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 (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, 2021, the total Personnel Complement of PHLPost is 6,752 wherein 3,867 personnel or 57.27 per cent are holding plantilla positions, 2,885 or 42.73 per cent are hired under Temporary, Co-Terminous, 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 3,867 or 57.27 per cent of the authorized plantilla positions.

B. Financial Highlights

I. Comparative Financial Position

	2021	2020	Increase (Decrease)
Assets	11,088,403,628	10,775,564,986	312,838,642
Liabilities	5,915,532,548	5,689,064,208	226,468,340
Equity	**5,172,871,080**	**5,086,500,778**	**86,370,302**

II. Results of Operations

	2021	2020	Increase (Decrease)
Revenues	3,394,922,613	2,658,481,986	736,440,627
Current Operating Expenses	(3,354,618,739)	(2,859,607,303)	495,011,436
Deficit from Current Operations	**40,303,874**	**(201,125,317)**	**241,429,191**
Other Non-Operating Income	8,774,565	5,050,948	3,723,617
Gains	113,261,507	26,413,090	86,848,417
Losses	(49,741,433)	(70,489,551)	20,748,118
Surplus (Deficit) Before Tax	**112,598,513**	**(240,147,072)**	**352,745,585**
Income Tax Expense	(6,158,226)	0	(6,158,226)
Net Surplus (Deficit)	**106,440,287**	**(240,147,072)**	**346,587,359**

III. Budget Utilization

	2021 DBM Approved COB	Actual
Personnel Services	1,988,364,000	1,807,628,426
Maintenance and Other Operating Expenses	1,875,084,000	1,480,675,893
Capital Outlay	465,107,000	16,516,845
Total	**4,328,555,000**	**3,304,821,164**

C. Scope and Objectives of Audit

The audit covered the transactions, account and operations of PHLPost for CY 2021. 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 2021 and 2020 consolidated financial statements of the PHLPost due to the following:

1. The faithful representation of the Property, Plant and Equipment (PPE) with a total carrying amount of P3.436 billion cannot be established which is not in conformity with paragraph 27 of IPSAS 1 – *Presentation of Financial Statements*, due to: (a) material discrepancy of P3.569 billion between the Accounting Records and Physical Inventory Report which substantially pertains to Land and Building; (b)

erroneously recorded transactions totaling P4.387 million; (c) unserviceable PPE items costing P15.616 million remained not disposed; and (d) non-conduct of Physical Inventory Taking of PPE for CY 2021.

2. The reported balances of Accounts Receivable-Mail Remunerations (AR-MR) and Accounts Payable-Mail Remunerations (AP-MR) amounting to P1.382 billion and P1.431 billion, respectively, are materially misstated at undetermined amounts contrary to the fair presentation requirement of IPSAS 1 due to the following errors and : (a) both accounts were not derecognized upon collection or settlement at its recognized amount/book value, but at the translated amount using the exchange rate at the date of settlement or date of disbursement voucher due to absence of subsidiary ledgers; (b) both accounts, accounted in Special Drawing Rights (SDR), upon initial recognition, were not converted to Peso amount using the Spot Exchange Rate at the date of transaction or the average rate for a week or month, contrary to paragraph 24 of IPSAS 4 – *The Effects of Changes in Foreign Exchange Rates*. Also, there were no SLs maintained for AR-MR and AP-MR, to validate and determine the amount of misstatements of the accounts; (c) both accounts were not revalued at each reporting date which is not in conformity with paragraph 7 of IPSAS 4; and (d) AR-MR was understated by P15.801 million and AP-MR was overstated by the net amount of P278.029 million as of December 31, 2021 due to the non-recognition and double accruals of transactions on International Mail Revenue and Expenditure. Because of the absence of Subsidiary Ledgers (SL) on AR-MR and AP-MR, the amount of misstatements of the said accounts and other related accounts were not determined.

3. The reciprocal accounts in the consolidated Statement of Financial Position were not eliminated due to the unreconciled discrepancy of P3.808 billion which remained unadjusted as of December 31, 2021, contrary to paragraphs 38 and 40 of IPSAS 35 - *Consolidated Financial Statements* thus, which casts doubt on the faithful representation of the account balances of Due from Regional Offices and Due to Central Office. Also, some unidentified bank credits/sweep funds totaling P971.953 million were temporarily recorded in Due from Area 10 account pending identification of its originating Area Office, thus, understating the Due from Regional Offices and Due to Central Office by the said amount.

