### **OBSERVATIONS AND RECOMMENDATIONS**

1. **FINANCIAL ISSUES**
2. **Unreconciled intragroup receivable and payable accounts, amounting to P7.069 million and P70.346 million, respectively, were not fully eliminated in the Bank’s consolidated financial statements as at December 31, 2022, contrary to paragraph 10 of PAS 1 and Item c of paragraph B86 of the Application Guidance of the PFRS 10; thus affecting the fair presentation of the balances of accounts in the financial statements.**
   1. Paragraph 15 of Philippine Accounting Standards 1 provides that:

*Financial statements shall present fairly the financial position, financial performance and cash flows of an entity. Fair presentation requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expense set out in the Framework.*

* 1. Item c of paragraph B86 of the Application Guidance of the Philippine Financial Reporting Standard (PFRS) 10, on consolidated financial statements, provides:

*Eliminate in full intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between entities of the group (profits or losses resulting from intragroup transactions that are recognised in assets, such as inventory and fixed assets, are eliminated in full). x x x*

* 1. The intragroup assets consist of Accounts Receivable (AR), Accrued Interest Receivable, Miscellaneous Asset-Others, Contracts Receivable (CR), Retention Receivable (RR) and Loans/Lease Receivable, while the intragroup liabilities consist of Accounts Payable (A/P), Accrued & Other Expense Payable (AOEP), Finance Lease Payable, Deposit on Lease Contracts, Miscellaneous Liabilities, Bills Payable, Accrued Interest Payable, Other Deposits, Advances from Clients, and Retention Payable in either LBP or subsidiaries’ books of accounts.
  2. In the preparation of consolidated financial statements (FS), the balance of each account of the LBP and its subsidiaries are summed up line by line and thereafter the account balances and transactions are eliminated to come up with the consolidated FS of the LBP Group.
  3. Verification of the balances of receivables and payables from/to subsidiaries in the LBP books against the corresponding payables and receivables to/from LPB in subsidiaries books disclosed unreconciled variances amounting to P7,069,412.26 receivables from and P70,345,520.68 payables to subsidiaries, respectively, which were not fully eliminated in the consolidated FS as at December 31, 2022. Details as follows:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | **Subsidiaries** | **Receivable from Subsidiary (LBP Book)** | **Payable to LBP (Subsidiary Book)** | **Variance (actual value)** | **Variance (in absolute value)** |
| 1 | LBRDC | 44,035,836.89 | 44,080,799.08 | (44,962.19) | 44,962.19 |
| 2 | LLFC | 17,268,065.23 | 16,193,390.01 | 1,074,675.22 | 1,074,675.22 |
| 3 | OFB | 93,872,554.46 | 88,510,651.09 | 5,361,903.37 | 5,949,774.85 |
|  | **Total** | **155,176,456.58** | **148,784,840.18** | **6,391,616.40** | **7,069,412.26** |
|  |  |  |  |  |  |
|  | **Subsidiaries** | **Payable to Subsidiary (LBP Book)** | **Receivable from LBP (Subsidiary Book)** | **Variance (actual value)** | **Variance (in absolute value)** |
| 1 | LBRDC | 328,045,489.49 | 346,942,125.28 | (18,896,635.79) | 18,896,635.79 |
| 2 | LLFC | 789,413,041.58 | 737,964,156.69 | 51,448,884.89 | 51,448,884.89 |
|  | **Total** | **1,117,458,531.07** | **1,084,906,281.97** | **32,552,249.10** | **70,345,520.68** |

* 1. Management informed that a memorandum dated December 12, 2022 concerning the setting up of accruals on LBP subsidiaries billings on a monthly basis was issued to all units. Other than this advisory, there were no other written guidelines to be followed for consistency of application and compliance on reconciliation of intragroup receivables and payables within specified timelines by the parent and the subsidiaries.
  2. The receivable from OFB of P5,949,774.85 are still undergoing reconciliation, while P1,119,637.41 from LBP Resources and Development Corporation (LBRDC) and LBP Leasing and Finance Corporation (LLFC) relates to the difference in accounting between parent and subsidiary, adjustments made by the parent that were not recorded in the subsidiary books. The total P70,345,520.68 payables to LBRDC and LLFC, on the other hand, all remain unreconciled.
  3. These unreconciled variances in the intragroup receivables and payables accounts between LBP and three (3) subsidiaries amounting to P7.069 million and P70.346 million, respectively, as at December 31, 2022, which were not fully eliminated in the consolidation affected the faithful representation of the account balances in the consolidated FS of the LBP group, contrary to PAS 1 and PFRS 10.
  4. **We recommended and Management agreed to:**

1. **Continue to establish within specified timelines the balances of receivables from and payables to the subsidiaries by various concerned LBP departments/units to reconcile the variances as at December 31, 2022, and to ensure full elimination of intragroup accounts in the next consolidated financial statements; and**
2. **Formulate and faithfully comply with the guidelines on the periodic reconciliation of intragroup receivables and payables with the subsidiaries, to include the matter also on the exchanges between LBP and its subsidiaries of summary of transactions and supporting documents within specific timelines, to determine a common ground for the booking of the transactions.**
   1. The FAD added that, to facilitate the resolution of the noted observations, the processing and payment of the Outsourced Manpower Services and Leased Vehicles at Head Office shall be centralized through the issuance of E.O 013 s. of 2023 re: Implementing Guidelines on the Management of Leased Vehicles and Manpower Services with Third-Party Service Providers. With the implementation of the said EO effective April 3, 2023, prospectively, Management assured that the reconciling items of the related party transactions covered by the guidelines shall be lessened if not totally eliminated.
   2. The FAD also committed to initiate the drafting of Guidelines on Accounting for Intragroup Accounts in coordination with all concerned units/departments/related third parties (SMD/Proponent Units). The target date to complete the guidelines will be within 2nd quarter of CY 2024. It will also reiterate the full compliance of the advisory dated December 12, 2022; and continue the reconciliation activity until all the reconciling items are identified and necessary adjustments are effected in the books.
3. **Pre-merger/merger inventory and validations of loan records and accountabilities turned over by UCPB, and verification/ confirmation of the existence of subsidiary ledger (SL) items were not yet completed as at year-end by LBP, contrary to LBP EO Nos. 104 and 109, thus, affecting the faithful representation of the transferred UCPB loans and receivable balances of P92.486 billion and other related accounts in the financial statements as at December 31, 2022.**
   1. Paragraph 2.12 of the Conceptual Framework for Financial Reporting provides:

*2.12 Financial reports represent economic phenomena in words and numbers. To be useful, financial information must not only represent relevant phenomena, but it must also faithfully represent the substance of the phenomena that it purports to represent. In many circumstances, the substance of an economic phenomenon and its legal form are the same. If they are not the same, providing information only about the legal form would not faithfully represent the economic phenomenon*

* 1. Moreover, paragraph 45 of PFRS 3 provides that states:

*“If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the acquirer shall report in its financial statements provisional amounts for the items for which the accounting is incomplete. During the measurement period, the acquirer shall retrospectively adjust the provisional amounts recognised at the acquisition date to reflect new information obtained about facts and circumstances that existed as of the acquisition date and, if known, would have affected the measurement of the amounts recognized as of that date. During the measurement period, the acquirer shall also recognise additional assets or liabilities if new information is obtained about facts and circumstances that existed as of the acquisition date and, if known, would have resulted in the recognition of those assets and liabilities as of that date. The measurement period ends as soon as the acquirer receives the information it was seeking about facts and circumstances that existed as of the acquisition date or learns that more information is not obtainable. However, the measurement period shall not exceed one year from the acquisition date.”*

* 1. Pursuant to Executive Order No. 142, dated 25 June 2021, President Rodrigo Duterte signed and approved the merger between Land Bank of the Philippines (LBP) and United Coconut Planters Bank (UCPB).
  2. The merger took effect on 01 March 2022, with the LBP as the surviving entity, hence, UCPB was dissolved, and its assets and liabilities were transferred to LBP.
  3. LBP EO Nos. 104 and 109, series of 2021, both dated 17 December 2021, were issued to ensure a smooth implementation in the transfer of books of UCPB to LBP and provide uniform procedures in the turnover of documents and accountabilities of UCPB personnel to LBP.
  4. In particular, Items B, C, and D of LBP EO No. 104, series of 2021, Guidelines on the Transfer and Booking of Assets and Liabilities and Turnover of Documents and Records of the UCPB to LBP pursuant to the merger, provided that *all LANDBANK units shall ensure that* ***turnover of accountabilities, documents and records are conducted, and the existence of Subsidiary Ledger (SL) items are verified and confirmed before and/or during the merger****.*
  5. For the pre-merger activities, LBP EO 104 prescribes, among others, that:

1. *A Masterlist of Documents and Records (Exhibit 1) shall be prepared as basis for the turnover and inventory-taking of UCPB’s documents and records. Turnover shall be performed before the merger.*
2. ***Reconciliation of the GL and the accounting/verification of SL accounts/items shall likewise, be performed before the legal merger****.*
3. *FAD shall provide the business and booking units with Schedule of the GL and/or SL accounts from the UCPB as basis for the confirmation of the existence of SL items.*
4. ***Absorbing units, in coordination with the concerned booking units, shall conduct inventory of SL items and establish validity and existence of each item****. Temporary GL accounts (e.g., COCI, Accounts Receivable and Payable, Sundry Debit/Credit, Due From/To) shall likewise be given attention in the validation.*
5. *UCPB accountable personnel shall be identified for any discrepancies noted during the inventory.*
6. ***Any unaccounted items shall be resolved by the UCPB and adjusted in the GL before the merger, if warranted****.*
7. *SL discrepancies, lacking documents and records should be properly noted by LANDBANK and conformed to by UCPB.* ***Any discrepancy not noted during the turnover shall be the responsibility of the absorbing/accepting LANDBANK Unit/s.***
   1. For guidance during the actual merger and migration, LBP EO 104 mandated, among others, that:

*Matching of the GL and SL balances shall be performed by the booking units to account for any discrepancies during the merger. GL and SL balances and discrepancies noted, if any, shall be endorsed to the concerned absorbing unit for validation, reconciliation and monitoring.*

*Balance Sheet accounts after the merger shall continue to be validated, reconciled and monitored regardless of systems used including the identification and resolution of discrepancies. GL adjustments shall be approved in accordance with CASA.*

* 1. Further, Items 2, 4, and 9 of Section C, General Guidelines of LBP EO No. 109 series of 2021, Guidelines on the Migration of the UCPB loan portfolio to Landbank- NDLS provide the following, among others:

*Lending Support Department (LSD) shall (a) determine the manpower requirement per Lending Unit (LU) based on the portfolio to be transferred from the UCPB and existing staffing parameters of the ADLS and (b) closely coordinate with the Personnel Administration Department (PAD) for the immediate hiring of required manpower resources. Deployment of seconded personnel to the UCPB shall likewise be determined and communicated with PAD.*

* 1. LBP EO 109 also emphasized conduct of inventory and complete turnover of documents, to wit:
  2. *The following shall be requested from the UCPB to submit and execute prior to the merger:*

*1) Account Documentation Checklist for all accounts*

*2) Account/Executive Brief for corporate accounts*

*3) Loan boxes for turnover based on the loan distribution list provided by LANDBANK, properly labelled and documented as prescribed by the MTF*

* 1. *Conduct of inventory of the following documents shall be performed by the MTF before the legal merger:*

*1) UCPB credit, loan documents and collateral and security folders*

*2) Post Dated Checks (PDCs)*

* 1. *Upon turnover, the MTF shall ensure that the following documents are complete:*

*1) Credit Folders – containing the following:*

*a) Borrower Information*

*b) Credit Approval related documents*

1. *Loan Document Folders – containing the required documents for the working file prepared and filed as prescribed by LANDBANK*

*3) Collateral/Security Folders - containing, among others, the following:*

*a) Collateral Documents – Transfer Certificate of Title (TCT), Condominium Certificate of Title (CTC), Motor Vehicle Official Receipt and/or Certificate of Registration (MV OR/CR), etc.*

*b) Promissory Notes (PNs) and Disclosure statements*

*c) Collateral - related documents, e.g., Real Estate Mortgage, Chattel Mortgage, Deed of Assignment, etc.*

