Republic of the Philippines
COMMISSION ON AUDIT
Commonwealth Avenue, Quezon City, Philippines

INDEPENDENT AUDITOR'S REPORT

THE BOARD OF DIRECTORS
Philippine Ports Authority
Bonifacio Drive
Port Area, Manila

Report on the Financial Statements

We have audited the accompanying financial statements of the Philippine Ports Authority (PPA), which comprise the statement of financial position as at December 31, 2015, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with state accounting principles generally accepted in the Philippines, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Philippine Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

Basis for Qualified Opinion

Cancelled disbursement vouchers involving the total amount of P1.02 billion, due to erroneous charging of accounts or incorrect amounts encoded in the computerized accounting system created doubt on the reliability of reported financial information.

The unbilled value of physical accomplishment for Locally-funded Projects (LFP) was recognized as Construction in Progress (CIP) and Accounts Payable in the total amount of P1.15 billion as at year-end, inconsistent with AFMS Manual and the Conceptual Framework for Financial Reporting. Furthermore, the reported year-end balance of the CIP account of P2.72 billion was doubtful due to numerous cancellation of accounting entries and different/conflicting data on the reported costs of on-going projects. Moreover, the correctness of the amount of Investment in Fixed Assets under CIP for the year amounting to P2.75 billion claimed as special deduction from income tax payable to the BIR pursuant to Section 25 of PD 857 cannot be ascertained. The Schedule of Property and Equipment disclosed in the Notes to FS the amount of P2.62 billion as Additions/Investment in Fixed Assets, resulting in a difference of P129.85 million. Also, the accounting of CIP exclusive of the VAT considered in the computation of the ABC and the contracted project cost is not in accordance with PAS 16 and the accounting treatment by other GOCCs.

Of the year-end consolidated balance of Property, Plant and Equipment (PPE) account totalling P103.24 billion, unreconciled variance of P27.25 million was found between the recorded balance of PPE per books compared to the balance per physical inventory reports of the Head Office and some PMOs; balances of PPE in PMOs Ozamis and Lanao totalling P1.30 billion were without complete supporting documents to establish validity; and demolished property of P74.96 million and unserviceable assets of P18.20 million were included in the account. Further, costs of major repairs and maintenance of five PMOs with a total amount of P229.66 million were not capitalized, contrary to PAS 16 resulting in understatement of appropriate PPE accounts, its Accumulated Depreciation and Retained Earnings and overstatement of repairs and maintenance expenses by the same amount.

Existing controls on Cash in Bank were inadequate as either no bank reconciliation statements were accomplished or the submission for audit was delayed; dormant depository account existed; and, there was delay in crediting bank deposits. These resulted in unreconciled balances per books and per bank statement of the different PMOs, hence, the correctness of the consolidated year-end balance of P9.72 billion could not be ascertained.

Qualified Opinion

In our opinion, except for the effects of the matters discussed in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects, the financial position of the Philippine Ports Authority as at December 31, 2015, and of its financial performance and its cash flows for the year then ended in accordance with state accounting principles generally accepted in the Philippines.