



REPUBLIC OF THE PHILIPPINES  
**COMMISSION ON AUDIT**  
Commonwealth Avenue, Quezon City, Philippines  
Corporate Government Audit Sector  
**CLUSTER 3 – PUBLIC UTILITIES**

June 23, 2023

**THE BOARD OF DIRECTORS** *Handwritten: 6.23.2023*  
Philippine Postal Corporation  
Magallanes Drive, Liwasang Bonifacio,  
Ermita, Manila

**Dear Members of the Board:**

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 **Philippine Postal Corporation (PHLPost)** for the years ended December 31, 2022 and 2021.

The report consists of the Independent Auditor's Report, Audited Financial Statements, Audit Observations and Recommendations and Status of Implementation of Prior Years' Audit Recommendations.

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

1. The faithful representation of Property, Plant, and Equipment with a total carrying amount of P3.363 billion as at December 31, 2022 was not ascertained due to: (a) unreconciled discrepancy of P1.781 billion between the accounting records and physical inventory report; (b) recognized land assets totaling P1.231 billion without transfer certificate of title or legal documents and properties amounting to P199.082 million without supporting documents; and (c) unrecognized land and buildings of undetermined amount due to absence of supporting documents, contrary to the fair presentation requirement of International Public Sector Accounting Standard (IPSAS) 1 - Presentation of Financial Statements.
2. The faithful representation of the balances of Accounts Receivable-Mail Remuneration (AR-MR) and Accounts Payable-Mail Remuneration (AP-MR) amounting to P1.556 billion and P954.899 million, respectively, as at December 31, 2022 was not ascertained due to: (a) initial recognition using month-end spot exchange rate instead of the spot exchange rate at the date of the transaction or the average rate for a month; (b) derecognition of collections and payments of international mail related to mail remunerations at the translated amount using the spot exchange rate at the date of disbursement instead of its book value; and (c) inappropriate revaluation at year-end, contrary to IPSAS 1 and 4.



3. The Intra-agency Payables with a balance of P1.160 billion as at year-end includes (a) the remaining balance of P1.015 billion of the reciprocal accounts Due to Central Office and Due from Area Offices which remained unreconciled, and (b) non-reciprocal accounts Due from Area 10 and Due from Area 11 amounting to P157.167 million and (P12.017) million, respectively, thus, the faithful representation of the account balance as at December 31, 2022 was not ascertained.
4. The faithful representation of the balance of Cash in Bank in the financial statements as at December 31, 2022 amounting to P2.198 billion was not ascertained due to unadjusted and unrecorded book reconciling items totaling P1.246 billion that are mostly related to prior year's balances contrary to IPSAS 1 and Conceptual Framework for Financial Reporting.

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

1. Require the (a) Bookkeeping Division and Assets and Property Management Division to reconcile the discrepancy of P1.781 billion between the accounting records and physical inventory report and effect the necessary adjustments; (b) Legal Department to secure the land titles of the 422 donated lots and the four purchased lands, and the legal documents to support ownership of the 83 lots; (c) Bookkeeping Division to gather documents to support properties totaling P199.082 million, analyze the same and effect necessary adjustments in the books, if any; (d) Accounting Section of Postal Area 1 – NELA in coordination with PHLPost-CO to determine the fair value of the land in Cauayan, Isabela and recognize the asset; (e) Bookkeeping Division to assist the Accounting Section in Postal Area 1 – NELA in securing the necessary documents to support the recognition of its buildings in Banaue, Ifugao and Lupao, Nueva Ecija.
2. Require the Bookkeeping Division to: (a) comply with IPSAS 4 on the initial recognition of AR-MR and AP-MR, using the average rate for a month when transactions occurred; (b) update and maintain subsidiary ledgers for AR-MR and AP-MR to monitor the movement of book values of receivables and payables which shall serve as the basis for derecognition of the collected AR-MR and settled AP-MR; and (c) revalue AR-MR and AP-MR, at each reporting date, starting from the SDR or Euro value, then converted to US Dollars and eventually to Peso equivalent.
3. Require the Bookkeeping Division to analyze and reconcile with the Area Accountants the remaining balance of reciprocal accounts amounting to P1.015 billion and the non-reciprocal accounts totaling P145.150 million.
4. Require the (a) Bookkeeping Division to record all current year's book reconciling items and analyze the recurring book reconciling items and prepare the necessary adjusting entries; and (b) Cash Section of the concerned Postal Area Offices to prepare and submit the complete monthly Bank Reconciliation Statements within the prescribed period.

The other significant observations with the corresponding recommendations which need immediate action are as follows:

1. The balance of Due to Officers and Employees account amounting to P420.502 million as at December 31, 2022 includes accrual of Performance-Based Bonus (PBB) for the year 2022 amounting to P50 million without present obligation to make such payment contrary to Paragraph 19 of IPSAS 39 – Employee Benefits and the Conceptual



Framework for General Purpose Financial Reporting, resulting in the overstatement of the account by P50 million and Accumulated Surplus/(Deficit) account as at reporting date.