*d) List of Post-Dated Checks (PDCs) surrendered to Loan Operations Management Department (LOMD) for loan payments*

* 1. *The transfer/turnover shall be conformed to by both UCPB and LANDBANK parties.*
  2. *All discrepancies/ lacking documents should be properly noted by LANDBANK and conformed to by UCPB.*
  3. *Turned over documents/loan boxes (sealed as prescribed) shall either be physically transferred to the LANDBANK office/s as determined by the ADLS Units or retained at the UCPB offices (e.g., Vehicle, Real Estate and Personal Loan documents). Should the documents be retained at the UCPB office, ADLS shall deploy a LANDBANK personnel to monitor the incoming/outgoing of loan folders while the security folders and collaterals shall be turned over to LOMD for custody/safekeeping.*

*g. Upon receipt by the MTF of loan documents from UCPB, same shall be distributed as follows:*

*1) If the receiving LU/Lending Center (LC) is also part of the MTF that conducted the inventory and turnover from UCPB, loan documents of a particular account shall be directly turned over by the MTF (LU/LC Head) to the handling team*

*2) If the receiving LU/LC is not part of the MTF, the receiving LU/LC Head and MTF shall mutually agree on the mode of physical transfer/turnover whether for pick up at receiving LU/LC's office or for delivery to the office at the final receiving LU/LC*

* 1. On booking of transferred loan accounts, LBP EO 109 stated:

* + - * 1. *LSD shall provide LOMD and ITD (for trade transactions) with a copy of the duly received transmittal documents/list from UCPB as reference in the booking of transaction.*
        2. *Prior to booking, the balances per UCPB summary shall be validated/ tallied against the balances per:*

*1) Subsidiary and General ledgers of UCPB*

*2) Discrepancies on booked balances shall be noted by LANDBANK and conformed to by UCPB.*

* + - * 1. *Upon transfer, any discrepancies noted during the validation shall be reconciled, in coordination with the booking units and reported to the concerned Group Head and Operations Sector Head on a weekly basis until resolution. Adjustments, if any, shall be made accordingly subject to approval per CASA.*
  1. For its accounting on the acquisition of the UCPB as a subsidiary, the Bank considered PFRS 3 – Business combinations and disclosed in its CY 2021 FS, in Note 2.3, Basis of Consolidation, that the Parent classify/designate the identifiable assets acquired and liabilities assumed as necessary on the basis of the contractual terms, economic conditions, its operating or accounting policies and other pertinent conditions as they exist at the acquisition date. It was further disclosed that the Parent measures the identifiable assets acquired and liabilities assumed at provisional amounts. X x x After the acquisition date, the Parent shall reflect adjustments to the provisional amount should there be new information obtained about facts and circumstances that existed as of the acquisition date, if known, would have affected the measurement of the amounts recognized as of that date. The Parent is still in the process of determining the fair values of UCPB’s net identifiable assets and liabilities and the total/acquisition/transaction related costs as of the acquisition date.
  2. Based on documents, March 1, 2022 was the date of the legal merger of LBP and UCPB. The PFRS 3 defines the acquisition date as the date the acquirer obtains control of the acquiree. For purposes of reckoning the start of the measurement period, the acquisition date was 01 March 2022, when legal merger between UCPB and LBP took effect which resulted in UCPB ceasing its operations and combining its net assets to Parent. Measurement period is, therefore, until March 2023, or one year after the acquisition date. All activities related to the measurement period, conducted subsequent to the reporting date as at December 31, 2022 to March 31, 2023 are also subject to Philippine Accounting Standards (PAS) 10, Events After Reporting Period, which contains *requirements* for when *events after* the end of the *reporting period* should be adjusted to or disclosed in the financial statements.
  3. On March 1, 2022, LBP used the provisional amounts allowed in PFRS 3 – Business Combination. The FAD booked the UCPB Assets and Liabilities accounts, including the Loans and Receivable of P146,503,102,627.78, as provisional amount based on the UCPB Trial Balance as of February 28, 2022. Of the amount transferred, P92,485,800,679.79 is outstanding as at 31 December 2022. On inquiry whether there have been adjustments to the provisional amounts initially recognized, the FAD of LBP responded that after the validations (as to existence and accuracy) were performed by the absorbing units during the pre-merger activities and revalidations undertaken during the actual turnover of accounts and transfer of the General Ledger (GL) balances to the respective booking units, no adjusting entry as a result of those validations has been recorded.
  4. The Loan Operations Management Department (LOMD) and FAD averred that the Loans Receivable balance amounting to P146,503,102,627.78 as of March 01, 2022 pertains to gross amount of loans, with net outstanding balance amounting to P136,963,676,057.85 which is reconciled with the total SL balance. They provided the revised summary of accounting entry which according to them includes historical adjustments on March 1, 2022, and correction of balances due to misclassification of accounts in the manual journal entry. We were not, however, able to verify the historical adjustments made on March 1, 2022, as well as the said correction of balances, as no additional documents on its details were provided to support the summary of accounting entry. That summary only showed selected financial statement accounts, including Loan Receivables, showing total adjustments per account and the balances before and after the adjustments. The LOMD confirmed that the booking of Loans and Receivable was limited to the General Ledger and SL or the SIBS, a loan system used by the UCPB. According to the Migration Task Force (MTF), they could not determine if there was any discrepancy between loan folder and the GL/SL, since they did not have access to the SIBS. They further averred that the transmittal sheet provided by the Lending Support Department (LSD) of the UCPB has no information regarding loan balances.
  5. Moreover, the audit team looked into the status of the completion of the required Inventory of credit/loan records by UCPB and LBP, validation of SL items, reconciliation, identification and resolution of discrepancies, which are required merger activities under LBP EO Nos. 104 and 109 and necessary to support existence and completeness of the reported loan balances transferred from UCPB to LBP.
  6. For sampled 82 borrowers, the following documents were requested for the validation of the inventory and turnover of loan documents by UCPB and validated for completeness by LBP:

a. Account Documentation Checklist (ADC) per borrower

b. Account/ Executive Brief per corporate account

c. Documents for turnover checklist

* 1. In a meeting held on March 30, 2023 with Lending Units, LOMD and Loan Recovery Department (LRD), it was informed that the requested documents could not be provided and disclosed what actually transpired during the transfer of documents and booking of transactions. In response, the audit team requested submission not later than April 14, 2023 of alternative documents to support conduct of inventory and turnover of loan documents. On May 30, 2023, Management provided via email file folder containing ADCs, listings of legal, loan and collateral documents of eight (8) borrowers. The audit team returned submissions with audit comments citing requested submissions were incomplete, documents not signed, documents without details, documents which could not be traced to a particular borrower, turnover documents not duly signed by the preparer and not duly acknowledged by the receiver.
  2. The audit team could not rely on the submissions made and it only established the information we gathered during the meeting of March 30, 2023, that LBP and UCBP personnel were not able to adhere to the procedures outlined in LBP EO 109 and that the UCPB employees responsible for preparing the inventory and turnover of documents did not prepare the checklist and did not thoroughly verify the turned over documents due to the high volume of work and mass resignation or transfer of personnel during the merging process.
  3. One of the causes cited also for the non-conduct of inventory and turnover was the change in Management directive implemented, requiring all occupants to vacate the former UCPB Makati Office immediately after the merger, due to the approved sale of property to Securities and Exchange Commission (SEC). It has been stated that the Makati Office was being considered by the Bank as a potential alternative site for conducting its banking and other operations in the area. Therefore, it was necessary to accelerate the transfer of all UCPB documents, office equipment, and other fixed assets, including personnel.
  4. The audit team was also apprised that all the UCPB loan folders were safe kept by the Lending Operations Department (LOD) of UCPB, the counterpart of LOMD in LBP, and that no turnover of documents was performed since the employees of the LOD were transferred to the LOMD. LBP retained all the employees of LOD, however, most of the LOD employees eventually resigned for reasons which, according to them, were due to the high volume of workload at LBP, among others.
  5. It was also informed that the loan folders safe kept by LOD were immediately transmitted to the corresponding Lending Centers/Units or departments based on the location or type of the loan determined by the Lending Support Department (LSD). The transfer of documents took place one month before the effectivity of the merger on March 1, 2022. Management, however, disclosed that due to the immediate transmittal, and the volume of UCPB accounts, not all folders were checked. They averred that even for the folders that were checked, there was insufficient time to inspect if any of the documents were missing and that, even if the AO identified missing documents, the unlocated document could not be retrieved since most of the employees of UCPB who handled the folders had resigned. The AOs also mentioned that handling the UCPB borrowers/accounts was an additional assignment to their existing job responsibilities. It was further disclosed that there was an agreement between LBP and UCPB, that Account Officers (AOs) would only contact UCPB borrowers or ask for any documents if the borrower was due for loan restructuring or renewal.
  6. On July 10, 2023, LSD submitted additional comments highlighting the hurdles encountered, and we quote:

1. UCPB utilized the Consumer Loan Origination System (CLOS) in packaging housing and auto loans. Retention period of files in the CLOS is only five (5) years. Information/files of the loans packaged via the CLOS from 2018 and earlier were already corrupted, hence, can no longer be inventoried. These involves 24,828 housing and 36,692 auto loans.
2. CLOS was not adopted by LBP and opted to use its own Loan Origination System (LOS).

c. While UCPB turned over scanned loan documents, these are not easily accessible since these were stored in the Network Access System (NAS). Though arranged alphabetically, finding a single account will take forever considering that the System is very, very slow. To individually search each of the supposed 78,014 accounts in the NAS will take so many man-days, thus, affecting servicing of their regular accounts/day to day functions.

d. It would have been helpful if these were stored/arranged based on the Lending/Booking Unit. That way, the scanned documents can easily be downloaded to the respective Lending Units.

e. CLMU do not keep copies of loan documents. These are just extracted from the UCPB’s systems, (i.e., BDS, CLOS, LNU) when necessary.

* 1. On a test basis, the loan documents were verified through the CLOS and the NAS, and found that UCPB loan documents, in the system, and in physical loan folders, were not organized to ascertain completeness and facilitate ease of verification. Thus, the completeness, or at least sufficiency of the supporting documents cannot be relied upon.
  2. Using the same 82 sample borrowers, the existence and completeness of SL items were validated. Management informed that, to establish existence, they rely on the information in the SIBS-SL, and the collections of the borrowers based on the history payments of the borrowers in SIBS-SL. It was requested that SL items be traced to Promissory Notes (PNs) using PN number which serves as the sole link between the SIBS-SL and the loan documents. Out of 82 borrowers, only seven (7) were not provided with PNs or PNs cannot be located.
  3. In the March 30, 2023 meeting, it was also gathered that, in compliance with LBP EO No. 109, LSD determined the workforce requirement per Lending Unit (LU); however, many of the transferred UCPB employees resigned due to various issues such as civil service eligibility, salary, and workload at LBP. Moreover, request for additional staff to fill the gap was made but was not granted due to reasons that have not been disclosed to the audit team.
  4. On July 5, 2023, LOMD informed that the concern for manpower requirement has been referred to Personnel Administration Department (PAD) for appropriate action. Although initially, there were 116 personnel hired as Directly Hired Contractual (DHCs) from former UCPB for the transition process, these were not sufficient to handle the volume of loan accounts transferred to LBP after the merger, considering the day-to-day process and concerns of then UCPB clients. As of 30 June 2023, the number of DHCs assigned at LOMD were reduced to 106 due to resignations and transfers to other Bank Units. As of July 6, 2023, 62 have already resigned. Though continuous hiring of their replacement is in process, the same will take some time as they will still subject to the usual hiring procedures of PAD.
  5. Inquiry about the subsequent and/or alternative actions taken by the Bank to ensure that loans transferred from the UCPB and recorded in the books of Landbank are existing and complete as of reporting date December 31, 2022, disclosed the following:

1. Coordination with handling Account Officers/Lending Units concerned for the transferred accounts is *still ongoing* to ensure the complete turnover of loan documents.
2. The physical inventory of collaterals/security is currently being conducted. The inventory is being carried out by former UCPB personnel who were hired under the Merger Business Continuity Team (MBCT) of LBP. As of May 15, 2023, of the 40,436 collaterals for inventory, 19,162 or 47.39% were validated and 21,274 or 52.61% remaining were yet to be validated for inventory.
3. Coordination of LOMD- Head Office & Loan Operations Field Units (LOFU) with the Lending Support Department (LSD) and Lending Units (LUs) for the reconciliation of transferred accounts to LUs of Head Office and Provinces and Asset Recovery Group Units- LRD and SPAD is still ongoing.

d. Considering the magnitude of UCPB loan accounts transferred to LBP LOMD, increasing the workload by more than 77,000 accounts with Loan Portfolio of P140 billion and only 116 UCPB employees hired, LOMD may not be able to comply within the set timeline for the complete physical inventory and reconciliation of accounts due to the limited manpower of the Department. As of May 31, 2023, the number of employed UCPB employees was reduced to 106.

