dsposal | Property Offcr and Chief, MV Section | Feb 20 | Dec. 20 | implemented | | Instructied PMs through e-mailed/ facebook on 08 February 2020 |
| | | | 2. Request for inspection, evaluation and appraisal of unserviceable properties to COA | | | | delayed | pandemic | Request submitted to COA on 6 August with follow-up on September 22, 2020 |

| Audit Observations | | | Audit Recommendations | Agency Action Plan | | | | | Reason for Partial/Delay/Non Implementation | Actions Taken/ to be taken |
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| | | | | Action Plan | Person/Dept Responsible | Target Implementation From | To | Status | | |
| | 2.660 million | Area 9 | | To dispose not later than December 31, 2020 | GSS/Disposal Committee | | Dec. 20 | delayed | pandemic | To undertake disposal with COA as Observer this December 2020. |
| 10 | **Liabilities - Due to Officers and Employees** | | | | | | | | | |
| | Inclusion of aqccrued benefits and allowances of 39.429 million which were not documented and remained outstanding for more than two years contrary to Sec.98 of PD 1445 | Central Office | Revert to the general fund the audited amount of P39.429 million of Due to Officers and Employees pursuant to Sec. 98 of P.D. 1445 | analyze, verify balances and revert, if warranted | Claims Div. | | | partially implemented | payment of claims on appeal | 1. reverted payables for PBB CY 2015 in the amount of 31.626 million under JV No. 20-09-170<br>2. adjusted /reclassed balances totalling to P0.222 million under various JVs on Sept. and Oct. 2020 |
| | | | Prepare the necessary adjusting journal entries regarding the negative balance of P1.280 million transactions | | | | | Implemented | | Already reclassed the negative balances to Accounts Payable |
| 11 | **Liabilities - Deferred Tax** | | | | | | | | | |
| | Year-end balance of 40.585 million cannot | Area 3 | | | | | | | | |
| | be ascertained due to improper and recognition andderecognition of deferred tax liabilities | | | | | | | | | |
| | a. output tax on cash sales of various Post Offices were temporarily recognized as Deferred Tax Liabilities instead of direct credit to Output Tax | | a. Stop the practice of deferring the recognition of output taxes and the non immediate derecognition of deferred tax liabilities | to recognize output tax for cash sales | Tax Mgt. unit/ AgAcctg. Sec. | Feb 2020 | Dec. 2020 | implemented | | |
| | b. deferred tax liabilities were not imme- | | b. Ensure that all adjustments to the account are dully supported | to effect adjusting entry | | Feb 2020 | Dec. 2020 | implemented | | |

| | Audit Observations | | Audit Recommendations | Agency Action Plan | | | | | Reason for Partial/Delay/Non-Implementation | Actions Taken/ to be taken |
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| | diately derecognized upon actual collection of Accounts Receivables on PCA<br><br>c. adjustment to Output Tax were made against the Deferred Tax Liabilities to bring the Output Tax account to zero balance without relevant supporting documents | | c. Require the Postmasters to observe timely submission of VAT Reports pursuant to PHLPost Circular Nos. 18-26 and 15-66 | to reiterate memorandum about the deadline of submission | | Feb 2020 | Dec. 2020 | implemented | | |
| 12 | **Reciprocal Accounts** | | | | | | | | | |
| | Inability of Management to reconcile and eliminate the two reciprocal accounts | CO/Area | Exert more effort to substantiate and reconcile the variances noted on a per area office | Continue the reconciliation | CO and Area | | | partially implemented | availability of documents | reconciliation on a monthly basis of current transactions |
| 13 | **Unreconciled/Unverified Accounts** | | | | | | | | | |
| | 244.925 million of various assets and liabilities accounts remained unreconciled<br><br>Adjustments were made on the basis of a mere certification that the inventories no longer exist signed by the Supply Officer<br><br>No supporting documents were attached to the journal voucher to substantiate the adjustmentson Deferred Charges and and Guaranty Deposits | Area 3 | Immediate reconciliation of the unreconciled accounts<br><br>Request Authority from COA to write-off unreconciled accounts that are dormant, particularly Due from Officers & Employees, pursuant to Coa Circular No. 2016 -005<br><br>Ensure that adjustments are duly supported | To request Authority to Write-off from COA | Acctg. Sec. | | Dec. 2020 | | compliuance to requirements | |
| B | **Other Audit Observations** | | | | | | | | | |
| 14 | **Significant amount of unliquidated cash advances - 2.808 million** | | | | | | | | | |
| | a. 472,198.22 CAs .granted to officers and employees who already retired, absconded or died as of Dec. 31, 2019<br><br>b. 2.283 million for CCT | Central Office | a. Require the active employees for the immediate settlement of their outstanding account or salary deduction until fully settled<br><br>b. File cases against officers who | endorse to legal department for appropriate action | FMD | | | implemented | | Collection/demand letter sent to accountable officers |