*Recommendation:*

Require the Bookkeeping Division to effect the necessary entries to correct the misstatement on the affected accounts and restate the opening balance of Due to Officers and Employees at the earliest prior period presented.

2. Receivables from the Land Bank of the Philippines amounting to P97.719 million representing the unpaid service fees of PHLPPost, as a conduit for the Conditional Cash Transfer (CCT) Program, also known as the Pantawid Pamilyang Pilipino Program (4Ps) of the Department of Social Welfare and Development (DSWD), remain uncollected pending compliance with the submission of Response Files as required by the Land Bank pursuant to the Memorandum of Agreement it entered into with PHLPPost on March 20, 2012 and December 12, 2013.

*Recommendation:*

Submit all the documents required for the release of the unpaid service fees amounting to P97.719 million from Land Bank of the Philippines.

The other 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 June 2, 2023, are presented in detail in Part II of the report.

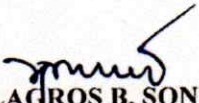
In a letter of even date, we requested the Acting Postmaster General of PHLPPost to take appropriate actions on the recommendations contained in Parts II and III of the report and to inform this Commission of the actions taken thereon.

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:

  
**MILAGROS B. SONIDO**  
OIC-Director IV

**Copy furnished:**

The President 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 National Library  
The UP Law Center



*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, 2022 and 2021**



## EXECUTIVE SUMMARY

### A. Introduction

Philippine Postal Corporation (PHLPost) was created by virtue of Republic Act No. 7354, otherwise known as the "Postal Service Act of 1992". It transformed the then Postal Service Office 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, a 192 member-country organization of the United Nations (UN), the PHLPost has worldwide mail linkages that enable it to send mail to any part of the world.

The Corporation shall have an authorized capital stocks of Ten billion pesos divided into forty-five million Class "A" share and fifty-five million Class "B" shares, each voting and with a par value of One hundred pesos. The Class "A" shares shall be fully subscribed by the Government or any of its instrument entity. The Class "B" shares may be owned by private entities and sold through tenders, public offerings, or the stock market, at such time, price or numbers as may be authorized by the Board in accordance with the Corporation Law. 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 1,216 post offices nationwide and to the 192 member-country organization of the UN.

As of December 31, 2022, the total Personnel Complement of PHLPost is 7,246 wherein 3,650 personnel or 50.37 per cent are holding plantilla positions, 3,596 or 49.63 per cent are hired under Contractual, Contract of Service and Job Order status. The authorized plantilla positions based on PHLPost Rationalization Plan is 7,043. The total filled-up positions are 3,650 or 51.82 per cent of the authorized plantilla positions.

### B. Financial Highlights

#### Financial Position

	2022	2021	Increase (Decrease)
Assets	11,641,442,591	11,088,403,628	553,038,963
Liabilities	7,016,401,222	5,915,532,548	1,100,868,674
Equity	4,625,041,369	5,172,871,080	(547,829,711)



## Results of Operations

	2022	2021	Increase (Decrease)
Revenues	3,369,378,232	3,394,922,613	(25,544,381)
Current Operating Expenses	3,546,567,930	3,354,618,739	191,949,192
Deficit from Current Operations	<b>(177,189,698)</b>	<b>40,303,874</b>	<b>(217,493,573)</b>
Other Non-Operating Income	8,630,482	8,774,565	(144,083)
Gains	437,230,180	113,261,507	323,968,673
Losses	(187,190,563)	(49,741,433)	(137,449,130)
Surplus (Deficit) Before Tax	<b>81,480,401</b>	<b>112,598,513</b>	<b>(31,118,112)</b>
Income Tax Expense	0	6,158,226	(6,158,226)
<b>Net Surplus (Deficit)</b>	<b>81,480,401</b>	<b>106,440,287</b>	<b>(24,959,886)</b>

### C. Scope and Objectives of Audit

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

### D. Independent Auditor's Opinion

The Auditor rendered an adverse opinion on the fairness of presentation of the financial statements of the PHLPost as at December 31, 2022 and 2021 due to the following:

1. The faithful representation of Property, Plant, and Equipment with a total carrying amount of P3.363 billion as at December 31, 2022 was not ascertained due to: (a) unreconciled discrepancy of P1.781 billion between the accounting records and physical inventory report; (b) recognized land assets totaling P1.231 billion without transfer certificate of titles or legal documents and properties amounting to P199.082 million without supporting documents; and (c) unrecognized land and buildings of undetermined amount due to absence of supporting documents, contrary to the fair presentation requirement of International Public Sector Accounting Standard (IPSAS) 1 - Presentation of Financial Statements.
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spot exchange rate at the date of disbursement instead of its book value; and (c) inappropriate revaluation at year-end, contrary to IPSAS 1 and 4.