4. The Cash in Bank account amounting to P1.905 billion as of December 31, 2021 is misstated due to (a) unadjusted book reconciling items totaling P385.559 million (in absolute value) substantially representing prior years' balances, (b) existence of abnormal/negative balances totaling P69.440 million, and (c) non-preparation and/or non/late-submission of monthly Bank Reconciliation Statements (BRS).

5. The Due to Officers and Employees account with a year-end balance of P414.605 million was overstated by P138.799 million due to erroneous accrual of Performance Based-Bonus (PBB) for the years 2019 to 2021, which does not meet the recognition criteria for liability, contrary to paragraph 19 of IPSAS 39 – *Employee Benefits*, thus, overstating the liability and expense accounts by P138.799 million and P47 million, respectively, and understating the Accumulated Surplus/(Deficit) by P91.799 million.

6. The money value of the accumulated earned leave credits of the 3,867 active regular postal employees was not recognized in the books, contrary to paragraph 22 of IPSAS 19 – *Provisions, Contingent Liabilities and Contingent Assets*, understating the related accrued expense and liability accounts by undetermined amount.

E. Other Significant Audit Observations and Recommendations

In addition to the above audit observations which we considered in the rendition of the Auditor's opinion, the following are the other significant audit observations and corresponding recommendations, the details of which are presented in Part II of the Report:

1. Cash Trust accounts totaling P408.367 million were not sufficient to cover the Trust Liabilities totaling P804.957 million. Also, the existence of abnormal/negative balances totaling P327.259 million in the Trust Liabilities casts doubt on the reliability of the account balances contrary to paragraph 36 of IPSAS 1.

   Recommendation:

   a. Review and reconcile the trust account balances and effect the necessary adjustments; and ensure that trust liabilities are covered by sufficient funds.

2. The faithful representation of Accounts Receivable (AR)-Trade in the financial statements with year-end balance of P830.175 million was not established due to (a) unreconciled variance between the book balance and the confirmed balance amounting to P38.282 million; (b) past due receivables ranging from more than one year to over 10 years totaling P552.132 million remained uncollected; (c) receivables totaling P16.652 million were not recognized in the books as of December 31, 2021 due to the late billing to customers and (d) the age of receivables was not aligned with the range stated in the PHLPost Circular No. 16-80.

   Recommendations:

   a. Accounting Department of PHLPost Central Office and Accounting Section of concerned Postal Area Offices to analyze the variance totaling P38.282 million between the book balance and confirmed balance and effect the adjustments, if warranted;

   b. Exhaust all remedy to collect past due and long outstanding receivables totaling P552.132 million by sending demand letters or institute legal remedies, if warranted;

   c. Evaluate the long outstanding and dormant receivables and if warranted, request for authority to write off in accordance with COA Circular No. 2016-005 dated December 19, 2016;

   d. Require the post offices concerned to immediately submit the required documents for the preparation of billing statements by the Accounting Department; and

e. *Assess the validity and collectability of the past due receivables and revisit PHLPost Circular No. 16-80 and determine the appropriate percentages of allowance for impairment loss based on the assessments made.*

3. No provision was recognized in the books as at December 31, 2021 for the tax deficiency totaling P31.902 million assessed by the Bureau of Internal Revenue for the taxable year 2018 and issued with Preliminary Assessment Notice on November 29, 2021 and Formal Letter of Demand on February 16, 2022 to settle the tax deficiency, thus understating the liabilities by the same amount.

   Recommendations:

   a. *Take up provision for the deficiency tax assessment of the BIR totaling P31.902 million pursuant to IPSAS 14; and*

   b. *Settle the tax deficiency assessment to avoid further incurrence of interest as it is still running until the Final Letter of Demand is cancelled and/or exhaust all available legal remedies with the BIR.*

F. Summary of Total Suspensions, Disallowances and Charges

As of December 31, 2021, transactions suspended in audit amounted to P20.859 million while the amount of disallowance is P43.699 million and charges is P26,626.67. Details are presented in Part II of the Report.

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

Out of the 82 audit recommendations embodied in the CY 2020 Annual Audit Report, 21 were fully implemented, 34 were partially implemented, 25 were not implemented and two were closed due to issuance of Notice of Disallowance. Details are presented in Part III of the Report.