

EXECUTIVE SUMMARY

INTRODUCTION

The Cultural Center of the Philippines (Filipino: *Sentrong Pangkulturang Pilipinas*, or CCP) is a Government Owned and Controlled Corporation (GOCC) which was created as an organization in-charge of the preservation and promotion, enhancement and development of Philippine culture.

The Center is located at the CCP Complex, Roxas Boulevard, Pasay City. It provides performance and exhibition venues for various local and international productions. Its artistic programs include the production of performances, festivals, exhibitions, cultural research, outreach, preservation, and publication of materials on Philippine art and culture.

The Center, although an independent corporation of the Philippine government, receives an annual subsidy from the national government and is placed under the National Commission for Culture and the Arts (NCCA) for purposes of policy coordination.

The CCP's Board of Trustees is composed of the following:

Chairman:

Ma. Margarita Moran-Floirendo

Members:

Stanley Botero Seludo
Marivic H. Del Pilar
Michelle Nikki Magbuhat Junia
Nestor Obciana Jardin
Zenaida RustiaTantoco
Mary Rose Magsaysay Crisostomo
Jaime Del Carmen Laya
Baltazar Nacion Endriga

The President and Chief Operating Officer (CEO) is Mr. Arsenio De Jesus Lizaso, assisted by Mr. Chris B. Millado, Vice-President and Artistic Director, and Mr. Rodolfo G. Del Rosario, Vice-President for Administration and Finance.

FINANCIAL HIGHLIGHTS (In Philippine Peso)

I. Comparative Financial Position

	2018	2017	Increase/ (Decrease)
Assets	2,791,492,059	2,681,642,447	109,849,612
Liabilities	364,454,972	319,486,665	44,968,307
Net assets/equity	2,427,037,087	2,362,155,782	64,881,305

Comparative Financial Performance

	2018	2017	Increase/ Decrease
Revenue	238,629,978	208,417,424	30,212,554
Current operating expenses	463,152,255	406,995,847	56,156,408
Surplus/(Deficit) from current operations	(224,522,277)	(198,578,423)	(25,943,854)
Other Non-operating income	1,413,128	12,634,079	(11,220,951)
Gains/(Loss) - net	(1,877,918)	279,615	(1,598,303)
Subsidy from national government	289,868,372	834,421,936	(544,553,564)
Net surplus for the period	64,881,305	648,757,207	(583,875,902)

III. 2018 Budget and Actual Amounts on Comparable Basis

	Corporate Operating Budget	Actual Amounts on Comparable Basis	Savings
Personnel services	215,700,000	187,546,728	28,153,272
Maintenance & other operating expenses	292,746,000	266,251,698	26,494,302
Capital outlay	504,426,000	398,277,000	106,149,000
Prior years' obligation	19,412,000	19,011,748	400,252
	1,032,284,000	871,087,174	161,196,826

SCOPE OF AUDIT

Our audit covered the examination, on a test basis, of the transactions and accounts of CCP for the calendar year (CY) 2018 to enable us to express an opinion on the financial statements for the years ended December 31, 2018 and 2017 in accordance with the International Standards of Supreme Audit Institutions (ISSAIs). It was also conducted at determining the Center's compliance with pertinent laws, rules, and regulations and adherence to prescribed policies and procedures. To a limited extent, the evaluation of the adequacy and effectiveness of systems and procedures of certain aspects of CCP's operations was also undertaken.

INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS

We rendered a qualified opinion on the fairness of presentation of the financial statements of the CCP for the CY 2018 due to following:

1. The Inventories account with year-end balance of P2.484 million as at December 31, 2018 was understated by P23.794 million in view of the practice of recognizing the costs of materials and services for the production/publication of books held for sale under Other Maintenance and Operating Expenses – Others – Trading and Production – Others account instead of as Merchandise Inventory – Items Held for

Sale (MI-IHFS) in conformity with Paragraphs 11 and 44 of Philippine Public Sector Accounting Standard (PPSAS) 12 on Inventories.

2. The faithful representation of the balance of Property, Plant and Equipment (PPE) account with carrying amount of P1,221.669 million as at December 31, 2018 was not established in view of the variances totalling P97.380 million between the balance per books and the Report on the Physical Count of PPE (RPCPPE) and inclusion of land and buildings held for rentals which is not in accordance with the provisions of PPSAS 16. Had the variances been adjusted and the land and buildings held for rentals been reclassified to Investment Property account, the PPE account could have been fairly presented in the financial statements.