* 1. Based on the abovementioned information, it was established that Management was not able to complete the inventory and validations of turned over loan documents and accountabilities during the merger and within the measurement period which ended 1 March 2023. Non-compliance with the requirements of the pre-merger, merger, and migration guidelines precluded Management from establishing existence and completeness of the loan balances. Further, provisional amounts at acquisition date were not retrospectively adjusted to reflect any new information that would have been known if inventory, validations, reconciliations have been completed as at reporting date or until end of measurement date. Consequently, this affected the faithful representation of the transferred UCPB loans and receivable balances and other related accounts in the financial statements of LBP as of December 31, 2022.
  2. **We recommended and Management agreed to:**
  3. **Expedite the inventory and validation of credit and loan documents, and collateral security documents pursuant to LBP EO Nos. 104 and 109 and to confirm the existence, completeness, and accuracy of the balance of Loans and Receivable account as presented in the financial statements;**
  4. **Reconcile inventory of loan/credit folders and collateral with the subsidiary ledger items to establish existence and completeness of the subsidiary ledger items;**
  5. **Make the necessary adjustments for identified discrepancies, if any, as a result of the verification and confirmation of SL items;**
  6. **Employ appropriate measures to address manpower issues; and**
  7. **Consider a revised procedural guideline with specific timelines to   
     complete validation activities pursuant to LBP EO Nos. 104 and 109.**
  8. Management informed that activities towards the implementation of the recommendations started in March 2023., aimed at reconciling the securities documents safe kept inside the vault versus the booked items. They updated that as of 31 May 2023, of the 40,941 and 19,888 booked collaterals of Head Office and Field Units, 26,247 (64%), 14,918 (75%) were validated, and 14,694 (36%) and 4,970 (25%) are still for inventory. The target completion date is December 2023. Corresponding adjustments, if any, shall be made by them upon completion of the physical inventory.

1. **The faithful representation of the balance of Bank Property, Furniture, Fixtures and Equipment (BPFFE) transferred from UCPB to LBP, with a net book value amounting to P651.857 million as of December 31, 2022, was not established since properties were not yet completely verified the Bank, the inventory report and SL account balances were not yet reconciled, while discrepancies during the actual merger/migration by the Bank were not yet resolved , contrary to paragraph 2.12 of the Conceptual Framework on Financial Reporting.** 
   1. Paragraph 2.12 of the Conceptual Framework for Financial Reporting provides:

*2.12 Financial reports represent economic phenomena in words and numbers. To be useful, financial information must not only represent relevant phenomena, but it must also faithfully represent the substance of the phenomena that it purports to represent. In many circumstances, the substance of an economic phenomenon and its legal form are the same. If they are not the same, providing information only about the legal form would not faithfully represent the economic phenomenon*

* 1. LBP Executive Orders (EOs) were issued to guide the Bank’s various units prior to and during the merger with UCPB, including LBP EO No. 104 dated December 17, 2021 prescribing the Guidelines on the Transfer and Booking Of Assets And Liabilities And Turnover Of Documents And Records Of The United Coconut Planters Bank (UCPB) To Landbank Pursuant To The Merger and EO No. 105 dated December 17, 2021 prescribing the Guidelines on the Validation and Turnover of UCPB Fixed Assets to LANDBANK. Same provisions of LBP EO 104 mentioned in the audit issue on loans and receivable apply.
  2. Salient provisions of LBP EO No. 105 provide that:

*1. Facilities Management Department (FMD) shall be the central unit authorized to receive the inventory lists of fixed assets from UCPB Financial Accounting Department [for Head Office (HO)] and Branch Financial Services Department [for Field Units (FUs)].*

*Notes:*

1. *The printed copy of the inventory list as of 30 September 2021, duly signed by the designated UCPB Property Accountable and Responsible Officer (PARO) and Unit Head, shall be provided to FMD on or before 31 December 2021 together with list of adjustment (i.e., new procurement, transfer and disposal) or certification of no change from October to December 2021.*

*b. The duly signed list/certification shall be accompanied by a copy of the updated inventory list in excel file format as of 31 December 2021.*

*X x x*

*5. Pre-validation of Fixed Assets*

*a. Starting on the 2nd week of January 2022, FMD (for HO)/PSO (for FUs) shall validate the existence of properties based on the updated inventory list. Any discrepancy shall be noted and coordinated with UCPB PARO.*

*X x x*

*6. Inventory and Turn-Over of Fixed Assets*

*a. A Masterlist of Documents and Records (Exhibit 1) shall be prepared as basis for the turnover and inventory-taking of UCPB’s documents and records. Turnover shall be performed before the merger.*

*b. The designated SD personnel shall be provided with a copy of list of adjustment/certification for reference during inventory/turn-over.*

*c. All properties found at station but not included in the inventory lists as well as the missing properties shall be noted/documented for appropriate action of UCPB Property Accountable and Responsible Officer (PARO).*

*d. The physical count shall be documented in a standard Inventory count Form which shall be signed by UCPB PARO and FMD/PSO-FUs and SD personnel.*

*X x x*

* 1. Records show that UCPB Trial Balance accounts as of February 28, 2022 were were transferred on a batch basis to the counterpart units of LBP during the period March 2022 to March 2023.
  2. The assigned booking unit on the fixed assets transfer to LBP Head Office is the LBP Administrative Accounting Department (AAD), while the custody of related titles and supporting documents of ownership, as well as its monitoring and safekeeping were assigned to the Facilities Management Department (FMD). In the field units, the Accounting Centers are the booking units while the respective field units/branches are responsible for the safekeeping and monitoring of said properties.
  3. Copy of the results of reconciliation of the GL and SL accounts prior to the merger, including the list of discrepancies noted in the pre-merger activities pursuant to LBP EO No. 4 s. 2021 was not provided to the team. The Financial Accounting Department (FAD) reasoned that “Pre-merger reconciliation of GL and SL accounts and existence of SL items were performed by the absorbing units in coordination with the booking units”. FAD nor AAD could not provide the information on discrepancies between GL and SL balances, hence, the audit team could not verify the actual reconciliation of GL and SL balances made by the absorbing units.
  4. The FMD alleged that the effectivity of merger on March 1, 2022 was sudden and unexpected hence the pre-validation of existence of fixed assets was not performed prior to its recognition in LBP books on March 1, 2022. It was also informed that the validation of existence, turn over and inventory of Head Office fixed assets were conducted simultaneously starting February 2022 and was completed on April 13, 2022.
  5. On the other hand, the inventory listing of UCPB fixed assets as of September 30, 2021 provided to the audit team was used as basis of inventory and validation conducted by the Bank. However, the requested copy of list of adjustments to the inventory as well as copies of certifications of no changes to the inventory from October to December 2021 were not provided to the audit team by FMD.
  6. The results of validation by FMD, reported under the following schedules as of September 30, 2021, were transmitted to FAD-ATU, for appropriate action, through a memorandum dated April 27, 2022:

(a) Schedule of HO Fixed Assets – Equipment & Vehicle turned over to FMD (1,615 items with total acquisition cost of P81,750,942.89)

(b) Schedule of HO Fixed Assets Outside UCPB Building (Palm Tower & Traveller’s Inn) turned over to FMD (78 items with total acquisition cost of P6,903,576.58)

(c) Schedule of HO Unlocated Fixed Assets, 89 items with total acquisition cost of P40,983,334.25)

(d) Schedule of HO Vehicles (Under car lease/plan by UCPB Employees) Not Physically Accounted, 154 items with total acquisition cost of P112,634,224.12

(e) Schedule of HO Fixed Assets – Equipment which existence were not validated (e.g. transferred to UCPB Branches, turned over to UCPB TMG) P116,070,297.54

* 1. However, FAD-ATU, denied responsibility for the recording of adjustments resulting from the validations made by the concerned booking units, thus, no action was made on the said memorandum. A follow-up letter dated September 5, 2022 was sent by FMD to FAD-ATU inquiring on the actions taken on the said schedules, particularly the items which were not located, not physically counted, and not validated as to their existence as presented under schedules c, d and e above. Despite the results of validation already reported by FMD, it was noted that the reconciliation of the GL and SL balances, and verification of SL balances by AAD, the booking unit, were not yet completed as of December 31, 2022 hence the reported location was not identified and the existence or non-existence of properties were not verified.

***Location of IT Equipment, Furniture and Fixtures, Other Equipment and Transportation Equipment not completely verified***

* 1. The Schedule of HO Unlocated Fixed Assets as presented in paragraph 3.9 (c) and (d), showed 89 items of IT Equipment (ITE), Other Equipment (OE) and one Furniture and Fixtures (FF) with total acquisition cost of P40,983,334.25 while the Schedule of HO Vehicles (Under Car lease/Plan by UCPB employees) Not Physically Accounted showed 154 items of Transportation Equipment (TE) with total acquisition cost of P112,634,224.12.

3.12 Verification of the year-end balances disclosed that 29 out of the 89 unlocated ITE, OE and FF remained unverified as to its location as of December 31, 2022. These ITE, OE and FF were not found during the validation procedures performed by FMD from February to April 2022. The location of said properties were also neither confirmed/verified by the FMD or the AAD as of December 31, 2022, nor AAD made any adjustments on the FS as of December 31, 2022 based on the Schedule of HO Unlocated Fixed Assets provided by the FMD. The remaining 61 items individually costing below P50,000.00 amounting to P2,490,270.80, were reclassified from the BPFFE account to semi expendable assets in compliance with the new capitalization threshold of P50,000.00 and above.

3.13 Likewise, the Blue Ridge Branch of NCR-North BBG reported unlocated two desktops and one burglar alarm system with acquisition cost totaling P193,232.50 as of December 31, 2022**.**

3.14 Moreover, in paragraph 3.9 (d) of the Schedule of HO Vehicles, locations of 8 out of the 154 vehicles, with total acquisition cost of P3,205,185.61, remained unverified as of December 31, 2022. Based on FMD’s validation, these vehicles were neither purchased by former UCPB employees nor verified sold during the merger.

3.15 It was also informed that the properties transferred to AAD included items which were not reconciled with the report on fixed assets as of December 31, 2022. The AAD has been coordinating with the absorbing units to facilitate the reconciliation of the physical assets.

***Existence of IT Equipment, Furniture and Fixtures, Other Equipment not completely******verified***

* 1. The Schedule of HO Fixed Assets – Equipment ATU prepared and submitted by FMD to FAD showed 1,359 items of ITE, OE and Furniture and FF with total acquisition cost of P145,394,474.42 existence of which (i.e. whether transferred to UCPB Branches, or turned over to UCPB TMG, or non-existing at all) were not validated. The properties were recorded in the UCPB Head Office but the actual physical location were alleged to be in the branches/field units. According to former UCPB employees, these properties were either being used by Head Office employees deployed in the field or being used by certain field offices. The Schedule of Fixed Assets submitted by UCPB to FMD only indicated the department in the Head Office responsible for the property but not the actual physical locations. As of December 31, 2022, the LBP AAD was not able to confirm the existence of the 1,359 properties or whether these were already sold/disposed.
  2. The audit team’s verification of balances, and AAD’s subsequent validations showed that P114,070,297.54 out of the P145,394,474.42 initially reported asset, the existence of which were not yet validated as at April 2022, but are recognized in the books as bank property as of December 31, 2022. The details are as follows:

| **Property** | **Cost** | **Accumulated Depreciation** | **Net Book Value as of 12/31/2022** |
| --- | --- | --- | --- |
| IT Equipment | 62,637,979.20 | 44,345,860.20 | 18,292,119.00 |
| Furniture and Fixtures | 50,589.94 | 50,588.94 | 1.00 |
| Other Office Equipment | 52,294,248.40 | 49,549,693.40 | 2,744,555.00 |
| **Total** | **114,982,817.54** | **93,946,142.54** | **21,036,675.00** |

* 1. These properties, however were not included in the physical inventory reports prepared by the HO. The properties reported by PSO’s do not indicate whether these were actually received and accounted for by the branches/field units. Some NCR Branches submitted their reports of unbooked properties as of December 31, 2022, but with incomplete information, thus, posing difficulty in verifying whether the said unbooked properties are the same properties being referred to in the report of FMD.
  2. According to AAD, the reconciliation of properties booked in the HO but are physically located in field units is still on-going. They continue to identify the last known location of properties booked in the Office but were issued to field units. The data to verify its existence is lacking in spite that communication requests sent to different field units; thus, the existence of recorded properties as of December 31, 2022 was not established.