| | Audit Observations | | Audit Recommendations | Agency Action Plan: Action Plan | Person/Dept Responsible | Target Implementation: From | To | Status | Reason for Partial/Delay/Non Implementation | Actions Taken/ to be taken |
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| | 9.145 million cash advances for payroll remained unliquidated, 6.080 million of which were granted in December 2019 | Area 3 | have unaccounted CCT funds, if warranted<br><br>c. Require concerned accountablr officers to immediately settle their outsatanding cash advances and to comply the liquidation period pursuant to COA Circular No. 2012-001 and 97-002<br><br>d. Immediately conduct reconcliiation of liquidation of the Cash-Disbursing Officer - Trust-SCI and SPISC and close the account after two years if no longer in use | Reconcile acctg. Records | Acctg. Sec. | Mach 20 | Dec 20 | partial | | Liquidation recognized with LIQJ 2020-01-001,02-002, 05-004, 10-244 reducing the balance to P152,641.57 |
| | Cash- Disbursing Officers- Trust with huge balances:<br>13.284 million - Save the Child International<br><br>12.636 million - SPISC | Area 6 | | Comply with the recommendations | ADFin/ Accountant | Apr 20 | Dec 20 | partial | | Liquidation recognized with JEV No. 2007-0446 to 0449 on 31 July 2020 reducing the balance of CDO Trust -SCI to P799,000.00 and JEV 2009-0580 on September 30, 2020 on CDO Trust - SPISC reducing the balance to (11,362) |
| 15 | **Reimburseable Expenses of members of the Board of Directors** | | | | | | | | | |
| | Reimburseable expenses claimed exceeded the maximum amount allowed under GCG MC No. 2016-01 dated May 10, 2016 and Sec. 59-b, GAA of 2019 | Central Office | Refund of the excess of amount paid amounting to P1,746,493.77, otherwise, the same shall be disallowed in audit<br><br>Strict compliance with GCG MC No 2016-01 an the general provision of the GAA | Adapt GCG MC No. 2016-01 | | | | Not implemented | Awaiting the reply of GCG to the query | Management already sent a query to GCG dated September 9, 2020.I<br><br>Management adapted GCG MC No. 2016-01 in the payment of reimbursable expenses starting in August 2020 |
| 16 | **Cost of Audit Services** | | | | | | | | | |
| | 457.813 million remained unpaid as at December 31, 2019 | Central Office | Management to consider the COA Cost of Audit Services as one of its priorities | update payment | | | | partialy implemented | availability of funds | Already paid to COA the 10 million yearly installment in May 2020 P5 million November 2020 5 million |
| 17 | **Gender and Development (GAD)** | | | | | | | | | |
| | PPC implemented Programs, Activities and | Central Office | Require the Heads of the implementing | | | | | Implemented | | All the HRM Officers as the |

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| | Projects (PAPs) amounting to 1.600 million that were not included in the submitted approved GAD Plan andd Budget for CY 2019 to Phil. Commission on Women, thus, cast addressed effectively. | | department/offices to ensure that GAD programs, projects and activities are implemented as planned to attain the GAD objectives | | | | | | | members of GAD GFPS/TWG and implementers in the area were instructed to and required to follow the approved program during the first HR Meeting conducted thru webminars via zoom platform last 11-Sep-20 |
| | Actual GAD expenditures for CY 2019 amounting to 7.500 million exceeded the approved GPB of 5.300 million that was duly endorsed to the PCW | | Require the GAD Focal Point System to:<br>1. Institutionalize the GAD database with sex-disaggregated data which will provide the bases for gender analysis,planning, programming and policy formulation | | | | | Partialy Implemented | | CO GFPS/TWG gathered the sexdisaggregated dadabase by age and position profile. Thus, the GFPS-CO create and online survey to pass on the areas for implementation this November 2020 ahead from the original plan of waiting for the completion of Human Resource Information and Payroll System (HRIPS). |
| | PPC GFPS has not yet established bor set up a GAD database that will serve as basis for gender-responsive planning, programming and policy formulation | | 2. Undertake gender analysis to identify and confirm existing gender issues and ensure that programs, | | | | | Implemented | | All GFPS members were already trained and conducted gender analysis thru the seminar - workshop on GA, |
| | | | projects and activities are responsive to the said issues. | | | | | | | GM, and GMEF Tools last 2018 under the guidance of the GAD National Resource Expert from the PCW. GAD Agenda were conducted last December 2019 for compliance under the PCW MC No. 2018-04 Revised Guidelines for the Preparation of the Gender and Development (GAD) Agenda |
| D | **Compliance with Tax Laws** | | | | | | | | | |
| | | | | | | | | | | |

| | Audit Observations | | Audit Recommendations | Agency Action Plan | | | | | Reason for Partial/Delay/Non Implementation | Actions Taken/ to be taken |
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| 18 | Filing and remittance of taxes totalling to 277.813 million were compliant to RA 8424 pertaining to Returns and Payment of VAT | | | | | | | implemented | | |
| E | **Property Insurance with GSIS** | | | | | | | | | |
| 19 | PPC insured all its insurable assets with the GSIS in compliance with Se3c. 5 of RA No. 665 as ammended by PD No. 245. | Central Office | | | | | | implemented | | |
| | Also, PPC adapted the Property Inventory Form for all its properties, except for Motor Vehicles, as provided under COA Circular No. 2018-002 | | To adapt tthe Property Inventory Format for Motor Vehicles | | | | Dec. 2020 | | | |
| F | **Compliance with Statutory Deductions and Remittances** | | | | | | | | | |
| 20 | PPC remitted the premiums and loan amortizations including the government share to Pag-IBIG, GSIS and PhilHealth within the prescribed period | | | | | | | | Implemented | |
| G | **Status of Audit Suspensions, Disallowances and Charges** | | | PPC official to require compliance on settlement off suspension and disallowances by concerned responsible/ persons | | within the reglementary | | partially implemented | | monitoring is being made for compliance |