

## EXECUTIVE SUMMARY

### Introduction

The Philippine Pharma Procurement, Inc. (PPPI), formerly known as PITC Pharma, Inc. (PPI), is a subsidiary of the Philippine International Trading Corporation (PITC) and an affiliate of the National Development Company (NDC). It was initially incorporated on July 1981 as Producers Venture Capital Corporation (PVCC) with shared ownership by Prime Media Holdings, Inc. and NDC, 60% and 40%, respectively. On October 19, 2005, NDC bought out Prime Media's ownership, which made PVCC 100 per cent owned by NDC.

On November 9, 2005, the Securities and Exchange Commission (SEC) approved the change in PVCC's corporate name to PITC Pharma, Inc. (PPI) and its primary purpose from that of a financing company to a pharmaceutical firm engaged 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 ₱10 million to ₱100 million, of which ₱22.5 million and ₱15 million was subscribed and fully paid by PITC and NDC, respectively.

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.

Along with the amendment of its primary purpose to include "procurement, sourcing and marketing of medicine and vaccine requirement, among others, through its common facility for pooled procurement", the SEC approved the change of PPI's corporate name to its present name, Philippine Pharma Procurement, Inc. (PPPI) on November 26, 2015.

As of December 31, 2016, PPPI has a manpower complement of 48 regular and probationary employees. Its principal officers are the following:

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

## Financial Highlights

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

	2016	2015	Increase (decrease)
<u>Financial Position</u>			
Assets	168,187,517	410,291,547	(242,104,030)
Liabilities	519,941,606	723,106,036	(203,164,430)
Capital Deficiency	(351,754,089)	(312,814,489)	(38,939,600)
<u>Results of Operations</u>			
Gross Profit	16,452,713	50,038,233	(33,585,520)
Total Expenses	56,608,110	56,160,065	448,045
Net Income (Loss)	(40,155,397)	(6,121,832)	(34,033,565)

### 2016 Approved Corporate Operating Budget (COB) vs. Actual Expenditures

	Per COB*	Actual	Variance
Personnel Services (PS)	27,631,800	22,340,093	5,291,707
Maintenance & Other Operating Expenses (MOOE)	57,508,300	34,268,017	23,240,283
Capital Outlays	4,359,900	0	4,359,900
Total	89,500,000	56,608,110	32,891,890

*\*not submitted to DBM for approval*

PPPI's current year operating performance as well as its financial position continues to decline. Operations still resulted in net loss because expenses remain higher than gross profit although the current gross profit percentage improved to 10.66 per cent from last year's 5.32 per cent.

After 11 years in operation, liquidity remains a problem as liabilities remain significantly higher than assets.

## Scope of Audit

The audit covered the examination, on a test basis, of the accounts, transactions and operations of PPPI for CY 2016 in accordance with Philippine Public Sector Standards on Auditing (PPSSA). It was also aimed at expressing an opinion on the fairness of presentation of PPPI's financial position, results of operations and cash flows in accordance with PPSSA and at determining its compliance with laws, rules and regulations.

## **Independent Auditor's Report on the Financial Statements**

The Auditor rendered an unmodified opinion with emphasis of matter on the fairness of presentation of the financial statements of PPPI. Attention was drawn to PPPI's accumulated deficit of P389.254 million which continue to cast doubt on its ability to carry out its mandated function as the central procurement arm for all government agencies for the importation of drugs and medicines.

### **Significant Audit Observations and Recommendations**

Below is the summary of significant audit observations and recommendations which are discussed in detail in Part II of this Report:

1. PPPI's accumulated deficit of P389.254 million continues to cast doubt on its ability to carry out its mandated function as the central procurement arm for all government agencies for the importation of drugs and medicines.

We reiterated our recommendations that Management:

- a. Conduct an assessment of the conditions affecting the consistent unfavorable operating performance of PPPI; and
  - b. Formulate policies and action plans as well as establish specific courses of action to implement strategies to be undertaken to address the results of the assessment conducted.
2. Liquidated damages (LD) imposed on suppliers were not in accordance with the terms and conditions of the PPPI purchase order resulting in uncollected revenue of P21.896 million.

We recommended that Management comply with the provisions of the Government Procurement Manual on the imposition of liquidated damages.

3. The payment of Representation and Transportation Allowance (RATA) to its officers/employees exceeded the amount prescribed under National Budget Circular (NBC) No. 2013-548 dated May 15, 2013 implementing the General Appropriations Act (GAA) provisions on the payment of RATA. Likewise, the required documentation under Item 4(e), Rationalization of Allowances, Benefits and Incentives, J.R. No. 4 series of 2009 was not complied.

We recommended that Management secure approval of its Salary Package from the Office of the President thru the Governance Commission of GOCCs (GCG). Otherwise, adjust payment of RATA to PPPI Officials by adhering to NBC No. 2013- 548 dated May 15, 2013 implementing GAA provisions on the authorized rates of the RATA.

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

As of December 31, 2016, there are no unsettled audit suspensions, disallowances and charges.

### **Status of Implementation of Prior Year's Audit Recommendations**

Of the 20 audit recommendations embodied in last year's Annual Audit Report, five were fully implemented, 12 were partially implemented and three were not implemented.