PEOPLE'S TELEVISION NETWORK, INC.
ANNUAL AUDIT REPORT FOR CY 2013

EXECUTIVE SUMMARY

Introduction

The People's Television Network, Inc. (PTNI), a corporate body engaged in television broadcasting in the Philippines, came into existence by virtue of Republic Act No. 7306 dated March 26, 1992. Its charter was subsequently amended by Republic Act No. 10390 which was approved by the President on March 14, 2013.

PTNI provides broadcast support to the government by providing a balanced programming of high quality news, public affairs, entertainment, educational, cultural and sports programming, and responding to information needs utilizing its modern broadcast technology. The Network is governed by a Board of Directors, who serves as its policy making body. Its members are appointed by the President of the Philippines and composed of the following:

a. Two members from the Government sector;

b. Two members from the private sector, one of whom shall have at least ten years of experience in the broadcast industry; and

c. One member from the education sector.

The PTNI administration is headed by its General Manager, Mr. Cleo B. Dongga-as.

The Board Members are Mr. Virgilio P. Nadal, Jr., Ms. Veronica B. Jimenez, and Mr. Jan Co T. Chua.

The PTNI has provincial stations and transmitters in Davao, Zamboanga City, Zamboanga del Norte, Pagadian, Palawan, Guimaras, Naga, Cebu, Dumaguete, Samar, Tacloban and Baguio.

As of December 31, 2013, the Network has a total work force of 555 employees consisting of the following:

Permanent	259
Temporary	1
Contractual	23
Contract of Service (Talents)	272
Total	555

Financial Profile

Assets		P 985,284,983
Liabilities		587,324,369
Equity		P 397,960,614

Income		P142,224,751
Subsidy		182,740,980
Expenses		326,638,443
Net Loss		(P 1,672,712)

PTNI's Operational Performance

For CY 2013, the Network undertook various programs and projects as follows:

1. Execution and Implementation of material points embodied in the new PTNI Charter, RA 10390, An Act Revitalizing the People's Television Network, Inc. as follows:

    - Reorganization of the Network
    - Modernization plans – upgrading of the Network's equipment and facilities;

2. Processing and completion of NEDA requirements for the yen loan from Japan through JICA;

3. Strengthening of Provincial Stations;

4. Production of 50 news/features packages sent to Brunei Darussalam and 284 news/feature stories received from the nine member states of the Association of the South East Asian Nations (ASEAN);

5. Coordination of various programs with the Asia-Pacific Broadcasting Union (ABU), Asia-Pacific Institute for Broadcasting Development (AIBD) and Arirang TV;

6. Production and airing of various educational and sports programs and TV specials;

7. Airing of various government agencies' programs; and

8. Coverage of various Presidential press conferences, state visits and other events.

Scope of Audit

The audit covered the operations of the PTNI for CY 2013. The audit involved performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depended on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error.

State Auditor's Report on the Financial Statements

The Auditor rendered a qualified opinion on the fairness of the presentation of the financial statements of the PTNI for the year 2013.

Summary of Significant Audit Observations and Recommendations

Below is a summary of the significant findings and recommendations for CY 2013:

1. The correctness and validity of the net cost of depreciable Property, Plant and Equipment (PPE) amounting to P523.413 million was doubtful due to the (a) unexplained net variance of P227.727 million between the general ledger balance and that of the PPE schedule; (b) unadjusted balances of Construction in Progress and Items in Transit amounting to P31.230 million; (c) absence of property ledger cards; and (d) inability to conduct physical inventory.

   We recommended that Management:

   a) perform a thorough analysis of accounting records to reconcile the balances of the GL and schedule of PPE;

   b) conduct a final inspection of assets constructed and secure all necessary documents to reclassify Construction in Progress and Items in Transit to appropriate accounts;

   c) maintain complete and accurate PPE ledger cards for the Accounting Section and property cards for the Property Section to properly monitor the PPE accounts. Conduct periodic reconciliation to identify and adjust reconciling items. Ensure that the PPE ledger cards are reconciled with the general ledger, schedule of PPE and property cards; and

   d) conduct a physical inventory of all PPE items owned by the Network and reconcile the resulting Physical Inventory Report with the records of the Property and Accounting Sections.