***Accrued capital expenditures for 54 units of Furniture and Fixtures transferred by the UCPB to LBP which are still for verification****.*

* 1. The Schedule of Fixed Assets transferred from the UCPB with total balance of P651,857,629.24 included accruals of capital expenditure for various types of 54 fixed assets with acquisition cost of P106,277,997.54 and undetermined book value as of December 31, 2022.

3.21 The records of transactions dated as early as 2009, cannot be verified by both Management and the audit team due to the following reasons: a) incomplete details of recorded transactions, b) supporting documents of recorded transactions were already archived and several items refer to transactions in the branches, and c) no proper turnover from personnel previously in charge of said transactions and who are already separated from UCPB. According to AAD, verification of the existence of said accrued amounts are still on going and committed the reconciliation procedures to be completed by June 30, 2023. Certain field units claim that selected items were already delivered, however, submission of supporting documents (i.e. delivery receipts) is still pending. Hence, it was not verified whether the items were actually delivered and already used by the Bank, this, resulting to low reliance on the validity of the balance of equipment included in the financial statements as of December 31, 2022.

* 1. Management informed that the accruals on properties pertain to the following:

| **Description** | **Amount** |
| --- | --- |
| Accounts paid prior to December 31, 2022 which were not reversed on the same date | 45,626,848.11 |
| Accounts with excess set-up of accounts payable | 32,548,450.68 |
| Transactions without sufficient documents to establish the validity of accounts payable | 10,155,366.91 |
| Accounts with pending payments and/or paid only in 2023 | 17,947,331.84 |
| **Total** | **106,277,997.54** |

* 1. Subsequently, the following reclassifications were made in the CY 2022 FS:

Accounts Payable 88,330,665.70

Other Office Equipment 3,060,118.00

Other Intangible Assets 5,175,000.00

Stationery & Supplies Used 43,340.00

IT equipment 5,612,800.00

Leasehold rights & Improvement 4,056,073.84

Furniture and Fixtures 106,277,997.54

3.23 However, the existence of the items adjusted above, remain for validation. Management is awaiting for the responses from absorbing units and vendor, including confirmation with vendors whether there is an existing payable formerly by UCPB, now LBP, as of December 31, 2022 and the information that the properties were already delivered as of December 31, 2022 to be properly recognized as the Bank’s property.

* 1. Management further informed that the AAD sent memoranda on March 27, 2023 to the absorbing units (FMD, Procurement Department, Project Management and Engineering Department, and Technology Management Group) requesting information on the validity of Accounts Payable identified under their unit and the submission of recommendation on the disposition of the same as basis of requesting approval for its reversal. The AAD is in the process of retrieval of documents previously paid by the UCPB as basis of reversal to appropriate accounts. Responses to these call for action are on-going and have yet to be completed.
  2. Contrary to EO Nos. 104 and 105, absorbing units and concerned booking units were not able to establish validity and existence of certain properties prior to the actual merger on March 1, 2022. Validation of existence, inventory and turnover were simultaneously at a date very close to the effective date of merger and discrepancies were not resolved and adjusted in the GL before the merger. This resulted to booked items for which existence cannot be ascertained as of the actual merger date. Management’s validation and reconciliation of items to establish existence is still on going as of December 31, 2022 and have exceeded the one-year adjustments of provisional amounts from date of the merger, which is until March 2023.

3.26 In view of the noted deficiencies, the faithful representation of the balance of BPFFE with net book value amounting to P651.857 million as of December 31, 2022, transferred from UCPB to LBP was not established contrary to paragraph 2.12 of the Conceptual Framework on Financial Reporting.

* 1. **We recommended and Management agreed to:**
     + - 1. **Conduct physical inventory to determine the current actual physical location of properties transferred from the UCPB to the LBP, as reported by the FMD to FAD-ATU in the Schedule of HO Unlocated Fixed Assets, Schedule of HO Vehicles Not Physically Accounted and Schedule of HO Fixed Assets – Equipment Which Existence Were Not Validated;**
         2. **Reconcile results of physical inspection with the subsidiary ledger balances and prepare necessary adjustments, if any; and**
         3. **On the accrual of capital expenditures:**

**i.** **Properties which existence has been verified, compute the corresponding depreciation and/or amortization and make the necessary adjustment; and**

**ii. For payables to be reversed, confirm/coordinate with vendors the non-existence of outstanding balances from UCPB.**

* 1. Management, through the AAD, informed that efforts to account for the unreconciled fixed assets from UCPB are on-going. Continuous coordination is being done with the absorbing units (e.g. ATM operations Service Department, TMG, BBSD) and committed to initiate derecognition activities, if warranted.

1. **The application of the Match Deal Closed Out or Specific identification method in the allocation of the book value of a group of similar investments classified as Financial Assets at Fair Value through Other Comprehensive Income (FA-FVOCI) and Held-to-Collect (HTC) between the part that was sold and derecognized and the part that continues to be recognized was not consistent with paragraph 3.2.13 PFRS 9 requiring the allocation be based on the fair values of those parts, casting doubt on the balances of the Unrealized Gains/Losses account and of the Realized Gain/Losses accounts as at December 31, 2022.**
   1. Paragraph 3.2.13 of Philippine Financial Reporting Standards (PFRS) 9 states:

*If the transferred asset is part of a larger financial asset and the part transferred qualifies for derecognition in its entirety, the previous carrying amount of the larger financial asset shall be allocated between the part that continues to be recognized and the part that is derecognized, on the basis of the relative fair values of those parts on the date of transfer. For this purpose, a retained servicing asset shall be treated as a part that continues to be recognised. The difference between:*

*(a) the carrying amount (measured at the date of derecognition) allocated to the part derecognised and*

*(b) the consideration received for the part derecognised (including any new asset obtained less any new liability assumed) shall be recognised in profit or loss.*

*(Emphasis ours)*

* 1. LBP’s assets include financial assets classified as FVOCI and HTC that are measured at fair value and amortised cost, respectively. As at December 31, 2022, the balances of the FA-FVOCI and HTC accounts amounted to P438,103,688,414.10 and P839,276,929,425.52, respectively. These FVOCI and HTC are subject to the provisions on derecognition above.
  2. In the CY 2020 Annual Audit Report (AAR) of LBP, we reported that LBP does not have written criteria, parameter and policy guidelines on the application of “match deal close out” method for the selection of the book value of a group of financial assets as basis in the computation of realized and unrealized gains and losses from the part derecognized and the remaining part that continuous to be recognized as investments. Thus, we recommended to Management to consider the inclusion of specific criteria, parameters, and policy guidelines in applying the selection from among similar deal transactions in the LBP’s Operations Manual for a more transparent and consistent application.
  3. In compliance with the above recommendation, Management has included the policy and parameters of the Match Deal Close-Out or Specific Identification Method in the Operations Manual of the Balance Sheet Management Department, as cited below:

**F. SALE/DERECOGNITION OF DEBT SECURITIES**

1. Cost Allocation

The Match Deal Close-Out or Specific Identification Method of costing inventories is applied to all debt securities being managed by the TIBS since the cost of each inventory deals are not interchangeable. Specific deal number can clearly identify the details of the outstanding securities and the specific cost at which the securities were purchased. As such, the amount of gain or loss from selling the specific assets can easily be determined.

It is a more realistic method of calculating the gains/losses as it considers the duration/yield of the individual debt securities at the time of acquisition or purchase. It is also being applied to have flexibility in managing the financial assets i.e., profit-taking, liquidity or interest rate risk management.

1. Parameters

In selecting specific deal of debt securities to be sold or derecognized among similar group of financial assets as basis in the computation of the gain or loss under the Banking Book, traders shall be guided by the following parameters:

1. To maximize returns, select specific deal of debt securities to attain a desired level of gain or loss based on implemented strategy.
2. To manage liquidity, execute sale and select specific debt securities that will generate funds to meet the liquidity requirements of the Bank.

c. To manage balance sheet gaps or interest rate risk, select securities based on the implemented investment strategies that will minimize the adverse impact of future interest rate movements.

* 1. Management explained that the parameters applied were dependent on the approved trading plan on the date of sale which is based on the risk management of LBP. They added that the cost and deal number are used in identifying the specific deal of similar investments to be derecognized guided by the parameters to be applied based on the approved trading plan on the date of sale and, thus, even if the investments have the same issuer, coupon rate and maturity date, the investments are considered not interchangeable since their yields and costs are different. For example, if the parameter is to maximize returns, the deal with lowest yield is selected and the proceeds reinvested in higher yielding financial assets. If the parameter is to manage liquidity, the deal with highest yield is selected. If the parameter is to manage balance sheet gap or interest rate risk, assuming that short-term rates are expected to rise and to minimize the adverse impact of future interest movements, the deal with the lowest yield is derecognized.
  2. To further illustrate the corresponding accounting for derecognition of similar financial assets or assets belonging to the same group, based on application by Management of the above-mentioned guidelines, consider the following outstanding Inventory of FVOCI Securities with same issuer, maturity date or tenor and coupon rate:

| **Deal Number** | **ISIN** | **Face Value** | **Purchase Date** | **Purchase Rate** | **Carrying Amount** | **Market Value** |
| --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |
| 151332 | FXTN 03-24 | 642,326,000 | 12-Dec-21 | 3.74200 | 643,660,115 | 646,269,322 |
| 151307 | FXTN 03-24 | 3,000,000,000 | 12-Dec-21 | 3.75000 | 3,006,168,741 | 3,018,417,384 |
| 159584 | FXTN 03-24 | 150,000,000 | 02-Jan-22 | 3.76000 | 150,305,131 | 150,920,869 |
| 134065 | FXTN 03-24 | 600,000,000 | 02-Oct-21 | 3.98000 | 600,950,836 | 603,683,477 |
| 111523 | FXTN 03-24 | 4,525,000,000 | 04-Jul-21 | 4.75000 | 4,525,000,000 | 4,552,779,555 |
| **Total** |  | **8,917,326,000** |  |  | **8,926,084,823** | **8,972,070,607** |

* 1. Assuming that the Bank sold P4.00 billion worth of FXTN and intends to apply the parameter to maximize returns, the deal with lowest yield is selected and the proceeds reinvested in higher yielding financial assets. Thus, the list of securities to be derecognized given the strategy implemented and using the above outstanding inventory are as follows:

| **Deal Number** | **ISIN** | **Face Value** | **Purchase Date** | **Purchase Rate** | **Carrying Amount** | **Market Value** | **Realized Gain/ Loss** |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |
| 151332 | FXTN 03-24 | 642,326,000 | 12-Dec-21 | 3.74200 | 643,660,115 | 646,269,322 | 2,609,207 |
| 151307 | FXTN 03-24 | 3,000,000,000 | 12-Dec-21 | 3.75000 | 3,006,168,741 | 3,018,417,384 | 12,248,643 |
| 159584 | FXTN 03-24 | 150,000,000 | 02-Jan-22 | 3.76000 | 150,305,131 | 150,920,869 | 615,738 |
| 134065 | FXTN 03-24 | 207,674,000 | 02-Oct-21 | 3.98000 | 208,003,106 | 208,948,937 | 945,831 |
| **Total** | | **4,000,000,000** |  |  | **4,008,137,093** | **4,024,556,512** | **16,419,419** |

\*Deal Number 134065 were partially sold to fully close-out the full volume of P4 Billion.

