PITC Pharma, Inc.
Annual Audit Report for CY 2013

EXECUTIVE SUMMARY

A. Introduction

PITC Pharma, Inc. (PPI) was initially incorporated in the Philippines on July 13, 1981 as Producers Venture Capital Corporation (PVCC). PVCC was 60 per cent owned by Prime Media Holdings, Inc. and 40 per cent owned by the National Development Company (NDC). On October 19, 2005, NDC bought out Prime Media's 60 per cent 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 from Producers Venture Capital Corporation to PITC Pharma, Inc., 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 and/or distribution of pharmaceutical products and/or investment and/or management of investments in pharmaceuticals and related commercial ventures.

On September 12, 2006, the SEC approved the increase in the Authorized Capital Stock of PPI from P10 million to P100 million, divided into one million (1,000,000) common shares at a par value of P100 per share. The infusion by Philippine International Trading Corporation (PITC) of P22.5 million in common shares, made PPI 60 per cent owned by PITC. With the issuance of Executive Order (EO) 442, PITC was designated as the lead coordinating agency to make quality medicine available, affordable, and accessible to the greater masses of Filipinos. The Corporation was 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. This is embodied in Section 1 Rule 16 Chapter III of the Implementing Rules and Regulations (IRR) of Republic Act No. 9502 otherwise known as the Cheaper Medicines Law. Likewise, the IRR's Chapter XI Rule 58 gives authority to PPI to establish a common facility for pooled procurement in compliance with RA 9184.

As of December 31, 2013, PPI has a manpower complement of 48 regular and probationary employees. Its principal officers are the following:

Name		Position / Designation
Bienvenido S. Bautista	-	President and CEO
Jacqueline C. Mendoza	-	Vice President - Finance
Jose A. Cortez	-	Vice President - Sales

The audit covered the accounts and operations of PPI for calendar year 2013. 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.

B. Financial Highlights

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

	2013	2012	Increase (Decrease)
Financial Condition			
Total Assets	182,950,851	46,093,630	136,857,221
Total Liabilities	486,282,878	358,201,029	128,081,849
Capital Deficiency	**303,332,027**	**312,107,399**	**(8,775,372)**
Result of Operations			
Gross Profit	53,216,624	12,068,397	41,148,227
Total Expenses	44,441,252	52,548,871	(8,107,619)
Net Income (Loss)	**8,775,372**	**(40,480,474)**	**49,255,846**

PPI achieved the best sales performance in the Agency's eight years of operation and the first year with positive results. From consistent losses, PPI reported a net income during the current year. Although PPI has yet to recover from capital deficiency, the total assets of P182 million increased by almost four times compared to the previous year of P46 million.

C. Independent Auditor's Report on the Financial Statements

The Auditor rendered an unmodified opinion on the fairness of presentation of the financial statements of PPI.

D. Significant Audit Observations and Recommendations

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

1. The non-maintenance of proper subsidiary records, non-approval of some recorded transactions and errors in booking up the cost of items sold resulted to the discrepancies in the balances between the general ledger, subsidiary records and inventory count of Merchandise Inventory. Thus, the validity and accuracy of the inventory balance of P28.469 million is doubtful.

   We recommended that Management:

   a. Reconcile balances between the general ledger, subsidiary records and the inventory count and account for the discrepancies.

b. Maintain a complete and updated subsidiary record for each of the inventory items traded by PPI with all necessary information relative to the inventory items.

c. Support all transactions to be recorded in the Merchandise Inventory account with complete and properly approved documents.

d. Adopt an accounting system for Inventories and Cost of Sales (COS) depending on available resources such as manpower and equipment.

2. Discrepancy in the amount of P.936 million was noted in the balance per books against the computed balance per audit of the COS account due to errors in recording, resulting in the understatement of the COS and overstatement of Income account by the said amount.

   We recommended that Management:

   a. Support with duly approved documents all transactions recorded in the books of accounts including the COS.

   b. Support with complete information and references to other documents all transactions recorded in Journal Vouchers such as accruals of cost of sales, reversal of accruals and adjustments of previous entries.

   c. Discontinue the practice of accruing cost of goods sold for "dropshipped" sales. Record the Sales and COS transactions simultaneously when properly documented after actual delivery of goods.

   d. Institute policies and procedures for monitoring and recording of transactions affecting the Inventory and COS accounts.

   e. Initiate best efforts to shift from manual accounting system to a computerized system in order to minimize risk of errors.

3. While PPI reported a net income before tax of P12 million in 2013 after seven years of losses, it still needs to exert effort to recover from capital deficiency which stood at P303 million.

   We recommended that Management continue to pursue effectively, plans and programs to pave the way to PPI's full financial recovery.

4. PPI allocated a GAD budget of P.597 million, however, only the amount of P.167 million was utilized in the implementation of GAD related activities, contrary to the guidelines of DBM-NEDA-NCRFW Joint Circular No. 2004-1.

   We recommended that Management utilize its allocated budget for GAD programs and ensure the formulation and implementation of the annual GAD plan.

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

Of the eight audit recommendations embodied in the 2012 Annual Audit Report, six were fully implemented and two were partially implemented. Details are presented in Part III of this Report.

F. COA-PPI Audit Team

PPI was audited by Team 5 under Audit Group F – Trading and Promotions Group headed by **Ms. Henedina R. Otadoy**, Supervising Auditor. The Audit Team is composed of the following personnel:

Name	Position	Designation
Maribelle B. Bayta	State Auditor IV	Audit Team Leader
Ignacia P. Taroy	State Auditor II	Audit Team Member
Thelma C. Agapay	State Auditor II	Audit Team Member
Nephtali D. Gonzaga	State Auditor I	Audit Team Member