

## **EXECUTIVE SUMMARY**

### **INTRODUCTION**

The Intercontinental Broadcasting Corporation (IBC-13) was originally incorporated as the Continental Broadcasting Corporation (CBC) under Securities and Exchange Commission (SEC) Registration No. 4118 dated May 11, 1970. The Articles of Incorporation was amended on September 30, 1974, renaming CBC to IBC-13, with the same set of stockholders and subscribers to its capital stock. The IBC-13 studios are located at Broadcast City, Capitol Hills, Diliman, Quezon City, while its transmitter is situated in San Francisco del Monte, Quezon City.

On March 1, 1986, Juan Ponce Enrile, then Minister of National Defense, ordered the sequestration of the Broadcast City television and radio stations, which included IBC-13, Radio Philippines Network and Banahaw Broadcasting Corporation, under Ministry Order No. A-003 based on the request of the then Presidential Commission on Good Government (PCGG) Chairman, Jovito Salonga. Thereafter, then President of the Republic of the Philippines, Corazon C. Aquino, issued Executive Order (EO) No. 11 dated April 8, 1986, creating a Board of Administrators to manage and operate the business and affairs of the said stations and have custody of their funds and assets subject to the supervision and control of the PCGG. By virtue of a compromise agreement with the PCGG dated November 3, 1990, the Corporation was surrendered/ceded by Mr. Roberto S. Benedicto to the Republic of the Philippines.

In July 2000, Congress approved IBC-13's 25-year franchise to operate and maintain radio and television broadcasting stations in the country. Under Section 2 of EO No. 576 dated November 7, 2006, the Corporation and other government communication agencies were placed under the supervision and control of the Director-General, Philippine Information Agency (PIA) under the Office of the President (OP).

IBC-13 presently operates under the control and supervision of the Presidential Communications Operations Office (PCOO) in accordance with Section 4 of EO No. 4 dated July 30, 2010.

The primary purposes of the Corporation are to carry on the business as operators and/or proprietors of instruments and media of mass communication such as radio, television and/or telecommunication stations on a commercial and/or sustaining operation in any part of the Philippines, and to deal in the manufacture and distribution of radio, television and other electronic components and/or part thereof.

As of December 31, 2019, the Board of Directors was comprised of Mr. Jose B. Avellana, Jr., Chairman; Ms. Katherine Chloe S. de Castro, President and Chief Executive Officer (CEO); Mr. Jose Rafael S. Hernandez; Mr. Jaime P. Alanis; Mr. Alexander L. Bangsoy and Mr. Arturo M. Alejandrino, Members; Ms. Marieta E. Nieto, Corporate Secretary.

To date, IBC-13 has only one TV station on air, the IBC-13 Manila.

As of December 31, 2019, the IBC-13 had 164 personnel complement for central office and provincial stations consisting of the following:

President and CEO	1
Managers	7
Directors	4
Supervisors	28
Co-terminus	2
Rank and file	98
Retainers	11
Talents	13
	<u>164</u>

For its privatization process, IBC-13 engaged the services of a Team composed of the Development Bank of the Philippines (DBP), KPMG-R.G. Manabat & Co. and the law firm of Romulo, Mabanta, Buenaventura, Sayos and Delos Angeles.

## FINANCIAL HIGHLIGHTS (In Philippine Peso)

### I. COMPARATIVE FINANCIAL POSITION

	2019	2018	Increase (Decrease)
Assets	303,755,515	371,685,259	(67,929,744)
Liabilities	1,585,139,426	1,664,286,594	(79,147,168)
Capital Deficiency	(1,281,383,911)	(1,292,601,335)	11,217,424

### II. COMPARATIVE RESULTS OF OPERATIONS

	2019	2018	Increase (Decrease)
Income	43,666,300	16,084,274	27,582,026
Administrative expenses	143,319,590	133,704,244	9,615,346
Operating expenses	24,025,446	32,816,243	(8,790,797)
Other income (Expenses)	21,927,633	663,263	21,264,370
Net income/ (Loss)	(101,751,103)	(149,772,950)	48,021,847

### III. CY 2019 BUDGET AND ACTUAL AMOUNTS

	Budget	Actual	Variance
Personnel services	-	143,319,590	(143,319,590)
Maintenance and other operating expenses	-	24,025,446	( 24,025,446)
Capital expenditures	-	-	-
	-	<b>167,345,036</b>	<b>(167,345,036)</b>

## **SCOPE OF AUDIT**

The audit covered the examination, on a test basis, of the accounts, transactions and operations of IBC-13 for CY 2019 in accordance with International Standards of Supreme Audit Institutions (ISSAIs). It was also aimed at expressing an opinion as to whether the financial statements present fairly the IBC-13's financial position, results of operations and cash flows, and at determining the Agency's compliance with pertinent laws, rules and regulations.