3. The Intra-agency Payables with a balance of P1.160 billion as at year-end includes (a) the remaining balance of P1.015 billion of the reciprocal accounts Due to Central Office and Due from Area Offices which remained unreconciled, and (b) non-reciprocal accounts Due from Area 10 and Due from Area 11 amounting to P157.167 million and (P12.017) million, respectively, thus, the faithful representation of the account balance as at December 31, 2022 was not ascertained.
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For the above observations which caused the issuance of an adverse opinion, we recommended that Management:

1. Require the (a) Bookkeeping Division and Assets and Property Management Division to reconcile the discrepancy of P1.781 billion between the accounting records and physical inventory report and effect the necessary adjustments; (b) Legal Department to secure the land titles of the 422 donated lots and the four purchased lands, and the legal documents to support ownership of the 83 lots; (c) Bookkeeping Division to gather documents to support properties totaling P199.082 million, analyze the same and effect necessary adjustments in the books, if any; (d) Accounting Section of Postal Area 1 – NELA in coordination with PHLPPost-CO to determine the fair value of the land in Cauayan, Isabela and recognize the asset; (e) Bookkeeping Division to assist the Accounting Section in Postal Area 1 – NELA in securing the necessary documents to support the recognition of its buildings in Banaue, Ifugao and Lupao, Nueva Ecija.
2. Require the Bookkeeping Division to: (a) comply with IPSAS 4 on the initial recognition of AR-MR and AP-MR, using the average rate for a month when transactions occurred; (b) update and maintain subsidiary ledgers for AR-MR and AP-MR to monitor the movement of book values of receivables and payables which shall serve as the basis for derecognition of the collected AR-MR and settled AP-MR; and (c) revalue AR-MR and AP-MR, at each reporting date, starting from the SDR or Euro value, then converted to US Dollars and eventually to Peso equivalent.
3. Require the Bookkeeping Division to analyze and reconcile with the Area Accountants the remaining balance of reciprocal accounts amounting to P1.015 billion and the non-reciprocal accounts totaling P145.150 million.
4. Require the (a) Bookkeeping Division to record all current year's book reconciling items and analyze the recurring book reconciling items and prepare the necessary adjusting entries; b) Cash Section of the concerned Postal Area Offices to prepare and submit the complete monthly Bank Reconciliation Statements within the prescribed period.



## **E. Significant Audit Observations and Recommendations**

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

1. The validity and reliability of the balance of Accounts Receivable, Trade in the amount of P1.035 billion as at December 31, 2022 was not established due to: (a) past due receivables totaling P588.154 million ranging from one year to over 10 years not provided with adequate allowance for impairment loss; (b) unreconciled variance of P25.672 million between the book balance and the confirmed balance of clients; and (c) non-recognition of receivables totaling P21.195 million pertaining to income already earned as at year-end, contrary to IPSAS 1 and 41.

### *Recommendations:*

- a. Provide adequate Allowance for Impairment Loss on the past due accounts by aligning PHLPost Circular No. 16-80 with Paragraph 90 of IPSAS 4;
  - b. Send confirmation letter to all clients and reconcile variances, and effect necessary adjusting entries; and
  - c. Restate the opening balance of Accounts Receivable, Trade and the Income accounts for the earliest prior period presented to properly reflect the unrecorded receivables of P21.195 million earned in CY 2022.
2. The balance of Due to Officers and Employees account amounting to P420.502 million as at December 31, 2022 includes accrual of Performance-Based Bonus (PBB) for the year 2022 amounting to P50 million without present obligation to make such payment contrary to Paragraph 19 of IPSAS 39 – Employee Benefits and the Conceptual Framework for General Purpose Financial Reporting, resulting in the overstatement of the account by P50 million and Accumulated Surplus/(Deficit) account as at reporting date.

### *Recommendation:*

Require the Bookkeeping Division to effect the necessary entries to correct the misstatement on the affected accounts and restate the opening balance of Due to Officers and Employees at the earliest prior period presented.

3. Receivables from the Land Bank of the Philippines amounting to P97.719 million representing the unpaid service fees of PHLPost, as a conduit for the Conditional Cash Transfer (CCT) Program, also known as the Pantawid Pamilyang Pilipino Program (4Ps) of the Department of Social Welfare and Development (DSWD), remain uncollected pending compliance with the submission of Response Files as required by the Land Bank pursuant to the Memorandum of Agreement it entered into with PHLPost on March 20, 2012 and December 12, 2013.

### *Recommendation:*

Submit all the documents required for the release of the unpaid service fees amounting to P97.719 million from Land Bank of the Philippines.



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

As of December 31, 2022, transactions suspended in audit amounted to P18.380 million while the amount of disallowance is P50.018 million. There were no charges as at year-end. Details are presented in Part II of the Report.

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

Out of the 65 audit recommendations embodied in the CY 2021 Annual Audit Report, 27 were implemented, 11 were not implemented, 25 were reiterated and two were closed. Details are presented in Part III of the Report.