* 1. As shown above, the parameters being applied by LBP on allocating the carrying amount of financial assets to be derecognized, based on the approved trading plan or strategy, are the carrying amounts of each of the financial assets with specific deal numbers. Applying the requirements of PFRS 9 on the above illustrative example, the carrying amount to be derecognized should be a portion of the total carrying amount of P8.926 billion allocated on the basis of the total fair/market values of that were derecognized and continued to be recognized. The carrying amount of the derecognized amounts should be P4,003,928,900, as presented below:

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Carrying amount | = | 4,024,556,512 | X | 8,926,084,823 | = | P4,003,928,900 |
| 8,972,070,607 |  |  |

* 1. Following PFRS 9, using the illustrative example on derecognition of the P4 billion FXTN, Realized Gain should be P20,627,612 instead of P16,419,419, or an understatement of P4,208,193.
  2. Derecognition of carrying amount based on Specific Identification or Match Deal Close-out Method, which we deem inconsistent with the requirement of PFRS 9, exposed the Bank to risk of misstatements in the corresponding recognition of Realized Gains/Losses and the Unrealized Gains/Losses accounts as at December 31, 2022.
  3. We acknowledge Management’s assertion that its Treasury System that has been there for the longest time has been developed and enhanced to be in conformity with PFRS. It is also recognized that Management mentioned that the only functionality embedded in the Integrated Treasury System of the Bank in the sale of financial assets is the specific identification or “matched deal close out” and need to be enhanced if the position on the requirements of PFRS 9 of the audit team is to be adopted.
  4. While we do not refute that the Bank needs to have flexibility in managing the financial assets i.e., profit-taking, liquidity or interest rate risk management, we presume that under the financial reporting framework, the PFRS, that it has adopted, its accounting for its transactions is in conformity with the standards under that framework.
  5. On the basis of the assessment made in CY 2021 by the audit team of Management’s compliance with the CY 2020 audit recommendations as partially implemented due to the PFRS 9 requirements which were not met with regard to the accounting for the transfer/derecognition of asset, and with Management’s commitment to revisit and study the requirements of PFRS 9.
  6. **We recommended that Management seek the opinion of experts such as the Philippine Interpretations Committee (PIC) with regard to the application by the Bank of paragraph 3.2.13 of PFRS 9 on the allocation of carrying amounts between the part to be derecognized and the part that continues to be recognized of a similar group of investment in debt securities classified as FVOCI and HTC, as basis for recording the effects of the transactions. Accordingly, on the basis of opinion obtained from the PIC and the evaluation thereof, make revisions on the accounting policy and guidelines, if necessary, and consider the enhancement of the Integrated Treasury System, to conform to the requirements of PFRS 9 as far as the accounting on the allocation of carrying amounts of the larger financial asset between the part to be derecognized and the part that continues to be recognized.**
  7. The Bank has written the Philippine Interpretations Committee seeking the committee’s opinion if the Bank’s specific identification or matched deal-close out method of calculating book value and gain or loss on sale/derecognition of debt securities meets the accounting standards under PFRS 9. Response in writing by the PIC however, was not obtained.

**B. NON-FINANCIAL ISSUES**

1. **Appraisals of 4,283 units of real and acquired properties (ROPAs) amounting to P2.828 billion as of December 31, 2022 were not conducted from 2-34 years, contrary to Credit Policy Issuance (CPI) No. 2013-008.**
   1. Credit Policy Issuance (CPI) No. 2013-008 pertains to the revised guidelines on the timing and frequency of requests for re-appraisal of ROPA, and its Statement of Policy cites, among others, that *all ROPAs shall be appraised every two years.*
   2. Moreover, LBP Executive Order No. 073, series of 2021 states that the appraisal report shall be valid up to two (2) years for the purpose of setting a new minimum bid price. Immediate reappraisal shall be conducted if there is a material decline in value of the asset.
   3. On the other hand, Section 0402.6, Chapter 4 of the Special Assets Department (SPAD) Operations Manual provides that upon receipt of the appraisal report from the Property Valuation & Credit Information Department (PVCID), the designated ROPA Manager System (MS) User will encode/update the appraisal details in the ROPA MS.
   4. On March 31, 2022, Special Order (SO) No. 317 was approved to allow more efficient services transferring functions and reporting line/supervision of PVCID’s field team to Agrarian Operations Center (AOC). Since then, PVCID head office has forwarded all appraisal requests of properties located outside National Capital Regions (NCR) to AOC.
   5. ROPA Manager System (ROPA MS) is a web-based application system that handles the administration, management, reporting, accounting and disposal of ROPA items. It is aimed to provide centralized data, electronic storage of information, and efficient monitoring of properties. The application could generate timely and accurate reporting of management-required reports and faster response time to customer queries. Details of inspection/appraisals are encoded into this system to update values of ROPA.
   6. Review of the Masterlist of ROPA as at December 31, 2022 disclosed 7,206 properties with a total book value of P9,078,233,836.46. Of the 7,206 properties, 59 per cent or 4,283 properties amounting to P2,828,269,055.45 were not re-appraised every two years, contrary to (CPI) No. 2013-008, summarized as follows:

| **No. of accounts** | **Book Value** | | **Total Book Value** | **Latest Appraisal Date** | **No. of years from last appraisal** |
| --- | --- | --- | --- | --- | --- |
| **REAL** | **CHATTEL** |
| 17 | 4,332,886.83 | 89,424.48 | 4,422,311.31 | 1988-2002 | 20-34 |
| 189 | 49,223,649.42 | 2,370,253.92 | 51,593,903.34 | 2003-2012 | 10-19 |
| 173 | 70,410,491.33 | 414,109.50 | 70,824,600.83 | 2013-2016 | 6-9 |
| 3,077 | 1,209,590,571.27 | 85,568,622.10 | 1,295,159,193.37 | 2017-2019 | 3-5 |
| 827 | 1,164,258,886.65 | 242,010,159.95 | 1,406,269,046.60 | 2020 | 2 |
| **4,283** | **2,497,816,485.50** | **330,452,569.95** | **2,828,269,055.45** | **1988-2020** | **2-34** |

* 1. Management provided the following reasons on the lack of recent appraisals on said properties:

1. Pandemic

All ROPA due for renewal of appraisal in CY 2020 and in the last semester of CY 2019 were not processed due to lockdown, hence, requested for appraisal together with the CY 2021 to CY 2022 requests for updating of appraisal reports.

1. Volume of appraisal requests

Due to volume, PVCID engaged the services of Third-Party Appraisers (TPA) to include appraisal of ROPA with book value of less than P100 million. In June 2022, PVCID’s TPAs Vitale Valuation Services, Inc. (Vitale) and the Royal Asia Appraisal Corporation (RAAC) returned the accounts received from SPAD in CY 2021, citing that they were already loaded with endorsements for appraisal of loan accounts for restructuring from the Head Office (HO) and the LCs. In October 2022, TPAs returned to PVCID another batch of appraisal requests due to volume and also their contracts were also expiring.

For properties located outside of Metro Manila, requests for appraisal by field teams were forwarded to Agrarian Operations Centers (AOCs). The AOCs claimed that they have received requests for appraisal but with without supporting documents hence returned to SPAD. SPAD asserted that the requests with supporting documents were sent through email and forwarded the sent email to the AOCs.

1. Seventy-six properties with book and appraisal values totaling P16,045,002.83, and P28,050,691.46, respectively, were unlocated. The SPAD provided the following actions taken on the audit team’s recommendation to conduct investigation of the unlocated properties:

* One property with book value of P3,248,100 has been requested for relocation survey on 15 April 2010 but the property still could not be located
* The location of 41 properties could not be pinpointed since their tax mapping data was not updated
* Survey plan of twenty-nine properties were requested from the Department of Environment and Natural Resources (DENR) on 23 March 2022 but there was no records on file with DENR. Also, the Certificate of Non-coverage was requested from Department of Agrarian Reform (DAR) to verify if included as CARP-able properties and awaiting reply from DAR.
* One property is for verification with Land Registration Authority (LRA) if the discrepancies can be traced back to the Original Survey plan or not

1. Location and safety issues.

Properties could not be appraised since the properties are located in “areas of concern” or with peace and order, hostile environment or security issues. Pursuant to the audit observation on absence of appraisal reports, SPAD proposed to amend the guidelines on valuation of properties that could not be appraised for the longest time since these are located in “areas of concern”. In the absence of an updated appraisal report, SPAD proposed, after consultation with various units of the Bank, that the basis of valuation shall be the highest of the following: 1) Net Book Value; 2) BIR Zonal Valuation; c) Fair Market Value (FMV) based on the latest tax declaration; and, latest Appraised Value on file. The proposed guideline was already presented to the HOCAD on 28 April 2023 subject to revisions and re-presentation.

* 1. It was also gathered that the appraisal of ROPA commences upon the receipt of request of SPAD with complete supporting documents. Management averred that all requests are acted and appraisal reports are immediately submitted to SPAD after its completion. It was noted, however, that there are no prescribed timelines set from the receipt of request of appraisal to the conduct of appraisal and preparation of appraisal reports.
  2. The absence of appraisal on required frequency and delay in updating of appraisal details in the ROPA MS, affect the proper valuation of ROPA and defeat the purpose of the ROPA MS in providing centralized data, efficiently monitoring of properties, and generating timely and accurate.
  3. **We recommended and Management agreed to:**
  4. **consider the prioritization of request for appraisal taking into consideration factors such as, but not limited to, nature/type of property in terms of exposure to deterioration, chances of the Bank for immediate recovery of losses from disposal of properties that afford the Bank the greatest opportunity for maximum returns/benefits. Correspondingly, include in the SPAD Operational Manual, the criteria and procedures for prioritization of request for appraisal of properties for consistency of its application.**
  5. **facilitate timely appraisals, consider setting and including in Bank guidelines specific/mandatory timelines within which to reasonably complete the process from receipt of request of appraisal to conduct of appraisal, and to the preparation of appraisal reports by PVCID and AOCs;**
  6. **expedite verifications with concerned agencies and back-tracing of discrepancies of properties that are still unlocated, to enable the Bank to employ appropriate disposition, undertake legal remedies and hold persons responsible or accountable for losses, if warranted;**

* 1. **clearly define “areas of concern” and set parameters as bases for the exemption from the prescribed valuation for inclusion in the proposed amendment of guidelines on values to be used in cases appraisals cannot be conducted, for consistency of application and prevent abuse of discretion; and**
  2. **faithfully comply with CPI No. 2013-008, LBP Executive Order No. 073, and SPAD operations Manual including revisions thereto.**
  3. As of 28 April 2023, out of 4,283 ROPAs without updated appraisals, 15.1 per cent or 646 properties amounting to P1,042,014,110 have been appraised and appraisal reports of 65 properties are on-going encoding in the ROPA Manager System. For the 57.2% or 2,450 properties amounting to P1,096,338,167, SPAD had requested for appraisal update from previous years up to CY 2022 and with follow-ups through email or memorandum. Moreover, 4.7% or 200 properties with BV of P263,018,915 have requests for appraisal in CY 2023. Part of the ROPAs included in the study comprising 18.2% or 779 properties with BV of P335,456,446, have yet to be accepted by SPAD or still booked with the Lending Centers/Lending Units (LCs/LUs).
  4. The properties located outside Metro Manila were endorsed to the Agrarian Operations Centers for the field teams to do the appraisal. Requests for appraisal with deficiencies were returned to SPAD to ensure proper monitoring of requests and its completion. Moreover, an open line of communication was established wherein difficulties in appraisal are discussed and resolved, as they arise.
  5. SPAD also committed to ensure that the designated ROPA MS User/handling AOs shall review the completeness of the data in the Appraisal Report and thereafter encode/update the appraisal details in the ROPA MS upon receipt of the said report from PVCID or whatever proper action.

