EXECUTIVE SUMMARY

A. Introduction

Philippine Postal Corporation (PPC)

1. 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.

2. 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.

3. The PPC powers shall be vested in and exercised by a Board of Directors of seven members including the Postmaster General. The President of the Philippines shall appoint all the seven members. The Board shall elect 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.

4. 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.

5. As of December 31, 2018, the total Personnel Complement of PPC is 7,841 wherein 4,866 personnel or 62.06% are plantilla positions and 2,975 or 37.94% are hired under Contract of Service/Contractual/Consultant. The authorized plantilla positions based on PHLPost Rationalization Plan is 7,043. The total filled-up positions are 4,866 or 69.09% of the authorized plantilla positions.

Scope and Objectives of Audit

6. 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 year's audit recommendations.

7. The audit covered the examination of accounts, transactions and operations of PPC for the period January 1 to December 31, 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.

B. Financial Highlights

1. The PPC's financial position and financial performance for CY 2018, are shown below:

Financial Position			
	2018	2017	Increase/ (Decrease)
Assets	11,151,278,850	10,895,070,032	256,208,818
Liabilities	5,733,054,599	5,588,513,287	144,541,312
Equity	5,418,224,251	5,306,556,745	111,667,506

Results of Operations			
	2018	2017	Increase/ (Decrease)
Total Revenue	3,687,196,661	3,536,712,025	150,484,636
Total Current Operating Expenses	(3,674,765,035)	(3,458,397,503)	216,367,532
Surplus/(Deficit) from Current Operations	12,431,626	78,314,522	(65,882,896)
Gain/(Loss) on Foreign Exchange (Forex)	13,084,328	(479,468)	13,563,769
Gain/(Loss) on Sale or Disposal of Assets	70,339	(43,888)	114,227
Income Tax Expense	(7,675,888)	(40,035,123)	(32,359,235)
Net Subsidy	585,642,000	536,539,000	49,103,000
Net Surplus/(Deficit) for the Period	603,552,405	574,295,043	29,257,362

C. 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, 2018 and 2017 for reasons stated below. Details are discussed in Part II of the Report.

1. The consolidated balance of Property, Plant and Equipment (PPE) accounts amounting to P5.957 billion was unreliable in violation of PPSAS 1 due to: (a) inclusion of unsubstantiated or "For Reconciliation" balances in an aggregate amount of P788.276 million in Central Office's (CO) books; (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; (c) incomplete Property, Plant and Equipment Ledger Card (PPELC) maintained by PPC CO and Postal Areas 2 and 7 contrary to Section 27, Chapter 10 Volume I of the Government Accounting Manual (GAM); (d) variance of P17.204 million in depreciation between Lapsing Schedule and General Ledger; (e) inclusion of P6.842 million worth of unserviceable/obsolete items in Postal Areas 3 and 6 not compliant to Section 79 of P.D. 1445; (f) PPC CO's repair/rehabilitation/improvement projects totaling P3.486 million were capitalized to Building account; and (g) substantial addition of P624.070 million to Land account without sufficient supporting documents.

2. 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 PPSAS 1 and other issuances due to the following: (a) the adjustment made to remove from the PPC CO books the previous year credit balance amounting to P334.137 million termed as "For Reconciliation" accounts without the supporting documents; (b) consolidated total variance amounting to P75.857 million existed between balance per books in PPC CO and Postal Area 3 against confirmed bank balances; (c) identified reconciling items for PPC CO and Postal Areas 1, 2, 3, and 5 amounting to P85.991 million; P14.586 million; P6.436 million and P10.576 million; P11.159 million and P18.332 million, respectively, remained unadjusted; (d) unreleased PPC CO's checks and stale checks totaling to P1.271 million were not restored to cash account at year end; (e) variance of P4.495 million between the Statement of Financial Position and the General Ledger balance of Postal Area 8; and (f) delayed and/or non-submission of monthly Bank Reconciliation Statements (BRS) in Postal Areas 3, 4, and 6.

3. 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 PPSAS 1 due to: (a) unsubstantiated "For Reconciliation" accounts; (b) variances amounting to P84.524 million between the book balance and Report on Physical Count of Inventories (RPCI); and (c) Management's inability to convert Philatelic stamps into regular stamps in contravention with PHLPost Circular No. 16-50 dated August 8, 2016.

4. The consolidated balance of Accounts Receivables-Trade (AR-Trade) amounting to P370.494 million could not be relied upon contrary to COA Circular No. 2015-010, Paragraph 27 of PPSAS 1 and Section 112 of P.D. 1445 due to the following:

   a. PPC Central Office: (i.) negative and unfavorable results of accounts confirmation; (ii.) Inclusion of non-trade receivable amounting to P250,000; and (iii.) unreconciled balances between the General Ledger (GL) and Subsidiary Ledgers (SL) of Allowance for Impairment of AR–Trade amounting to P155,848. Also, the high percentage of non-collection of outstanding receivables for more than three years amounting to P105.456 million;

   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 accounts for more than 10 years; and no penalty was imposed in case of default in payment by active Postage Charge Account (PCA) holders;

c. Postal Area 7: the accuracy of Accounts Receivable amounting to P6.547 million is doubtful due to the variance of P0.787 million between the financial report and its supporting schedule, affecting the fairness of the presentation of the said account in the Financial Statements; and

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.

5. In the PPC CO's books, the Cash – Trust Funds in the amount 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.

   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 Payment Collection – Bayad Center Accounts amounting to P45.167 million and P14.678 million, respectively, is doubtful due to material discrepancy of P30.489 million.

6. At PPC CO, the negative balance in Trust Liabilities Account amounting to P324.601 million is inaccurately recorded as of December 31, 2018 contrary to PPSAS 1.

D. 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. Inability of Management to reconcile and eliminate the two reciprocal accounts *Due from Postal Area Offices* in the CO's 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 agency's financial statements as of year-end in contravention with PPSAS 1, International Accounting Standard (IAS) 27 and Section III of PHLPost Circular No. 17-73.

   Recommendations:

   a. Substantiate and reconcile the variances noted on a per Postal Area Office to reduce the variance if not totally eliminate the reciprocal accounts in the financial statements; and

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

2. 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 PPC to the Commission on Elections (COMELEC) for Calendar Year 2018 contravened PPSAS 1, thus, understated the Rent Receivables, Rental Income and VAT Payable accounts.

Recommendation:

Deliver regularly to COMELEC the Billing Statement for the immediate payment of its lease obligations to PPC and enter into a long term contract with COMELEC as necessary.

3. The Due to Officers and Employees in the PPC CO's books amounting to P277.482 million is doubtful due to P164.308 million that remained outstanding for more than two years in the books as of December 31, 2018.

   Recommendations:

   a. Revert to General Fund the audited amount of P164.308 million of Due to Officers and Employees pursuant to Section 98 of P.D. 1445; and

   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.

4. 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. 1445, Republic Act No. (R.A.) 3526 and Executive Order (EO) No. 228.

   Recommendations:

   a. Revert to the General Fund the amount of P135.212 million pursuant to R.A. 3256 and E.O. 228; and

   b. Validate and ensure that all obligations are supported with complete supporting documents to comply with Section 4(6) of P.D. 1445.

E. Summary of Total Suspensions, Disallowances and Charges

As of December 31, 2018, the total audit suspensions and disallowances were P17.864 million and P43.723 million, respectively. The details are presented in Part II of the Report.

F. Status of the Implementation of Prior Year's Recommendations

Of the 138 audit recommendations contained in the 2017 Annual Audit Report, 52 were implemented, 71 were partially implemented. Details are presented in Part III.