



REPUBLIC OF THE PHILIPPINES
COMMISSION ON AUDIT
Commonwealth Avenue, Quezon City, Philippines

INDEPENDENT AUDITOR'S REPORT

THE BOARD OF DIRECTORS

People's Television Network, Inc.
Broadcast Complex, Visayas Avenue
Diliman, Quezon City

We have audited the accompanying financial statements of the People's Television Network, Inc., which comprise the statement of financial position as at December 31, 2012, and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with State accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

Basis for Qualified Opinion

As discussed in Part II.A of this report, our audit disclosed the following audit observations which we consider in forming our audit opinion:

- a. The correctness of the balance of the Property, Plant and Equipment (PPE) account amounting to P492.453 million could not be ascertained due to: (a) unreconciled net variance of P192.836 million between the general ledger and the schedule balances; (b) incomplete documents to support the proper recognition of building improvements amounting to P3.000 million; (c) understated acquisition cost of PPE due to the non-recognition of the 12 per cent VAT amounting to P1.878 million; (d) unadjusted balances of Construction in Progress and Items in Transit amounting to P31.230 million; and (e) non-reconciliation of inventory report with the records of Property and Accounting Sections.
- b. The realizable value of Accounts Receivable amounting to P222.443 million was doubtful due to (a) unreconciled balances of the general and subsidiary ledgers, (b) unreliable provision of allowance for doubtful accounts; and (c) negative result of confirmation.
- c. Of the P70.709 million balance of Cash in Bank, the correctness of P12.094 million could not be relied upon due to the inability of Management to submit the December 31, 2012 bank reconciliation statements for PNB accounts and the inclusion in the books of two PNB bank accounts with balances of P2.015 million and (P5.65) million respectively, although said accounts did not exist in the records of the bank.
- d. The validity of the balance of Due from Officers and Employees account (123) in the amount of P14.149 million as of December 31, 2012 was doubtful due to (a) unreconciled general and subsidiary ledger balances; (b) non-preparation of subsidiary ledgers for some accounts contrary to Sections 111 and 112 of P.D. 1445; and (c) non-liquidation of cash advances contrary to the provisions of COA Circular No. 97-002 dated February 10, 1997 and Section 89 of P.D. 1445.

Qualified Opinion

In our opinion, except for the effect on the financial statements of the matters described in the preceding paragraphs, the financial statements present fairly the financial position of the People's Television Network, Inc., as at December 31, 2012, and its financial performance and its cash flows for the year then ended in accordance with State accounting principles.

COMMISSION ON AUDIT



MARISSA FAJARDO-PARIÑAS

OIC-Supervising Auditor

Audit Group H – Development, Media and Other Agencies Group
Cluster 6, Corporate Government Sector

June 18, 2013