

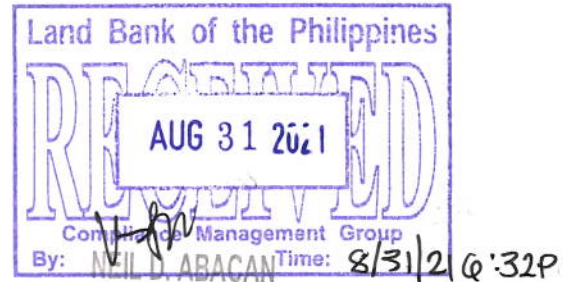


Republic of the Philippines
COMMISSION ON AUDIT
Commonwealth Avenue, Quezon City, Philippines
CORPORATE GOVERNMENT SECTOR
Cluster 1 –Banking and Credit

August 31, 2021

THE BOARD OF DIRECTORS

Land Bank of the Philippines
Manila



Gentlemen:

Pursuant to Section 2, Article IX-D of the Philippine Constitution and Section 43 of Presidential Decree No. 1445, otherwise known as the Government Auditing Code of the Philippines, we transmit herewith the Auditor's report on the results of audit of the accounts and transactions of the Land Bank of the Philippines (LBP) for the years ended December 31, 2020 and 2019.

The report consists of the Independent Auditor's Report, Audited Financial Statements, Observations and Recommendations, and the Status of Implementation of Prior Year's Audit Recommendations.

The Auditor rendered an unmodified opinion on the fairness of presentation of the financial statements of LBP for the years ended December 31, 2020 and 2019.

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

1. Reconciling items from the Inter-Branch Transactions Online System (IBTOLS) batch processing errors with a net amount of P740.768 million were temporarily closed to Accounts Payable, hence, understating the balance of the account by the same amount and overstating/understating the balances of other related accounts by undetermined amounts in the financial statements as at December 31, 2020.

We recommended and Management agreed to: a) Require the Administration Accounting Department (AAD) in coordination with Enterprise System Department and other booking units to identify the transactions affected by the batch processing errors; and b) Accordingly, prepare the adjusting entries to close the reconciling items to the proper accounts.

2. LBP does not have written criteria, parameters and policy guidelines on the application of "matched deal close out" method for the selection of the book value from a group of similar financial assets used as basis in the computation of realized and unrealized gains and losses from the part derecognized and the remaining part that continues to be recognized in investments in debt securities. Hence, consistency of application of the method used was not established, while the faithful representation of the balances of Gain or Loss from sale of non-trading Financial Assets and Net Unrealized Gain or Loss accounts of P1.789 billion and P14.274 billion, respectively, as at December 31, 2020 were also not ascertained.

We recommended that Management consider the inclusion in the LBP's Operations Manual specific criteria, parameters, and policy guidelines in applying the selection from among similar deal transactions with the corresponding book value as basis in the computation of the gain or loss for the part to be derecognized and the remaining part continued to be recognized in investments in debt securities for a more transparent and consistent application.

3. The balance of Salary Based General Consumption Loan (SLR) account in the Financial Management System-General Ledger (FMS-GL) and Subsidiary Ledger (SL) showed an unreconciled difference amounting to P497.324 million, hence, the faithful representation of the balance of the account amounting to P2.596 billion and balances of other related accounts as at December 31, 2020 were not ascertained.

We recommended Management to: a) Require the concerned National Capital Region Branches to: 1) Reconcile the variance in the current and past due balances of SLR between the General Ledger (GL) and SL and record the necessary adjusting entries for faithful representation of the balances of affected accounts in the financial statements; and 2) Strictly comply with the policies and procedures for Electronic Salary Loan (eSL) Migration activities issued by Systems Implementation Department (SID) to ensure that the generated reports from eSL are correct, valid, protected, and conforming with the FMS-GL balance; b) Require the Overseas Filipino Bank, Inc. to submit all the loan folders of past due loans transferred to LBP; and c) Require SID to fast track the system enhancement to resolve the misclassification of loan account status.

4. The intra-group receivables and payables accounts showed a balance of P122.338 million and P251.132 million, respectively, as at December 31, 2020, representing unreconciled variances between the books of LBP and its subsidiaries, contrary to Philippine Accounting Standard (PAS) 1 and Philippine Financial Reporting Standard (PFRS) 10.

We recommended that Management: a) Require the Financial Accounting Department to coordinate with concerned units and subsidiaries to reconcile the variances in the intra-group balances of receivables and payables and accordingly undertake elimination procedures in accordance with PFRS 10 and PAS 1; and b) Require the AAD and other concerned booking units to prepare the necessary adjusting entries to correct the intra-group balances of receivables and payables as at December 31, 2020.

5. The transfer of ownership on equity shares of the Northern Foods Corporation (NFC) with cost of P84.905 million from National Livelihood Development Corporation pursuant to Section 2 of Memorandum Order (MO) No. 85, series of 2015, was not undertaken, thus, the equity investment in NFC together with the corresponding Allowance for credit losses of the same amount were not recognized in the books of the Bank, and the required disclosure of the investment in NFC was not provided in the Notes to the Financial Statements as at December 31, 2020, contrary to PAS 27, PAS 36 and PFRS 12.

We recommended that Management: a) Coordinate with the Governance Commission for GOCCs, Bangko Sentral ng Pilipinas and Department of Finance for the transfer of ownership on the equity shares of NFC to LBP pursuant to MO No. 85; b) Recognize the correct cost of equity investment in NFC and the corresponding allowance for credit losses in the LBP books; and c) Provide sufficient and required disclosures in the Notes to financial statements.

The audit observations together with the recommended courses of action, which were discussed by the Audit Team with concerned Management officials and staff during the exit conference conducted on August 3, 2021, are presented in detail in Part II of the report.

In a letter of even date, we requested the President and CEO of LBP that the recommendations contained in Parts II and III of the report be implemented and that this Commission be informed of the actions taken thereon by submitting the Agency Action Plan and Status of Implementation within 60 days from date of receipt.

We acknowledge the support and cooperation that Management extended to the Audit Team, thus facilitating the completion of the report.

Very truly yours,

COMMISSION ON AUDIT

By:



ADELA L. DONDONILLA
Director IV
Cluster Director

Copy Furnished:

The President of the Philippines
The Vice President
The President of the Senate
The Speaker of the House of Representatives
The Chairperson – Senate Finance Committee

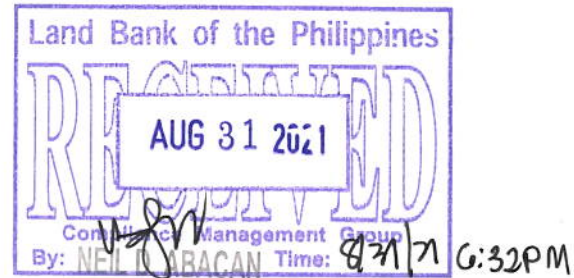
The Chairperson – Appropriations Committee
The Secretary of the Department of Budget and Management
The Governance Commission of Government-Owned or Controlled Corporation
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CORPORATE GOVERNMENT SECTOR
Cluster 1 –Banking and Credit

August 31, 2021

Ms. CECILIA C. BORROMELO
President and CEO
Land Bank of the Philippines
Manila



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