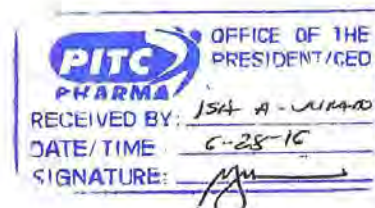




Republic of the Philippines
COMMISSION ON AUDIT
Commonwealth Avenue, Quezon City, Philippines
CORPORATE GOVERNMENT SECTOR
Cluster 6-Social, Cultural Trading, Promotional
and Other Services

June 28, 2016

MR. JOSE A. CAPISTRANO, JR.
President and CEO
PITC Pharma, Inc.
NDC Building, 116 Tordesillas St.
Salcedo Village, Makati City



Dear Mr. Capistrano:

We are pleased to transmit our Annual Audit Report on the results of the audit of the accounts and transactions of PITC Pharma, Inc. (PPI) for the year ended December 31, 2015, pursuant to Section 2, Article IX-D of the Philippine Constitution and Section 43 of Presidential Decree No. 1445, otherwise known as the Government Auditing Code of the Philippines.

The Report consists of the Independent Auditor's Report, the Audited Financial Statements, the Observations and Recommendations, and the Status of Implementation of Prior Year's Audit Recommendations.

The Auditor rendered an unqualified opinion on the fairness of the presentation of the Corporation.

The significant observations and recommendations are as follows:

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:

- a. Conduct an assessment of the conditions affecting the consistent unfavorable operating performance of PPI, to include the following:
 - i. Evaluation of pricing methods so that gross margin will at least be enough to cover operating expenses;

-
- ii. Periodic review of operating performance with concern not only on the volume of sales but also its profitability; and
 - iii. Evaluation of existing procedures and controls for improvements in the different stages of operations;
 - b. Formulate and establish the specific courses of action to implement the business plans discussed in paragraph 1.7 and disclosed in Note 2 of the Notes to Financial Statements;
 - c. Initiate more effective and efficient strategies to intensify collection of trade receivables; and
 - d. Formulate policies emphasizing sound internal controls and ensure proper implementation thereof.
 2. PPI has not developed an effective profitability strategy resulting in consistent losses since the start of operations.

We recommended that Management:

- a. Formulate, develop and install effective business policies and strategies for profitability, necessary in its trading business;
 - b. 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
 - c. 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.
3. The correctness of the ₱3.201 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:

- a. 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;

-
- b. 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;
 - c. All accounting entries are supported by adequate and valid documents;
 - d. Correction of errors on previous entries has to be done or effected through a properly approved JEV;
 - e. Physical inventory count should always be based on a schedule of SL balances;
 - f. Accountability for accomplished RRs as well as recording thereof is established; and
 - g. As previously recommended, Management:
 - i. Maintain an automated inventory system if feasible; and
 - ii. Require the Internal Audit Department to review the existing system and recommend the necessary procedures and control measures.
4. The procurement of three units Non-Invasive Blood Pressure (NIBP) Simulator amounting to ₱2.997 million was not supported by necessary documents contrary to Section 4 of Presidential Decree No. 1445 and appeared to be overpriced by ₱2.504 million.

We recommended that Management:

- a. Submit documents to justify the procurement of the three NIBP units prior to receipt of the DOH PO on October 27, 2015;
- b. Prove reasonableness of the price of ₱2.997 million paid for the three units NIBP;
- c. 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
- d. Require the supplier to post a special bank guaranty equivalent to at least ₱299,700.


The other audit observations with the corresponding recommended courses of action which were discussed by the Audit Team in a conference held on May 31, 2016 with the concerned officers and staff of that Agency are presented in detail in Part II of the Report.

We requested that appropriate actions be taken on the observations and recommendations contained in Part II of the Report. Likewise, we requested that this Commission be informed of the measures taken thereon within 60 days from the receipt hereof, pursuant to Section 93 of the General Provisions of the General Appropriations Act for CY 2015, by submitting the duly accomplished Agency Action Plan and Status of Implementation Form (copy attached).

