

EXECUTIVE SUMMARY

A. Introduction

Philippine Postal Corporation (PHLPost) 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 PHLPost has worldwide mail linkages that enable it to send mail to any part of the world.

PHLPost 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 PHLPost Board of Directors. On record, only Class A shares are subscribed.

The PHLPost 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, PHLPost integrated the 17 regions of the Philippines into nine postal areas excluding the Central Office, through the issuance of the PHLPost Office Order No. 12-01 dated January 2, 2012. Currently, PHLPost provides mail services to these nine postal areas, through its 1,342 post offices nationwide and to the 192 member-country organization of the UN.

As of December 31, 2020, the total Personnel Complement of PHLPost is 6,752 wherein 4,269 personnel or 63.23 percent are holding plantilla positions, 2,482 or 36.76 percent are hired under Temporary, Contractual and Contract of Service status and one hired as Corporate Secretary. The authorized plantilla positions based on PHLPost Rationalization Plan is 7,043. The total filled-up positions are 4,269 or 60.61 percent of the authorized plantilla positions.

B. Financial Highlights

I. Comparative Financial Position

	2020	2019	Increase (Decrease)
Assets	10,775,564,986	12,347,752,839	(1,572,187,853)
Liabilities	5,689,064,208	6,773,930,092	(1,084,865,884)
Equity	5,086,500,778	5,573,822,747	(487,321,969)

II. Results of Operations

	2020	2019	Increase (Decrease)
Revenues	2,158,225,986	4,170,255,926	(2,012,029,940)
Current Operating Expenses	2,859,607,303	4,183,826,184	(1,324,218,881)
Deficit from Current Operations	(701,381,317)	(13,570,258)	(687,811,059)
Other Non-Operating Income	5,050,948	10,440,602	(5,389,654)
Gains	26,416,848	84,316,795	(57,899,947)
Losses	(70,489,551)	(79,425,276)	(8,935,725)
Surplus (Deficit) Before Tax	(740,403,072)	1,761,863	(742,164,935)
Income Tax Expense	0	(520,051)	(520,051)
Surplus (Deficit) After Tax	(740,403,072)	1,241,812	(741,644,884)
Net Assistance/ Subsidy	500,256,000	541,323,000	(41,067,000)
Net Surplus (Deficit)	(240,147,072)	542,564,812	(782,711,884)

III. Budget Utilization

	2020 DBM Approved COB	Actual
Personnel Services	1,732,183,000	1,776,464,983
Maintenance and Other Operating Expenses	1,427,604,000	1,013,016,749
Capital Outlay	354,460,000	74,050,447
Total	3,514,247,000	2,863,532,179

C. Scope and Objectives of Audit

The audit covered the transactions, account and operations of PHLPost for CY 2020. It 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 involved performing procedures to obtain audit evidence to determine the fairness of presentation of the financial statements and propriety of the financial transactions, in accordance with the International Standards of Supreme Audit Institutions (ISSAIs), applicable laws, rules and regulations.

D. Independent Auditor's Opinion

The Auditor rendered an adverse opinion on the fairness of presentation of the 2020 and 2019 consolidated financial statements of the PHLPost due to the following:

1. The Property, Plant and Equipment (PPE) account with carrying amount of P3.568 billion was not fairly presented in the financial statements as at December 31, 2020

contrary to paragraph 27 of IPSAS 1, because of the following significant deficiencies and errors: a) unreconciled variance totaling P4.132 billion (in absolute amount) between the accounting records and the Physical Inventory Reports of various PPE accounts and incomplete physical inventory for 2020; b) unsupported adjustments and transactions totaling P444.725 million and various erroneously recorded transactions totaling P162.636 million; c) non-recognition of depreciation expense for Buildings with carrying amounts of P242.706 million since 2019 and Other Land Improvements costing P5.546 million, overstating said accounts by undetermined amounts; and d) absence of proof of legal ownership over the 109 land assets including the lot where PHLPost Head Office is situated.

2. Accounts Receivable-Mail Remunerations (AR-MR) under Loans and Receivables and Accounts Payable-Mail Remunerations (AP-MR) under Financial Liabilities, with balances of P1.293 billion and P1.648 billion, respectively, were misstated due to: a) unidentified remittances of foreign designated operators and absence of breakdown of remittances resulting to misstatement of the accounts by undetermined amounts; b) unidentified deposits/remittances totaling P148.638 million from foreign designated operators which were temporarily recorded to Other Deferred Credits (ODC)–Mail Remunerations (MR), overstating AR-MR by the said amount; c) exchange differences arising from the settlement of monetary items totaling P561.825 million were not recognized contrary to paragraph 33 of IPSAS 4; d) exchange rate used on initial recognition and revaluation at the reporting date of foreign currency denominated AR-MR and AP-MR was the BSP Reference Rate instead of the BSP Closing Rate contrary to paragraph 27 of IPSAS 4; and e) the International Conveyance Expense for the month of August 2020 amounting to P9.803 million was not recognized in the books, understating the AP-MR and International Conveyance Expenses accounts both by the said amount.
3. The recognition of Revaluation Surplus with year-end balance of P1.386 billion as a result of land valuation in prior years is not in accordance with PAG 2 of IPSAS 17.
4. The faithful representation of the Cash in Bank account of P1.762 billion as of December 31, 2020 was not established due to: a) unreconciled variances totaling P257.440 million between the book balances and confirmed bank balances; b) unadjusted book reconciling items totaling P257.287 million; c) negative balances totaling P0.991 million; and (d) delayed or non-submission of monthly bank reconciliation statements.
5. Moreover, balance of reciprocal accounts Due from Area Offices in Central Office books and Due to Central Office in all Postal Area Offices books, were not eliminated in the Statement of Financial Position due to unreconciled variance of P727.554 million, contrary to paragraphs 38 and 40 of IPSAS 35. Also, the Accumulated Surplus account with a balance of P500.555 million as of December 31, 2020 is misstated by undetermined amount due to: a) unidentified transactions subject for reconciliation amounting to P1.139 billion, (b) adjustments totaling P527.553 million without supporting documents; and (c) improperly recorded transactions totaling P24.488 million.