## **AUDITOR'S OPINION**

We rendered a disclaimer of opinion on the fairness of presentation of the financial statements of the IBC-13 for the year 2019 in view that the IBC-13 did not adopt the Philippine Financial Reporting Standards (PFRSs) as its Financial Reporting Framework in the preparation of the Financial Statements (FSs) for calendar year (CY) 2019, instead the Network used the generally accepted state accounting principles which is not its prescribed financial reporting framework; thus, we were unable to ascertain whether all the accounts in the financial statements were fairly presented.

For the above observation which caused the issuance of a disclaimer of opinion, we recommended that Management comply strictly with: (a) COA Circular No. 2015-003 dated April 16, 2015 by adopting the PFRSs as the Financial Reporting Framework of IBC-13; and (b) COA Circular No. 2017-004 dated December 13, 2017, on the requirements/procedures that must be followed for the First Time Adoption of PFRSs in the preparation of the CY 2020 FSs.

## **SIGNIFICANT AUDIT OBSERVATIONS AND RECOMMENDATIONS**

The other significant observations and recommendations that need immediate actions are as follows:

1. The inability of IBC-13 to deposit collections received to the authorized government depository bank(s) within the vicinity was contrary to Section 69 of PD No. 1445. Likewise, keeping all collections in the vault of the Treasury Division and in the safety deposit box at the Bank of Commerce, exposes government funds to risk of loss and misappropriation.
  - 1.1 We recommended that Management:
    - a. Deposit all collections in the authorized government depository bank in compliance with existing COA rules and regulations and for sound internal control on cash;
    - b. Submit a copy of the Board Resolution authorizing the Manager of the Internal Audit Division to access the safety deposit box at the Bank of Commerce; and
    - c. Strictly comply with the provisions of Section 69 of Presidential Decree (PD) No. 1445 in the receipt and deposit of collections.

2. Salary increase of IBC-13 officers were implemented without approval from the Office of the President, contrary to Sections 5 and 6 of PD No. 1597; thus, payments of the salary increase, 13<sup>th</sup> month pay differential, and bonus differential for CY 2019 totaling P1.817 million were without legal basis.
  - 2.1 We recommended and Management agreed to:
    - a. Secure the approval from the Office of the President, through the Governance Commission for Government Owned or Controlled Corporations (GCG), on the increase in salaries of the IBC-13 officers, otherwise, refund the amount paid; and
    - b. Make representation with the GCG relative to the Representation and Transportation Allowance (RATA) of IBC-13 officers which was claimed as part of their basic salary and furnish the Audit Team with the action taken by the GCG soonest to avoid accumulation of audit disallowance in case the request is denied by the GCG or the President.
3. Net Value-Added Tax (VAT) amounting to P146.303 million was not remitted to the Bureau of Internal Revenue (BIR), contrary to Sections 105 and 110 of the National Internal Revenue Code (NIRC); thus, the Network might be imposed of the corresponding interests, penalties and surcharges due to non-remittance thereof to the BIR.
  - 3.1 We recommended that Management: (a) remit the Net VAT Payable in the amount of P146.303 million to the BIR, and henceforth comply strictly with the pertinent provisions of the NIRC; or (b) make a representation with the BIR for possible alternatives on the settlement thereof in view of the unavailability of funds.
4. IBC-13 was unable to remit the taxes withheld in the total amount of P139.980 million as of December 31, 2019, contrary to the pertinent provisions of the NIRC of 1997 and, depriving the National Government of additional revenue for its various programs and projects.
  - 4.1 We recommended and Management agreed to comply with the provisions of NIRC pertaining to the filing of returns and remittance of taxes withheld.

## **SUMMARY OF AUDIT SUSPENSIONS, DISALLOWANCES AND CHARGES**

As of December 31, 2019, there were no unsettled audit suspensions and charges. The unsettled disallowance at year-end in the amount of P383,111 represents payment of Cost of Living Allowance (COLA) to IBC-13 officers contrary to the decision of the Department of Labor and Employment – National Conciliation and Mediation Board (DOLE-NCMB) – Office of the Voluntary Arbitrator issued on June 15, 2015, re: *Entitlement of Government-Mandated Cost of Living Allowances, Moral Damages and Attorney’s Fees*. The disallowance is on appeal.

## **STATUS OF IMPLEMENTATION OF PRIOR YEAR'S AUDIT RECOMMENDATIONS**

Of the 24 audit recommendations embodied in the prior year's Annual Audit Report (AAR), 4 were fully implemented, 6 were partially implemented and 14 were not implemented.