SIGNIFICANT AUDIT OBSERVATIONS AND RECOMMENDATIONS

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

- 1.1 Require the Accounting Division to: (a) prepare the necessary adjusting/correcting entries to take up/recognize the production costs of all publications that are held for sale under MI-IHFS account to fairly present the balance of the account in the financial statements; and (b) maintain and update the subsidiary ledgers for MI-IHFS account to support the balance reflected in the financial statements.
- 2.1 Require the Accounting and Property and Supply Divisions to exert all efforts to investigate the variances between the books and the RPCPPE, effect the necessary adjustments in the books of accounts and corrections in the property records, and thereafter, regularly update and reconcile both records to prevent occurrence of substantial variances.
- 2.2 Instruct the Accounting Division and the Asset Management Division/Maintenance and Engineering Services Division to determine the cause(s) of the variances on the Land account and effect necessary corrections on their records.
- 2.3 Require the Accounting Division to always maintain detailed and updated subsidiary ledgers/PPE Ledger Cards for all PPE items to facilitate the preparation and submission of the schedules and validation thereof.
- 2.4 Determine the value of the lands and buildings being leased/rented out and direct the Accounting Division to reclassify these lands and buildings from PPE account to Investment Property account in accordance with PPSAS 16 and provide adequate disclosures on Investment Property in the Notes to Financial Statements.

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

3. The yearly rental income/lease revenue from contracts of lease entered into by and between the CCP and various lessees with provisions for rate escalation during the lease term was not recognized in the books on straight line basis over the lease term, contrary to Paragraph 63 of PPSAS 13 on Leases, and resulted in the

understatement of rental income/lease revenue aggregating P3.629 million as at December 31, 2018.

3.1 We recommended that Management:

- a. Recognize rental income/lease revenue from contracts of lease entered into by and between the CCP and various lessees with provisions for rate escalation on straight line basis over the lease term pursuant to Paragraph 63 of PPSAS 13; and
 - b. Make necessary adjustments to correct the CY 2018 rental income recorded in the books for the seven sampled contracts and submit to the Office of the Auditor the Journal Entry Voucher pertaining thereto for validation purposes.
4. Copies of various contracts and their supporting documents entered into by and between the CCP with various contractors/consultants/suppliers/ lessees/service providers were not submitted to the Office of the Auditor within five (5) working days from their execution, contrary to Section 3.1.1 of COA Circular No. 2009-001 dated February 12, 2009 and precluded the Audit Team from conducting timely review and evaluation thereof and immediately communicating the deficiencies, if any, to Management for its appropriate action. Likewise, the contracts for several projects that were reported either ongoing or completed were not submitted as of December 31, 2018. Moreover, several deficiencies were noted in the review of contracts, among others: (a) incomplete or lacking of the required supporting documents; and (b) inconsistencies in the provisions of the contract.

4.1 We recommended that Management:

- a. Strictly comply with Section 3.1.1 of COA Circular No. 2009-001 by furnishing copies of all contracts and their supporting documents to the Audit Team within five (5) working days from execution thereof, and require the concerned Division to provide the Audit Team with copies of the seven (7) contracts for on-going and already completed projects that remained unsubmitted as of December 31, 2018;
- b. Cause the submission of the lacking supporting documents of the contracts on procurement of infrastructure projects/goods and services as well as the revenue generating contracts, for audit purposes, and henceforth, strictly comply with the provisions of pertinent COA Circulars;
- c. Instruct the concerned Division to submit to the Audit Team the:
 - c.1 Notarized Letter of Agreement (LOA) for the contract for Rehabilitation of Green Room and VIP Lounge at CCP Main Building and provide justification as to why posting of performance security was not among the provisions of the LOA; and
 - c.2 Notice of Award (NOA) bearing the winning bidder signature in the conforme portion for the contract of Supply of Labor and Materials for the Construction of 34.5 KV Underground Service Entrance for the New

Power House and CCP Main Building;

- d. As sound industry practice, ensure that the provision on the advance rental and deposit is embedded in all lease contracts entered into by and between the CCP and the lessees; and
 - e. Require the Division in-charge in the drafting, review and finalization of the contracts to exercise prudence to avoid inconsistencies in the provisions of the contract which may give rise to any disputes in the future.
5. There were 13,444 copies amounting to P8.499 million as of December 31, 2018 of various books/items produced/published/procured by the CCP aged more than five (5) years from the year of production/procurement which remained unsold, undisposed, and some were already obsolete or damaged. Thus, an indication of over production/procurement due to inadequate planning and non-monitoring of inventories, which resulted in wastage of government resources, contrary to Section 2 of Presidential Decree (PD) No. 1445.
- 5.1 We recommended that Management:
- a. Adequately/properly plan the quantity of each publication or inventory to be produced/procured to avoid over production/ excessive publication and obsolescence;
 - b. Consider the disposal of the 13,444 copies of books/items produced/published/procured, aged more than five years from the year of production/procurement, through public auction or donation to schools and other government entities in accordance with existing rules and regulations; and
 - c. Henceforth, regularly monitor the inventories held for sale from date of publication/procurement until sold or disposed, to facilitate creation of historical data as reference/guide in effective planning.

SUMMARY OF AUDIT SUSPENSIONS, CHARGES AND DISALLOWANCES

There were no unsettled audit suspension, disallowance and charges as of December 31, 2018. The disallowances in previous years totaling P85,960.67 were settled during the year, details are presented in Table 16, Part II of this Report.

STATUS OF IMPLEMENTATION OF PRIOR YEAR'S AUDIT RECOMMENDATIONS

Of the twenty three (23) audit recommendations embodied in the prior year's Annual Audit Report (AAR), eleven (11) were fully implemented, five (5) were partially implemented and seven (7) are not implemented.