

EXECUTIVE SUMMARY

A. 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, 2017, the Board of Directors was comprised of Mr. Jose B. Avellana, Jr. (Chairman), Mr. Manolito O. Cruz (President and Chief Executive Officer (CEO)), Mr. Diosdado B. Marasigan, Mr. Ernesto E. Maipid, Jr., Mr. Jose Rafael S. Hernandez, Mr. Jaime P. Alanis and Mr. Arturo M. Alejandrino.

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

As of December 31, 2017, the IBC-13 had 212 personnel complement for central office and provincial stations consisting of the following:

President and CEO	1
Managers	7
Supervisors	34
Rank and File	149
Retainers	10
Talents	<u>11</u>
Total	212

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.

B. Financial Highlights (in Pesos)

	2017	2016	Increase (Decrease)
<u>Comparative financial position</u>			
Assets	500,556,327	279,495,897	221,060,430
Liabilities	1,611,085,461	1,413,395,536	197,689,925
Equity (Capital Deficiency)	(1,110,529,134)	(1,133,899,639)	23,370,505
<u>Results of operations</u>			
Income	49,477,587	46,861,816	2,615,771
Administrative expenses	129,831,164	125,887,046	3,944,118
Operating Expenses	27,065,434	27,541,719	(476,285)
Other Income (Expenses)	786,740	(429,970)	1,216,710
Net Income (Loss)	(106,632,271)	(106,996,919)	364,648
<u>Budget and Actual</u>			
<u>Expenditures</u>	<u>Budget</u>	<u>2017 Actual</u>	<u>Variance</u>
Personnel services	0	129,831,164	129,831,164
Maintenance and other Operating expenses	0	27,065,434	27,065,434
Capital Expenditures	0	834,082	834,082
Total			

C. Scope and Objectives of the Audit

The audit covered the examination, on a test basis, of the accounts, transactions and operations of IBC-13 for CY 2017 in accordance with Philippine Public Sector Standards on Auditing (PPSSA). It was aimed at expressing an opinion on the fairness of presentation of the financial position, financial performance and cash flows in accordance with Generally Accepted Accounting Principles and at determining its compliance with laws, rules and regulations.

D. Independent Auditor's Report on the Financial Statements

We rendered a qualified opinion on the fairness of the presentation of the financial statements of the IBC 13 for the year 2017 due to: a) the reliability and existence of the balance of Cash on Hand in the amount of P6.443 million could not be ascertained due to discrepancy in the balances per General Ledger and per cash book maintained by the Treasury Division in the amount of P5.816 million; b) the accuracy, reliability and existence of the balance of Property, Plant & Equipment (PPE) net book value of P88.960 million could not be ascertained due to the discrepancy between the acquisition cost recorded in the books and the cost per inventory report in the amount of P116.350 million; c) the existence of the cash in bank amounting to P8.994 million could not be ascertained because no bank record supported the account balance; and d) the Payables/Liability was understated by P1.623 million and Expense as well as Retained Earnings accounts were understated by P0.612 million and P1.011 million respectively, due to non-recording of the cost of audit services covering the CYs 2015 to 2017.

For the above observations, which caused the issuance of a qualified opinion, we recommended to Management the following:

- a. *Reconcile the discrepancies between the general ledger and cash book balances and prepare the necessary adjusting entries. Maintain subsidiary ledger/s to support the balance of cash on hand account;*
- b. *Require the Asset and Property Management Division and the Finance Division to maintain Property Cards and PPE Ledger Cards, respectively, to facilitate reconciliation of recorded PPE pursuant to Section 42, Chapter 10 of the GAM;*
- c. *Identify the cause of the discrepancy between the book and bank balance and effect the necessary adjustments so as to reflect the correct cash in bank account balance; and*
- d. *Record the amount of liability to COA representing unremitted cost of audit services covering the CYs 2015 to 2017.*

E. Significant Audit Observations and Recommendations

In addition to the audit observations which we considered in the rendition of the qualified opinion, presented below are the other significant audit observations and recommendations, which are discussed in detail in Part II of the Report.

1. Our evaluation of the terms and conditions as stated in the Amendments to the Joint Venture Agreement (JVA) entered into by and between IBC- 13 and R-II Builders Inc./Primestate Venture Inc. on March 24, 2010, showed that the joint venture undertaking had been aborted as the transaction between the contracting parties was tantamount to sale of the IBC-13 property, thus the sale transaction was not in accordance with Section 79 of PD 1445 and Section 2 and 3 of EO 888 dated March 18, 1983.

We recommended that Management rescind the JVA amendments which will result in IBC-13 losing its share in the JVA with R-II Builders; cause inclusion of

amendments that will redound to the benefit of IBC-13; submit justification/explanation on why said amendments to JVA; submit the revised/amended JVA for approval by the NEDA and strictly comply with the regulations pertaining to JVA's.

2. Non-remittance of taxes withheld from compensation to the Bureau of Internal Revenue in the amount of P117.356 million.

We recommended that Management strictly comply with the provisions of the National Internal Revenue Code with regard to the filing of returns and remittance of taxes withheld.

3. Non-preparation of IBC 13's Corporate Operating Budget (COB) and non-submission thereof to the Department of Budget and Management (DBM) contrary to Section 3.1 and 6.4 of the Corporate Budget Circular No. 20 dated April 27, 2005, thus the expenditures incurred for CY 2017 in the amount of P217.475 million were not covered by a duly approved budget appropriation thus there was no proper authority to disburse government funds.

We recommended that Management:

- a. *Strictly comply with the requirements provided under Section 3.1 and 6.4 Corporate Budget Circular No. 20 dated April 27, 2005; and*
 - b. *Submit justification on the non-preparation and non-submission of IBC 13 Corporate Operating Budget to DBM.*
4. Non-issuance of Official Receipts (ORs) for the payments of revenues/airtime fees in the total amount of P18.650 million contrary to Section 68 of P.D. No. 1445 and Section 237, Chapter II of the Internal Revenue Code.

We recommended that Management issue official receipts for all collections received in compliance with requirements of the law and regulation.

5. Forty-seven (47) employees of IBC 13 who have reached the compulsory retirement age but were still allowed to continue their services inconsistent with the provisions of the Collective Bargaining Agreement (CBA) entered into by and between IBC 13 Management and the IBC 13 Employees Union which resulted to additional Retirement Benefits/Separation Pay and Retirement Liability of IBC 13 in the amount of P48.002 million.

We recommended that Management:

- a. *Strictly comply with the provisions of CBA; and*
 - b. *Discontinue the granting of retirement benefits/separation pay of the supposed compulsorily retired IBC 13 officials and employees.*
6. Inability to deposit collections in the total amount of P223.918 million with the Authorized Government Depository Bank contrary to Section 3.4 of COA Circular No.

2013-007 dated September 18, 2013, thus exposing government funds to possible risk of loss through theft or misappropriation.

We recommended that Management strictly comply with the provisions of COA Circular No. 2013-007 to deposit daily all collections received with the authorized depository bank.

F. Status of Unsettled Audit Disallowances, Charges and Suspensions

As of December 31, 2017, IBC 13 had unsettled disallowances in the total amount of P383,111.09 which was appealed with the Commission on Audit.

G. Status of Implementation of Prior Years' Audit Recommendations

Of the 11 audit recommendations embodied in the previous years' Annual Audit Report/Management Letter, one (1) was fully implemented, another one (1) was partially implemented and 9 were not implemented.