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.