2. The validity of the net realizable value of Accounts Receivable amounting to P172.899 million could not be determined due to the (a) non-reconciliation of general ledger (GL) and subsidiary ledger (SL) balances; (b) unreliable provision of allowance for doubtful accounts (ADA); and (c) presence of dormant accounts.

We recommended that Management:

a) conduct a thorough analysis of Accounts Receivable and reconcile the GL and SL balances; and

b) provide an ADA based on the adjusted and corrected balance of Accounts Receivable.

3. Absence of perfected contracts between the Network and advertising clients for commercial spots and bumpers aired by the Network within its various in-house programs resulted in unbilled sales revenue amounting to P9.410 million and the consequent understatement of Accounts Receivable and Income accounts.

   We recommended that Management:

   a) investigate the airing of commercial spots and bumpers without contracts. If warranted, impose appropriate sanctions to those found liable thereof; and

   b) ensure that all services rendered by the Network, such as the airing of programs, commercial spots and bumpers are supported by contracts to guarantee that clients are properly billed and the income/receivable are accordingly recorded in the books.

4. The correctness of the Cash in Bank balance of P54.224 million was doubtful as results of bank confirmation disclosed a balance of only P49.138 million or a discrepancy of P5.086 million. In addition, there were no monthly Bank Reconciliation Statements (BRS) prepared by Management for most of the accounts contrary to the provisions of Sections 74 and 122 of P.D. 1445.

   We recommended Management to:

   a) submit monthly BRS for all bank accounts pursuant to Sections 74 and 122 of P.D. 1445 and record all adjustments to correct the Cash in Bank balance; and

   b) update the GL balances, book up unrecorded LBP bank accounts and close dormant accounts.

5. GSIS premiums and loan payments deducted from employees' salaries amounting to P25.372 million and P30.433 million respectively, were not fully remitted to GSIS contrary to Sections 13 and 14 of R.A. 8291.

   We recommended that Management remit all compulsory premium contributions and loan payments to GSIS as provided in R.A. 8291.

6. Taxes withheld from suppliers and employees' salaries/compensation totaling P148.729 million remained unremitted to the Bureau of Internal Revenue (BIR).

   We recommended that Management promptly remit taxes withheld to avoid interests and penalties.

7. Several capital outlay projects of the Network totaling P66.506 million either exceeded the corresponding allotment released or not among the projects authorized in the allotment contrary to Section 56 of the General Provisions of the General Appropriations Act (GAA) for CY 2012.

   We recommended that Management:

   a) Ensure that capital expenditures are authorized and within the approved budget; and

   b) Submit approval from the DBM on the realignment of funds for capital outlay.

8. Cash advances granted to officers and employees for official travels and other contingency/incidental expenses amounting to P13.968 million were not liquidated in accordance with Section 89 of P.D. 1445 and COA Circular No. 97-002 dated February 10, 1997.

   We recommended and Management agreed to:

   a) strictly comply with the provisions of COA Circular No. 97-002 and require the concerned personnel to settle/liquidate their cash advances immediately upon serving the purpose and submit valid documents to support the liquidation;

   b) stop granting cash advances to officers and employees with unliquidated/outstanding cash advances; and

   c) regularly monitor and strictly enforce controls in the submission, settlement and liquidation of cash advances.

Status of Unsettled Audit Disallowances, Charges and Suspensions

As of December 31, 2013, disallowances and suspensions amounting to P4.730 million and P23,307 respectively, remained unsettled. Of the total unsettled disallowance, P0.732 million is under appeal with the Commission on Audit.

Status of Implementation of Prior Year's Audit Recommendations

Of the 37 audit recommendations embodied in the previous year's Annual Audit Report, nine were fully implemented, 16 were partially implemented and 12 were not implemented.