



REPUBLIC OF THE PHILIPPINES
COMMISSION ON AUDIT
Commonwealth Ave., Quezon City, Philippines

INDEPENDENT AUDITOR'S REPORT

The Board of Directors

PITC Pharma, Inc.
NDC Building
Tordesillas Street, Makati City

Report on the Financial Statements

We have audited the accompanying financial statements of the PITC Pharma, Inc. (PPI), a subsidiary of the Philippine International Trading Corporation (PITC), which comprise the statement of financial position as of December 31, 2014, 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 the Philippine Financial Reporting Standards, 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 Public Sector Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance 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 have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Basis for Modified Opinion

As discussed in Audit Observation No. 1, the financial position and results of operation of PPI for CY 2014 shows its inability to meet its liabilities and finance its operations due to the excess of liabilities over its assets, capital deficiencies and the losses continuously incurred from year to year, casting significant doubt on the ability of the Agency to continue as a going concern and carry out its mandated functions. The information on how Management addresses the uncertainties, such as the expectation of profitability from Sales of about ₱1.019 billion and the booking of sales orders from the Department of Health (DOH) totaling ₱792 million for the semester ended June 30, 2015, were disclosed under Note 3 to the Financial Statements. The payment of liabilities or possible sources of funds, however, still depends on the collectibility of such sales for the next accounting period. Under Audit Observation No. 1 we have noted the poor collection efficiency on accounts receivable. Of the total sales of ₱559.952 million in CY 2014, 91.93 per cent or ₱514.794 million pertained to sales to DOH. Only the amount of ₱274.725 million or 53.37 per cent was collected from DOH while the amount of ₱240.068 million or 46.63 per cent remained unpaid.

And as discussed in Audit Observation No. 2, the balances of Cost of Sales of ₱518.490 million and Merchandise Inventory account of ₱4.358 million were understated by ₱0.503 million and ₱0.512 million, respectively, due to errors in booking up the cost of merchandise and the absence of properly maintained subsidiary records for inventories.

Modified Opinion

In our opinion, except for the effects of the matters described in the Basis for Modified Opinion paragraph, the financial statements present fairly, in all material respects, the financial position of PITC Pharma, Inc. as of December 31, 2014, and its financial performance and its cash flows for the year then ended in accordance with state accounting principles generally accepted in the Philippines.

Report on Supplementary Information Required Under BIR Revenue Regulation 15-2010

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information on taxes, duties, and license fees paid or accrued during the taxable year described in Note 21 to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such supplementary information is the responsibility of management. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

COMMISSION ON AUDIT


HENEDINA R. OTADOY
Supervising Auditor

July 15, 2015