We express our appreciation for the support and cooperation that the Management has extended to the Audit Team, thus facilitating the completion of the Report.

Very truly yours,

COMMISSION ON AUDIT


WILFREDO A. AGITO
Director IV

Copy furnished:

The President of the Republic of the Philippines
The Vice President
The Speaker of the House of Representative
The Chairperson – Senate Finance Committee
The Chairperson – Appropriations Committee
The Secretary of the Department of Budget and Management
The Governance Commission for Government-Owned
or Controlled Corporations
The President Management Staff, Office of the President
The UP Law Center
The National Library



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June 28, 2016

THE BOARD OF DIRECTORS
PITC Pharma, Inc.
NDC Building, 116 Tordesillas St.
Salcedo Village, Makati City



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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:

- a. Conduct an assessment of the conditions affecting the consistent unfavorable operating performance of PPI, to include the following:
 - i. Evaluation of pricing methods so that gross margin will at least be enough to cover operating expenses;
 - ii. Periodic review of operating performance with concern not only on the volume of sales but also its profitability; and

- iii. Evaluation of existing procedures and controls for improvements in the different stages of operations;
 - b. Formulate and establish the specific courses of action to implement the business plans discussed in paragraph 1.7 and disclosed in Note 2 of the Notes to Financial Statements;
 - c. Initiate more effective and efficient strategies to intensify collection of trade receivables; and
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2. PPI has not developed an effective profitability strategy resulting in consistent losses since the start of operations.

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In a letter of even date, we request the President and CEO of PPI that appropriate actions be taken on the observations and recommendations contained in Part II of the Report. Likewise, we request that this Commission be informed of the measures taken thereon within 60 days from the receipt

hereof, pursuant to Section 93 of the General Provisions of the General Appropriations Act for CY 2015, by submitting the duly accomplished Agency Action Plan and Status of Implementation Form (copy attached).

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WILFREDO A. AGITO
Director IV

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The Secretary of the Department of Budget and Management
The Governance Commission for Government-Owned
or Controlled Corporations
The President Management Staff, Office of the President
The UP Law Center
The National Library

(Name of Agency and Address)

**AGENCY ACTION PLAN and
STATUS OF IMPLEMENTATION**
Audit Observations and Recommendations
For Calendar year 20 __
As of _____

Ref	Audit Observations	Audit Recommendation	Agency Action Plan				Status of Implementation	Reason for Partial/Delay/ Non-Implementantion, If applicable	Action Taken/Action to be taken
			Action Plan	Person/Dept. Responsible	Target Implementation Date				
					From	To			

Agency sign-off:

Name and Position of Agency Officer

Date

Note: Status of Implementation may either be (a) Fully implemented, (b) Ongoing, (c) Not Implemented, (d) Partially Implemented, or (e) Delayed

This template shall be used for Current Year's audit recommendations and Prior Years' recommendations as contained in the Part II-A and B, respectively, of the Annual Audit Report.

ACTION PLAN MONITORING TOOL

Sector: _____
 Team: _____
 Agency Audited : _____
 Audit Period: _____
 AAR Date: _____

Prepared by: _____ Date: _____
 Reviewed by: _____ Date: _____
 Approved by: _____ Date: _____

AGENCY ACTION PLAN and STATUS of IMPLEMENTATION														
Ref	Audit Observations	Audit Recommendation	Action Plan	Person/Dept. Responsible	Target Implementation Date		Status of Implementation	Reason for Partial/Delay/ Non-Implementantion, If applicable	Action Taken/ Action to be taken	Date of Folow up	Status of Implementati on	Actual Implementation Date		Remarks
					From	To						From	To	

Prepared by:

Audit Team Leader

Date

Note: Status of Implementation may either be (a) Fully implemented, (b) Ongoing, (c) Not Implemented, (d) Partially Implemented, or (e) Delayed