1. **Consolidation of titles of 2,315 real and acquired properties with a book value amounting to P1,360,497,941.47 was not undertaken within sixty (60) calendar days from date of the expiration of the redemption period, contrary to bank policy, and further depriving the Bank of the opportunity to sell in maximum value and recover exposure from the acquired assets.**
   1. Real and Other Properties Acquired (ROPA) are properties, other than those used for banking purposes, acquired by the Bank in settlement of loans through foreclosure or dacion en pago
   2. The Special Assets Department (SPAD) performs functions relative to ROPA, such as redemption of foreclosed properties; consolidation of ownership/title of properties in coordination with the Litigation Department, and administration and disposal of the properties.
   3. Item 5 of Chapter 3, Consolidation of Real Properties Not Redeemed, of the SPAD Operations Manual provides that:

*Consolidation of title shall be undertaken by the LD within sixty (60) calendar days from date of the expiration of the redemption period based on the date of registration of the COS.*

* 1. Consolidation is the process wherein the title of the foreclosed property is registered in the name of the Bank and involves several procedures.
  2. The 60-day period of consolidation of title include, among others, activities such as filing and submission of requirements and payments of taxes involving the Bureau of Internal Revenue (BIR), Department of Agrarian Reform (DAR), and Registry of Deeds (ROD).
  3. Review of the Masterlist of ROPA schedule on Real Properties disclosed that out of 6,954 titles amounting to P7,940,354,479.11 for consolidation, 2,315 titles amounting to P1,360,497,941.47 were not consolidated in the name of LBP for two (2) to more than 39 years from the date of Certificate of Sale (COS), contrary to Item 5 of Chapter 3, Consolidation of Real Properties Not Redeemed, of the SPAD Operations Manual.
  4. According to Management, the reasons/causes for the delay in consolidation or non-consolidation of the 2,315 titles in the name of the Bank are as follows:

|  | **Reasons/ Causes of Non-Consolidation of Title** | **No. of Titles** | **Book Value Amount** | **No. of Years from COS** |
| --- | --- | --- | --- | --- |
| a | Non-payment or no proof of payment of CGT/DST/Transfer Taxes | 1,182 | 551,676,783.76 | 3-39 |
| b | For updating of Tax Declaration, Tax Clearance, Certificate of No Improvement | 717 | 460,400,581.54 | 2-23 |
| c | Properties acquired from NLDC and PCFC | 137 | 96,632,816.19 | 4-5 |
| d | No TIN nos. of previous owners/individual sub-borrowers, partition agreement, Certificate of Management, Individual Lot Plans, no original copy of Dacion en Pago | 98 | 28,525,161.29 | 2-35 |
| e | For completion of required documents by Lending Center/Units (lacking documents not provided) | 79 | 82,056,792.16 | 2-37 |
| f | Properties acquired from OFBank | 55 | 113,352,259.88 | 3 |
| g | No existing title/dummy title/untitled/same TCT as other ROPA | 47 | 27,853,546.65 | 6-19 |
|  | **TOTAL** | **2,315** | **1,360,497,941.47** | **2-39** |

1,182 titles have incomplete documents relative to payment of Capital Gains Tax (CGT), Documentary Stamp Tax (DST), transfer tax, and penalty. Despite of Bank efforts, no proofs of payment were secured from various Lending Centers/Lending Units (LC/LU) and BIR, which are necessary in the filing at Registry of Deeds (ROD) for the issuance of new land title.

717 titles required the updated Bank of Tax Declaration, Tax Clearance, and Certificate of No Improvement for the application of Certificate Authorizing Registration (CAR).

137 properties acquired from National Livelihood Development Corporation (NLDC) and People’s Credit and Finance Corporation (PCFC) do not have copies of Dacion en Pago agreement, proof of payment of CGT/DST/Transfer taxes, and/or other documents needed for consolidation. The properties were booked based only on the information from the General Ledger and Schedules from GOCCs. Management informed that the documents needed in consolidation could not be rectified by the Bank since the said GOCCs were already abolished in September 2015.

98 titles lack documents namely, TIN numbers of previous owners/individual sub-borrowers, partition agreement, Certificate of Management, Individual Lot Plans, original copy of COS and Dacion en pago agreement.

79 titles are for completion of the required documents from the LU/LC before transferring to SPAD.

55 titles are properties acquired from OFW Bank (OFBank) in September 2019, but lack the Deed of Sale/Assignment, and/or other documents needed for consolidation.

47 titles with book values and appraisal values amounting to P27,828,546.65 and P121,271,276.45, respectively, are with issues on Transfer Certificate of Titles (TCTs). 32 titles have no TCTs, 2 TCTs are fake, 3 have no TCTs from the documents forwarded by LU/LC; 9 have untitled Tax Declarations awaiting documents from Provincial Environment and Natural Resources Officer and Land Registration Authority; and 1 has the same TCT of other ROPA.

* 1. Item 1 of Special Order (SO) No. 090, series of 2021, Addendum to SO No. 345, series of 2020, providing for the additional functions of the Asset Recovery Support Department (ARSD), thru its Special Legal & Accounts Management Unit (SLAMU) – Transaction Advisory Team (TAT), such as the initiation of Extra Judicial Foreclosure (EJF) proceedings on matured/past due accounts referred by the Head Office and consolidation of the titles, handling of consolidation/registration of titles and issuance of new tax declaration of foreclosed properties in NCR, and coordinates with other government agencies.
  2. ARSD emphasized that the handling of consolidation/registration of titles and issuance of new tax declarations, as well as the assistance in the administrative reconstitution of the Bank’s lost titles, are not automatically initiated by them unless the same arises from the consequence of the initiation of EJF proceedings. According also to ARSD, the HO Lending Units/SPAD should first initiate a formal referral of the accounts for consolidation/registration of titles.
  3. The delays in the consolidation of titles, based on the reasons and status provided by Management, are mainly attributed to incomplete documents submitted when the Bank acquired or foreclosed the assets.
  4. Pending consolidation, the Bank is exposed to risks of conflicting claims and ownership disputes in the future, and incurrence of additional costs for tax penalties for late transfer, and deprivation from an opportunity to recover from its exposures which could be used for the operational expenses of the Bank.
  5. **We recommended and Management agreed that:**
     + - 1. **The Lending Units, secure complete documents, correct deficiencies, and submit to SPAD the needed documents for consolidation;**
         2. **The SPAD:**

**b.1 verify the completeness and accuracy of the documents submitted by the Lending Units;**

**b.2 formally refer for assistance from the Asset Recovery Support Department (ARSD) the consolidation of titles that are no longer existing or cannot be rectified;**

**b.3 coordinate with Bureau of Internal Revenue (BIR), Land Registration Authority (LRA), and other Government Agencies the payment of required taxes within the set deadlines to avoid penalties or surcharges;**

* + - * 1. **Conduct investigation on the 47 titles with no existing TCTs, with dummy title, or same TCT as other ROPA, and submit the results of investigation conducted for corrective actions.**
  1. The SPAD committed to undertake necessary actions on the issues raised.

1. **Acquired properties with total book P96.323 million and appraised values of P309.905 million, respectively, were: either a) occupied by informal settlers without lease payment to the Bank, b) subleased/sold by former owners, c) without signage stating it is a Bank property and available for sale/lease, d) not properly maintained, and e) unlocated; thus exposing properties to risks of rapid deterioration, loss of opportunity income from the sale/lease of the property, and delay in the recovery of Bank’s loan exposure.**
   1. The SPAD Operations Manual, provides guidelines on administration of ROPA within Redemption Period (Chapter 2) and administration of consolidated ROPA (Chapter 4). In both stages, ROPA is administered through preservation/ protection of the foreclosed properties until such time that the properties are redeemed or sold/disposed*,* through: *inspection of the properties to assess their physical status or condition; posting of security guards or hiring of caretakers, as applicable; assessment of appropriate measures to protect the property from informal settlers, theft, pilferage, and other related contingencies; and, repairs and maintenance,* among others.
   2. The Masterlist of ROPA as of December 31, 2022 showed a balance of P9,078,233,836.46, composing of 6,954 real estates and 252 chattels, reported located in different parts of the country. To determine the existence and conditions of the properties, the audit team selected 60 properties located within Metro Manila for ocular inspection from January 16 to 20, 2023. Of the 60 properties inspected, 48 or 80 per cent of the properties with a total book and appraised value of P96,323,073.47 and P309,905,162.21, respectively, disclosed the following conditions:

| **Location** | **No. of Properties with deficiencies** | **Book Value** | **Appraised value** | **Actual Conditions of**  **ROPA (No. of ROPA)** | | | | |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a** | **b** | **c** | **d** | **e** |
| Manila | 8 | 24,131,792.63 | 195,125,891.21 | 6 | 0 | 4 | 2 | 2 |
| Caloocan | 1 | 4,259,963.82 | 4,584,000.00 | 1 | 1 | 1 | 0 | 0 |
| Las Piñas | 2 | 3,200,132.51 | 4,644,001.00 | 2 | 0 | 2 | 1 | 0 |
| Makati | 5 | 16,406,831.96 | 24,770,800.00 | 3 | 1 | 5 | 0 | 0 |
| Quezon City | 12 | 22,275,218.07 | 37,217,400.00 | 5 | 0 | 2 | 4 | 0 |
| Muntinlupa | 7 | 18,783,825.93 | 17,677,070.00 | 0 | 0 | 7 | 7 | 0 |
| Pasig City | 3 | 2,349,185.12 | 9,616,000.00 | 3 | 1 | 3 | 0 | 0 |
| Parañaque | 10 | 4,916,123.43 | 16,270,000.00 | 6 | 1 | 10 | 0 | 0 |
| **Total** | **48** | **96,323,073.47** | **309,905,162.21** | **26** | **4** | **34** | **14** | **2** |

1. *Occupied by informal settlers without lease payment to the Bank*
2. *Subleased/sold by former owners*
3. *Without signage stating it is a Bank property and available for sale/lease*
4. *Property not properly maintained*
5. *Unlocated property*
   1. Details of the inspection are as follows:
6. Twenty-six (26) properties are occupied by informal settlers and former owners, being used as their residence, parking lot, or as business establishments without lease payments to the bank. The occupants continue to reside in the property free of charge, and enjoying its civil fruits. There was no information as to how long the said properties were occupied by informal settlers.

SPAD explained that upon knowledge of illegal occupancy, a Notice to Vacate (NTV) is issued to the occupants. If the occupants still do not leave the property, SPAD requests from the Litigation Department (LD) to file for Writ of Possession (WOP) with the names of all occupants indicated on the Petition. Asset Recovery Support Department and the LD opined that accepting rental payments from them would establish a lessor-lessee relationship between the Bank and the occupants. As such, when the time comes that the ROPA needs to be disposed, they averred that the occupant may invoke this relationship and the filing of WOP will no longer be applicable, rather an Eviction Case, which is more tedious, would be applied. They added that, in the event that after the eviction process, the occupant still refuses to vacate the property, an Illegal Detainer case would apply. The LD further opined that despite these consequences, it is still within the business judgement of SPAD to accept lease fees to compensate the Bank for their use of its properties and that, on that premise, the SPAD thoroughly evaluates and selective in accepting offers to lease the property, and the contract of lease is on a month-to-month basis only for a maximum period of one year.

However, leasing out acquired properties is allowed under Chapter 4 of the Operations Manual on Administration of Consolidated ROPA. Under the guidelines on lease of acquired properties, *the period of the lease shall be for one (1) year, renewable at the option of the Bank*; that *the lessee shall not assign or transfer his rights under the lease contract nor sublease all or any part of the leased property without the prior written consent of the Bank*; and that *the Bank shall have the right to cancel or terminate the lease contract without need for legal or judicial action/order*; that *within two (2) months after the cancellation or termination of the lease contract, the lessee shall be required to peacefully vacate the leased property, otherwise, the Bank shall institute legal proceedings to protect its interest*; that *the Bank may dispose the property during the term of the lease*, and that *the buyer must honor the terms and conditions of the lease, otherwise, the lessee and buyer should reach a mutually satisfying agreement*. We are of the opinion that said guidelines provide sufficient safeguards to prevent circumstances which concerns the LD on the lessor-lessee relationship that may be invoked by the occupant later and the filing of WOP no longer applicable. If these conditions are included in the terms and conditions of the lease agreements entered into by the Bank with lessees and complied with, the Bank’s interest shall be protected and shall not be precluded from instituting applicable legal remedies to enforce occupants to vacate the properties.

