**PITC PHARMA, INC.**

**ANNUAL AUDIT REPORT FOR CY 2015**

**EXECUTIVE SUMMARY**

**Introduction**

PITC Pharma, Inc. (PPI) was initially incorporated in July 1981 as Producers Venture Capital Corporation (PVCC) with shared ownership by Prime Media Holdings, Inc. and National Development Company (NDC). In calendar year (CY) 2005, PVCC became wholly owned by NDC and in the same year, the corporate name of PVCC was changed to PITC Pharma, Inc. with the primary purpose of engaging in the business of research development, production, manufacture, packaging, sale/distribution of pharmaceutical products and/or investment in pharmaceuticals and related commercial ventures. In CY 2006, the authorized capital stock of PPI was increased from P10 million to P100 million, of which P22.5 million and P15 million was subscribed and fully paid by Philippine International Trading Corporation (PITC) and NDC, respectively.

With the issuance of Executive Order (EO) No. 442 dated July 4, 2005, PITC was designated as the lead coordinating agency to make quality medicines available, affordable and accessible to the greater masses of Filipinos. PPI was then created to exclusively take the lead in implementing the government’s Half-Priced Medicines Program under EO 442.

Effective November 2008, PPI was designated as the central procurement arm for all government agencies for the importation of drugs and medicines, except for specific programs and instances allowed by the Department of Health (DOH), as mandated under Section 1, Rule 16, Chapter III of Republic Act (RA) No. 9502, otherwise known as the Universally Accessible Cheaper and Quality Medicines Act of 2008.

As of December 31, 2015, PPI has a manpower complement of 49 regular and probationary employees. Its principal officers are the following:

|  |  |  |
| --- | --- | --- |
| Name |  | Position / Designation |
| Jose A. Capistrano, Jr. | - | President and CEO |
| Joyce Anne N. Alimon | - | OIC Vice President for Finance |
| Jose A. Cortez | - | Vice President for Sales |

The audit covered the accounts and operations of PPI for CY 2015. It aimed to ascertain the fairness of the presentation of the financial statements. Our audit was also made to assess the propriety of the financial transactions and compliance of PPI with applicable laws, rules and regulations.

**Financial Highlights**

PPI’s financial condition and results of operations (in Philippine peso) are presented below:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | 2015 |  | 2014  (as restated) |  | Increase (Decrease) |
| *Financial Condition* |  |  |  |  |  |
| Total Assets | 410,291,547 |  | 293,568,412 |  | 116,723,135 |
| Total Liabilities | 723,106,036 |  | 600,261,069 |  | 122,844,967 |
| Capital Deficiency | 312,814,489 |  | 306,692,6576 |  | 6,121,832 |
| *Result of Operations* |  |  |  |  |  |
| Gross Profit | 50,038,233 |  | 41,461,883 |  | 8,576,350 |
| Total Expenses | 56,160,065 |  | 57,107,931 |  | (947,866) |
| Net Income (Loss) | (6,121,832) |  | (15,646,048) |  | 9,524,216 |

PPI’s current year operating performance as well as financial position did not improve despite achieving the highest sales. While the amount of gross profit has increased and expenses slightly decreased compared with the previous year, operations still resulted in net loss because expenses remain higher than gross profit. The current gross profit percentage was the lowest at 5.32 per cent.

After 10 years in operation, PPI was not able to manage business effectively to improve its financial position. Liquidity remains a problem as liabilities remain significantly higher than assets.

**Independent Auditor’s Report on the Financial Statements**

The Auditor rendered an unqualified opinion with emphasis of matter on the fairness of presentation of the financial statements of PPI.

**Significant Audit Observations and Recommendations**

Below is the summary of significant audit observations and recommendations with details discussed in Part II of this Report:

1. PPI’s results of operation and financial position show losses and negative equity since its inception that indicates its difficulty and inability to sustain operations, carry out its mandated functions and continue as a going concern.

We recommended that Management:

1. Conduct an assessment of the conditions affecting the consistent unfavorable operating performance of PPI, to include the following:
   * 1. Evaluation of pricing methods so that gross margin will at least be enough to cover operating expenses;
     2. Periodic review of operating performance with concern not only on the volume of sales but also its profitability; and
     3. Evaluation of existing procedures and controls for improvements in the different stages of operations;
2. Formulate and establish the specific courses of action to implement the business plans discussed in paragraph 1.7 of Part II - Audit Observations and Recommendations, and disclosed in Note 2 of the Notes to Financial Statements;
3. Initiate more effective and efficient strategies to intensify collection of trade receivables; and
4. Formulate policies emphasizing sound internal controls and ensure proper implementation thereof.
5. PPI has not developed an effective profitability strategy resulting in consistent losses since the start of operations.

We recommended that Management:

1. Formulate, develop and install effective business policies and strategies for profitability, necessary in its trading business;
2. Conduct a careful study of the prevailing market prices aside from the historical sources of income before setting and offering the selling prices to DOH so that the ABC in the procurement of products for sale may likewise be reasonably obtained; and
3. Estimate a reasonable and competitive selling price and gross margin to maximize profit and consider the effect of input tax charged to cost of sales.
4. The correctness of the P3.201 million balance of the Merchandise Inventory (MI) account cannot be ascertained due to absence of schedule as basis for inventory count, adjustments to tally the General Ledger (GL) and Subsidiary Ledgers (SL) balances with the inventory count, non-correlation of GL entries with SL entries, numerous adjustments of previous accounting entries and the lack of supporting documents.

We recommended that Management install a system of procedures and controls in the handling of transactions and ascertain that:

1. GL and SL entries are cross referenced, that is, the GL and the SL have the same document reference. The SL may have other references for the data entries but the common reference for the GL entry should be emphasized;
2. GL entries as well as postings in the SL are updated so that the GL balance and the totals of the SL balances agree at any given period;
3. All accounting entries are supported by adequate and valid documents;
4. Correction of errors on previous entries has to be done or effected through a properly approved JEV;
5. Physical inventory count should always be based on a schedule of SL balances;
6. Accountability for accomplished RRs as well as recording thereof is established; and
7. As previously recommended, Management:
8. Maintain an automated inventory system if feasible; and
9. Require the Internal Audit Department to review the existing system and recommend the necessary procedures and control measures.
10. The procurement of three units Non-Invasive Blood Pressure (NIBP) Simulator amounting to P2.997 million was not supported by necessary documents contrary to Section 4 of Presidential Decree No. 1445 and appeared to be overpriced by P2.504 million.

We recommended that Management:

1. Submit documents to justify the procurement of the three NIBP units prior to receipt of the DOH PO on October 27, 2015;
2. Prove reasonableness of the price of P2.997 million paid for the three units NIBP;
3. Submit proof of payment by the supplier of taxes/customs duties on the importation of the NIBP units as required in Administrative Order No. 200; and
4. Require the supplier to post a special bank guaranty equivalent to at least P299,700.

**Summary of Total Suspensions, Disallowances and Charges as of Year-End**

As of December 31, 2015, there are no unsettled audit suspensions, disallowances and charges.

**Status of Implementation of Prior Year’s Audit Recommendations**

Of the 16 audit recommendations embodied in last year’s Annual Audit Report, two were fully implemented, 10 were partially implemented and four were not implemented.