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

- 1.a Bookkeeping Division (BD) and APMD to analyze and reconcile the variance of P4.132 billion (in absolute value) between the Physical Inventory Report and Accounting records for fair presentation of the Property, Plant and Equipment account;
- 1.b BD to submit necessary documents to support the recording of adjustments/transactions in the books;
- 1.c BD to analyze and effect the necessary adjusting entries to correct the errors and misstatements;

We reiterated our prior year's recommendations that Management require the:

- 1.d APMD and Disposal Committee to complete the Inspection and Inventory Report of Unserviceable Properties (IIRUP) including the related documents, and thereafter, expedite the disposal of all unserviceable properties; and
 - 1.e APMD and Inventory Committee to conduct annual physical inventory and prepare and submit Physical Inventory Reports within the prescribed period.
- 2.a International Affairs Division (IAD), in coordination with BD, to analyze and identify the offsetted balances of AR-MR and AP-MR, and BD to effect the necessary entries; and reclassify ODC-MR to AR-MR;
 - 2.b IAD, in coordination with BD, to determine the exchange differences arising on the settlement of monetary items totaling P561.825 million and BD to recognize in the books;
 - 2.c IAD to prepare Reports on International Remunerations-Receiveable and Payable by translating foreign currency denominated transactions using the BSP Closing rate or the Spot Exchange Rate at the reporting date pursuant to IPSAS 4;
 - 2.d BD, in coordination with IAD, to recognize foreign currency denominated AR-MR and AP-MR, on initial recognition and subsequent recognition by revaluation at the end of the reporting date, using the BSP Closing rate or the Spot Exchange Rate at the reporting date; and ensure that the ending account balances of AR-MR and AP-MR are revalued accordingly;
 - 2.e BD to recognize the International Conveyance Expense for the month of August 2020 amounting to P9.803 million based on the Recapitulation of Postal International Exchange-Expenditures prepared by IAD;
 - 2.f BD to prepare the necessary entries to correct the overstatement in the amount of P199,825.18 per JEV No. 20-02-0022; and
 - 2.g IAD to prioritize, if possible, the updating of the subsidiary ledgers (SL) of AR-MR and AP-MR and submit to this Office the latest available SL to support the accuracy and reliability of the account balances.
3. BD to adjust and close the Revaluation Surplus totaling P1.386 billion to Accumulated Surplus/(Deficit) as required under PAG 2 of IPSAS 17 on adopting the cost model as the accounting policy for valuation of Property, Plant and Equipment.
- 4.a BD to analyze and identify the discrepancy of P257.440 million between the reported Cash-in-Bank balance and bank balance, and the existence of negative balance of P0.991 million, and effect the necessary entries;

- 4.b PHLPost officials concerned to constitute a Task Force or assign personnel to reconcile and adjust the book reconciling items totaling P257.287 million for each of the affected bank accounts and effect the necessary entries duly supported with documents to fairly present the Cash-in-Bank accounts;
 - 4.c BD to prepare the monthly bank reconciliation statements for all bank accounts maintained by each Postal Area Offices and submit within the prescribed period; and
 - 4.d BD to adopt the appropriate use of the Cash-in-Bank-Current Account and Cash-in-Bank, Savings Account as prescribed in COA Circular No. 2020-002 and maintain separate monitoring of Trust and Corporate account balances.
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- 5.a Accounting Department to instruct the Area Accountants to present the Due to Central Office account in their respective Statement of Financial Position at post-closing balances based on the Post-Closing Trial Balance;
 - 5.b BD to present the Due from Area Office and Due to Central Office in the Statement of Financial Position at post-closing balances based on the Post-Closing Trial Balance.
 - 5.c BD to analyze the account balance of “For reconciliation” of P1.139 billion, and effect the necessary adjustment to achieve fair presentation of the account balance;
 - 5.d BD to submit the supporting documents on the reclassification of For Recon to Good accounts totaling P527.553 million per JEV Nos. 20-11-0227 and 20-12-0323;
 - 5.e BD to analyze and effect the necessary entries to correct the improper recording of the transactions totaling P24.488 million;
 - 5.f BD to record transactions as they occur pursuant IPSAS 1 on the accrual of basis of accounting to ensure that account balances are correctly stated; and
 - 5.g BD to adopt the appropriate account title Accumulated Surplus/(Deficit) in recognizing cumulative results of normal and continuous operations including prior period effects in accounting policy and errors, and other capital adjustments pursuant to COA Circular No. 2020-002 dated January 28, 2020.

E. Summary of Total Suspensions, Disallowances and Charges

As of December 31, 2020, transactions suspended in audit amounted to P27.542 million while the amount of disallowance is P44.017 million and charges is P70,720. Details are presented in Part II of the Report.

F. Status of Implementation of Prior Year’s Audit Recommendations

Out of the 63 audit recommendations embodied in the CY 2019 Annual Audit Report, 24 were fully implemented, 26 were partially implemented and 13 were not implemented. Details are presented in Part III of the Report.