1. Four (4) properties are subleased/sold by the previous owners. Two of the three lessees pay monthly rentals to the former owners. Management provided the following information:

Property 1

Requested filing of WOP with LD on February 7, 2023. In response, the previous owner has signified intent to purchase the Property. In the event that the property will be offered for disposal and the occupant/previous owner will be the buyer, the collection of the just compensation for the continuous occupancy of the property will be included in the terms and conditions of the sale transaction.

Property 2

On August 15, 2022, a Final Notice to Vacate dated 08 August was sent by LD, with request of WOP dated October 7, 2022, for preparation of Judicial Affidavit.

Property 3

On January 31, 2023, SPAD has requested the LD for the filing of the WOP or appropriate legal case against the occupants. LD has referred the request to the OGCC. Ex-Parte Petition for WOP is currently being drafted by the OGCC.

Property 4

One (1) property was sold by former owner to the occupant and the latter refused to vacate the property. This matter was already referred to Litigation Department. SPAD is closely coordinating with the Litigation Department for the status of the case.

1. Thirty-four (34) properties have no signage stating the properties are owned by the bank and is available for sale or for lease.

Management explained that 17 properties have been posted with signage based on Inspection Reports and pictures taken during the visit of the handling AAO but were removed by the occupants. The 13 properties are condominiums of which posting of signage are not allowed. SPAD informed that they shall again coordinate with Building Administrators to allow posting of markers or signage, as applicable. Management further explained that one (1) property has an issue with the Bureau of Liquidators (BOL)/Property Management Office (PMO) on encroachment of its building on the Bank property. Four (4) properties are unfinished condominium buildings.

1. Fourteen (14) properties were abandoned, damaged, idle, not protected and preserved resulting to rapid deterioration.

Management informed that whenever there was imminent threat for damage of ROPAs and depending on its book value, SPAD normally posts Security Guards or engaged the services of caretakers/LBRDC to secure and maintain the properties and preserve their values. However, due to the volume of the managed ROPAs, these are mostly sold on “as-is-where-is” basis to reduce expenses on maintenance since these are outright expenses and not capitalized as cost of the ROPA. Further, maintenance expenses may undergo the regular procurement process which takes some time. Based on the MOA with LBRDC, a maintenance expense of P10,000 is allowed per ROPA under their caretakership. SPAD also coordinates with FMD for assistance in cleaning of the ROPAs.

1. Two (2) properties with total book value of P2,077,410.77 and appraised value of P42,857,891.21 cannot be located. Management explained that these properties are Agricultural Credit Administration (ACA) accounts that were transferred to LBP and lodged temporarily as Head Office accounts. The ACA accounts are composed of bundled properties located in various provinces outside of Metro Manila (Benguet, Ilocos Norte, Pangasinan, Lipa City, Tarlac, Camarines Sur and Maguindanao). The ACA accounts are still undergoing partition and encoding of complete details in the ROPA MS. SPAD has encoded 32 out of 63 (excluding disposed accounts) ACA Accounts in NL, CL, SL1, SL2 and Visayas areas.
   1. Based on the results of inspection, there were deficiencies in the management of ROPA contrary to the Bank’s policy on administration acquired properties with total book and appraised value of P96.323 million and P309.905 million, respectively, thus, exposing properties to risks of rapid deterioration, loss of opportunity income from the sale/lease of the property, and delay in the recovery of Bank’s loan exposure.
   2. **We recommended and Management agreed to:**
2. **exhaust all legal remedies available to the Bank, and in a timely manner, issue the necessary Final Notices to Vacate, Writ of Possession, and file Eviction Case, to secure properties from informal settlers/illegal occupants and further deterioration;**
3. **comply faithfully with the provisions on proper administration of ROPA to secure, maintain, enhance or preserve the values of properties prior to disposals; and**
4. **investigate ACA properties incorrectly reported as located at the LBP Plaza, in order to establish existence, and identify exact locations; expedite the on-going partition procedures and encoding of the complete and accurate details on locations and descriptions of ACA properties to the ROPA MS.**
5. **Expired and excess payments from utilized Letters of Credit (LCs) of National Government Agencies (NGAs) totaling P1.299 billion as of December 31, 2022 were not remitted to the Bureau of Treasury (BTr), contrary to paragraph 4.8 of Treasury Circular (TC) No. 3-2019.** 
   1. As stated in Treasury Circular (TC) No. 3-2019, dated May 10, 2019, Banking Arrangements on the Use of Letter of Credit, there are National Government Agencies (NGAs) that in the performance of their mandates procure goods and services in other countries and make use of a Letter of Credit (LC), a document issued by a bank to guarantee, on behalf of the procuring NGA or buyer timely payment to the seller or exporter against the receipt of complying stipulated documents. However, the TC also pointed out, the use of domestic and foreign LCs already resulted in actual cash already released from the Modified Disbursement System (MDS) of procuring agencies to the Government Servicing Banks (GSBs), thus, there is a carrying cost for the government for using an LC especially if delivery of goods will take longer.
   2. The same TC was issued to clarify the use of LCs in the NGA operations; provide assistance to the government agencies in opening of LCs; and to efficiently manage the government’s cash resources. It specifically provides the following:

*4.1 The use of LC shall be limited to foreign operation. Xxx.*

*4.2 The new banking arrangement will be covered by a Memorandum of Agreement between BTr and the Government Servicing Banks (GSBs) to establish, standardize, and negotiate terms and conditions for all outstanding and new LC.*

*Xxx*

*4.5 The BTr shall negotiate the interest on the fund while waiting negotiation of the outstanding LC. GSBs shall remit monthly interest earnings to the account that will be designated by BTr. Said interest income unless expressly provided by law shall be remitted to the General Fund.*

*4.6 The concerned GSBs shall provide BTr and DBM status of outstanding LCs monthly.*

*4.7 Xxx. In addition, GSB shall recommend closure of LC outstanding for goods/services already delivered/rendered based on documents submitted by the NGAs.*

*4.8 In case of cancellation of the LC, the GSB shall refund any unutilized balance. For expired LC without request for extension from an NGA, the GSB shall refund not earlier than 6 months any unutilized balance. In both instances, the GSB shall remit unutilized balance to the account of BTr.*

***5. Transitory Provision***

*5.1 The BTr shall negotiate with the GSB concerned interest on the amount of outstanding LCs*

*5.3 All existing agreements relating to LCs shall be superseded and shall be covered by new Memorandum of Agreement pursuant to 4.2 of this Circular.*

* 1. Review of the compliance on the subject TC by the Bank, as GSB, disclosed the expired and unutilized Marginal Deposits on Domestic LCs and Cash LCs – Foreign LCs which remained with the Bank and not remitted to the BTr as of December 31, 2022, contrary to paragraph 4.8 of the TC.

| **NATIONAL GOVERNMENT AGENCIES** | **NO. OF LCs** | **NO. OF MONTHS/YEARS EXPIRED** | | **PESO AMOUNT** |
| --- | --- | --- | --- | --- |
| ***MONTHS*** | ***YEARS*** |
| **Marginal Deposit on Domestic Letters of Credit** | | |  |  |
| Department of National Defense / Armed Forces of the Philippines | 2 | 20.33-41.20 | 1.67-3.39 | 65,444,393.02 |
| Armed Forces of the Philippines | 1 | 24.33 | 2.00 | 9,488,578.02 |
| **Sub-Total** | **3** |  |  | **74,932,971.04** |
| **Cash Letters of Credit - Foreign** |  |  |  |  |
| Department of National Defense / Armed Forces of the Philippines | 4 | 13.20-25.37 | 1.08-2.08 | 323,385.26 |
| Philippine Air Force | 7 | 6.70-36.37 | 0.55-2.99 | 20,786,586.65 |
| Philippine Army | 12 | 6.13-36.17 | 0.50-2.97 | 1,958,036.00 |
| Philippine Navy | 1 | 6.13 | 0.50 | 287,557.86 |
| \*Government Arsenal / Department of National Defense | 1 | 78.20 | 6.43 | 87.25 |
| \*Procurement Service Department of Budget and Management | 1 | 65.27 | 5.36 | 72,608.11 |
| Philippine International Trading Corporation FAO Philippine Army | 5 | 9.20-29.47 | 0.76-2.42 | 1,162,334.20 |
| **Sub-Total** | **31** |  |  | **24,590,595.33** |
| **Grand Total** | **34** |  |  | **99,523,566.37** |

\*UCPB

* + 1. Management explained that LBP had entered into a Memorandum of Agreement (MOA) with the Department of National Defense-Armed Forces of the Philippines (DND-AFP), Philippine Air Force, Philippine Army, and Philippine Navy. Paragraph F.6 of the MOA provides:

*In case of cancellation or expiration, LBP is obligated to refund any unutilized balance at the prevailing buying rate at the time of LC opening upon receipt of DND-AFP’s written request for cancellation,**after deducting any fees or charges from the negotiation therefrom.*

* + 1. Management added that, since LBP did not receive any written request for cancellation from the concerned NGAs, the expired LCs were neither cancelled nor refunded by the Bank. However, it is our view that, in the case of said NGAs, LCs are already expired and no longer valid, hence, cancellation is unwarranted. Thus, LCs not remitted to the BTr after six (6) months from their expiry is not in accordance with item 4.8 of TC No.3- 2019.
  1. Further, the Schedule of Accounts Payable–Government Entities (AP-GE) as of December 31, 2022 disclosed excess payments for LCs that have expired, which are long outstanding for 15 to 36 months or 3 years, which were not also remitted to the BTr as of December 31, 2022. Details are as follows:

| **NATIONAL GOVERNMENT AGENCIES** | **NO. OF LCs** | **NO. OF MONTHS/YEARS OUTSTANDING** | | **PESO AMOUNT** | **REMARKS IN THE SUBMITTED SCHEDULE** |
| --- | --- | --- | --- | --- | --- |
| **MONTHS** | **YEARS** |  |  |
| **Accounts Payable - Government Entities** | | | | | |
| Armed Forces of the Philippines | 1 | 36.67 | 3.01 | 575,416,918.15 | Excess payment for LC |
| Philippine National Police - SAF | 1 | 20.43 | 1.68 | 369,096.91 | Excess payment for LC |
| Philippine National Police | 1 | 20.37 | 1.67 | 21,958,806.24 | Excess payment for LC |
| Philippine National Police | 1 | 15.67 | 1.28 | 601,710,000.09 | Excess payment for LC |
| **Total** | **4** |  |  | **1,199,454,821.39** |  |

* 1. LCs of AFP and PNP- SAF amounting to P575,416,918.15, and P369,096.91 were fully negotiated/closed on December 21, 2020, and November 21, 2022, respectively. The P575,416,918.15 was reverted to AFP instead of the BTr on February 28, 2023 and the P369,096.91 was remitted to BTr on February 1, 2023.
  2. Excess payment for LC amounting P21,958,806.24, pertains to expired LC.
  3. LC of PNP amounting to P601,710,000 was considered an excess payment from the original LC cover of P1,002,850,000.00 dated 17 September 2021 after the following applications of payment:

|  |  |
| --- | --- |
| **Date** | **Amount** |
| May 31, 2022 | 150,427,500.00 |
| September 1, 2022 | 100,285,000.00 |
| December 14, 2022 | 150,427,500.00 |
| Total | 401,140,000.00 |

Upon instructions of the concerned LU, the outstanding balance will be processed via Outward Telegraphic Transfer (OTT) as soon as the supplier has completed delivery to the PNP.

* 1. On the other hand, audit also revealed that several provisions on the handling of TCs were also not complied as follows:
     + - 1. Expired LCs totaling P99,116,305.76 that were previously opened by NGAs *for domestic procurement*, should no longer be amended/extended; and consequently, be remitted to the BTr, pursuant to Item 4.1 of the TC, which limits the use of LCs *to foreign importation.* Details are as follows:

| **NGAs** | **Booking Date** | **Expiry Date** | **Amount** |
| --- | --- | --- | --- |
| **Marginal Deposits on Domestic LCs** | | | |
| \*DND/ Armed Forces of the Philippines | 12-Jul-16 | 30-Apr-21 | 63,088,481.23 |
| Armed Forces of the Philippines | 03-May-17 | 21-Sep-22 | 2,836,884.72 |
| Armed Forces of the Philippines | 28-Dec-18 | 28-Nov-22 | 21,346,450.00 |
| Armed Forces of the Philippines | 10-May-19 | 31-Dec-20 | 9,488,578.02 |
| DND/Armed Forces of the Philippines | 16-Nov-18 | 13-Aug-19 | 2,355,911.79 |
| **Total** |  |  | **99,116,305.76** |

\*UCPB

Management informed that there is an exemption provided by the BTr for the above domestic procurement, however, no proof of exemption was provided. They added that a Public Sector Department (PSD) Memorandum to ITD dated June 27, 2019 on the opening of Domestic Letters of Credit by various non-borrowing clients of PSD after the effectivity of the TC No. 3-2019 dated May 10, 2019, stating that the TC will only cover prospective contracts and will not apply to contracts executed prior to its effectivity especially if the use of LC is stipulated in the contracts.

* + - * 1. Management did not provide BTr and DBM the required monthly status of outstanding LCs, contrary to Item 4.6 of the TC.
        2. No new MOA was created between BTr and LBP to establish, standardize, and negotiate terms and conditions for all outstanding and new LCs of NGAs, contrary to items 5.3 and 4.2 of the TC.
  1. Lastly, the existing MOA between NGAs and LBP, is not aligned with the provisions of TC, to wit:

*The margin deposits are being invested by the Bank through the Treasury and Investment Banking Sector (TIBS), pursuant to paragraph F.7 of the MOA which states:*

*Pending negotiation of the LC, LBP may invest the LC amount through its TIBS in such low-risk funds as may be determined by TIBS, and any income net of taxes shall be shared between DND-AFP (60%) and LBP (40%). DND-AFP’s share shall be credited to the DND-AFP account.*

That provision of the MOA is not aligned with item 4.5 of the TC, which states:

*The BTr shall negotiate the interest on the fund while waiting* *negotiation of the outstanding LC. GSBs shall remit monthly interest earnings to the account that will be designated by BTr. Said interest income unless expressly provided by law shall be remitted to the General Fund.*

* 1. The non-compliance with the provisions of TC No. 3-2019 defeats the objectives of BTr in establishing banking arrangements with Government Servicing Banks, such as the LBP, to clarify the use of LCs, provide assistance to NGAs in opening of LCs and to efficiently manage the government’s cash resources.
  2. **We recommended and Management agreed to:**
  3. **Coordinate with NGA and remit to the BTr the funds pertaining to LCs that are without amendments or extensions, and****expired/unutilized for more than six (6) months, pursuant to Item 4.8 of the TC No.3- 2019;**
  4. **Make representations with the BTr on entering into a new MOA with BTr to establish, standardize, and negotiate terms and conditions for all outstanding and new LCs of NGAs, pursuant to 4.2 and 5.3 of TC No. 3-2019;**
  5. **Submit monthly Status of outstanding LCs to the BTr and DBM pursuant to 4.6 of the TC No. 3-2019; and**
  6. **Revisit and align existing provision in MOA by LBP with NGAs with Item 4.5 of TC No. 3-2019 on negotiation by BTr and remittance of interest to an account designated by the pending negotiation of LC.**
  7. Management informed that preliminary actions are already being undertaken towards the implementation of the recommendations.

1. **Policy/guidelines of proper assigning of accountabilities and consistency of its implementation were not updated contrary to sound internal control, which resulted to errors in accounting for: a) settlements of LANDBANK Prepaid Card purchase transactions in USD; b) issuances and reporting of semi-expendable properties; and c) disposition of proceeds and interests of clients’ investments through LBP.**
   1. Section 123 of Presidential Decree No. 1445 defines internal control as *the plan of organization and all the coordinate methods and measures adopted within an organization or agency to safeguard its assets, check the accuracy and reliability of its accounting data, and encourage adherence to prescribed managerial policies.*
   2. Review of the financial transactions of the Bank for CY 2022 showed that some policy/guidelines were not updated which resulted in errors in accounting for certain transactions, as follows:
   3. Settlements of LANDBANK Prepaid Card purchase transactions in USD, erroneously recognized under Miscellaneous Expenses (ME) instead of Accounts Payable-Resident E-money (AP) and Fees and Commissions expense account –P124.632 million total misstatements detected and adjusted.
      1. The LANDBANK Prepaid Card (LPC) is a reloadable transactional card that functions like a debit card and is convenient to use as payment for purchases worldwide where Mastercard is accepted. Funds can also be loaded/withdrawn over-the-counter (OTC) in any LANDBANK Branches and Agent Banking Partners and can also be accessed through the LANDBANK Mobile Banking Application.
      2. Records showed that the balance of ME account as of December 31, 2022 under FDRD books amounted to P154,450,944.32, a significant increase by P105,224,427.61 or 214 per cent from the reported balance of P49,226,516.71 in CY 2021. Review of the account disclosed that LPC transactions amounting to P124,632,323.21 or 81 per cent of the total ME account balance for CY 2022, included settlement of LPC purchase transactions in USD thru Bank of America, New York.
      3. It was noted that the settlement of purchase transactions in and various LPC-related fees/charges in USD were both erroneously charged to ME instead to Accounts Payable e-Money for the amount loaded in LPC and Fees and Commission Expense for the corresponding LPC-related fees/charge. This resulted in the overstatement of ME by P124,632,323.21 and Accounts Payable-Resident E-Money by an undetermined amount, and understatement of Fees and Commissions Expense also by an undetermined amount.
      4. Upon recommendation, Management subsequently made the necessary adjusting entries to correct the misstatement of P124,632,323.21. Further verification, however, disclosed root causes that need to be addressed to prevent recurrence. Absence of guidelines including proper account ting entries increases the probability of recurring error risks.
      5. As explained by FDRD, the booking to ME account of LPC transactions for CY 2022 was based on the identified Mastercard transactions in the Daily Statement of Account received from Bank of America, New York. From the identified Mastercard transactions, the amount of Mastercard Credit Card transactions based on the Digital Banking Support Department (DBSD) memorandum for the Settlement Dollar Transaction for LOMD are deducted and the balance are assumed as LPC transactions and recorded to ME account, without coordinating with AOSD on the breakdown and nature of the amount. FDRD also mentioned that the amounts should have been converted to PHP based on the Internal Reference Rate (IRR) at transaction date and the corresponding debit/credit ticket be issued by AOSD to them for the booking of the settlement. However, AOSD did not provide debit/credit ticket as their basis in booking the settlement transactions.
      6. Notably, Management informed that no approved guidelines, including proforma accounting entries, on handling of LPC transactions have been issued.
   4. Semi-expendable properties already issued to end-users, erroneously classified and reported as Supplies and Stationeries (SOS) on hand - P69.959 million total misstatements detected and adjusted.
      1. Verification of the Reconciliation Statement of Stationery and Office Supplies on Hand as of December 31, 2022, noted 13 reconciling items with a net amount of P80.813 million were not included in the Administrative Accounting Department’s (AAD’s) subsidiary ledger balance as of December 31, 2022. Of that amount, a total of P69.959 semi-expendable properties were found issued to end-users but classified and reported as SOS on hand, not expensed for the year ending December 31, 2022.
      2. The Administrative Accounting (AAD) averred that they were not informed of the issued semi-expendable properties and the Facilities Management Department (FMD) have not received documents on the issuance of said items. AAD added that the Administrative Services Officer (ASO) of the Supplies Management Division (SMD) under FMD is responsible for the preparation of the report on the issuances of office supplies and semi-expendable items and the submission of said report to AAD as provided for in No. 19, Letter A, Item 102 of Chapter 1 of the Manual of Facilities Management Department on the Issuance of Office Supplies, Electrical, Hardware and Other Supplies.
      3. Verification with FMD showed that the functions earlier discussed were already transferred to the Procurement Department (ProcD). The SMD, which was previously under the FMD, was transferred to ProcD and was renamed Supplies Management Team (SMT) as shown in Special Order (SO) No. 539 series of 2021 signed and took effect on June 11, 2021, approving the new organizational chart of the Procurement Department. SMT is now under ProcD, and FMD’s claim of transfer of responsibility.
      4. Prior to the transfer of SMD to ProcD and its renaming to SMT, FMD submits the reports and documents pertaining to the issuances of office supplies and semi-expendable items to AAD for the updating of the balance of the asset account and recognizing the equivalent expense account Stationery and Office Supplies Used. FMD also prepare reconciliation report of the stock level of the office supplies and semi-expendable items, which includes not only the items stored in the warehouse but also the items in custody of NOD, PCMD and SID. After the transfer of SMD to ProcD, FMD discontinued sending copies of Property Transfer Slip (PTS), the preparation of reconciliation reports and other source documents to AAD indicating the absence of an updated policy/guideline on the responsibilities of concerned units as a result of the new organizational chart of FMD.
      5. However, the functions and responsibilities of SMD transferred to ProcD were not updated and no related policy issued. It is unclear on the department responsible to submit PTS and other source documents to AAD and to prepare the Reconciliation Report on the Stationery and Office Supplies, hence, resulted in incomplete reconciliation of SSOH and SSU as of year-end.
   5. Unsettled Accounts Payable (AP) - Resident-Various-Non Deposit account representing proceeds and interests of clients’ matured investments amounting to P1.474 million are outstanding for over two (2) to 15 years.
      1. As at December 31, 2022, the AP – Resident-Various-Non Deposit account of the Treasury Operations Department (TOD) has a balance of P33,384,388.75, of which records showed that P1,474,095.02 represents staled checks issued for the payment of coupons or interests and proceeds of matured investments of various clients covering calendar years 2007-2017, hence, the AP are outstanding for over two to 15 years.
      2. The Division Chief of Accounting Unit – Domestic of the TOD informed that the first and final notices required in EO No. 047 series of 2021 were not sent to the claimants due to either the LBP deposit/settlement accounts of the claimants are closed and/or the claimant’s cannot be reached using the known contact numbers or addresses. The TOD was not able to get the updated contact numbers and addresses of the claimants even from the LBP branches. Hence, the long outstanding APs cannot be reclassified to Miscellaneous Income account in spite of having been outstanding for more than two years.
      3. It was further noted that EO No. 047 series of 2021 had not considered the resolution of long outstanding APs when the sending of notices to clients is not feasible for the reason the claimants cannot be reached in their known contact numbers or addresses.
   6. **We recommended and Management agreed to:**

**Develop guidelines on handling LPC transactions, including its proforma accounting entries;**

**Update the Bank’s Policy on the following responsibilities:**

**b.1 Submission of Property Transfer Slips (PTSs) and Invoice Receipt for Property, for the issuances of Semi-expendable items by SMD, NOD, BBSD-PCMD and SID to AAD on a regular basis;**

**b.2 Preparation and submission by NOD, BBSD-PCMD and SID, of physical stock level report to AAD; and**

**b.3 Preparation of monthly Reconciliation Report of Stationery and Office Supplies on Hand by AAD.**

**Consider inclusion in the policy guidelines the resolution of long outstanding payables when sending notices to the claimants are ineffective.**

* 1. Management agreed with the recommendations and informed that preliminary actions towards the implementation of the recommendations are already being undertaken in the 2nd quarter of the succeeding year.

1. **Service fees for the distribution of cash grants to eligible farmer beneficiaries, under the FSRF and RFFA programs totaling P5,263,860.00 remain uncollected from three (3) days to more than two (2) years as at December 31, 2022 due to delayed submission of supporting liquidation documents and billing statements by LBP Servicing Branches, contrary to submission timelines set by the Bank.** 
   1. Financial Subsidy to Rice Farmers (FSRF) and Rice Farmer Financial Assistance (RFFA) are programs of the National Government through the Department of Agriculture (DA). The FSRF and RFFA Programs are part of the government’s assistance to rice farmers mostly affected by the implementation of Republic Act No. 11203 otherwise known as the Rice Tariffication Law which removes the quantitative restrictions on rice imports, and replaced them with a 35 percent import tariff. The sudden impact of the influx of imported rice resulted in huge income losses on rice farmers, thus, to mitigate the projected reduction or loss of farm income due to the drop in palay farm gate prices, the government set up both FSRF and RFFA programs which provides a one-time cash grant to qualified farmer-beneficiaries amounting to Five Thousand Pesos (P5,000.00).
   2. The RFFA Program was implemented within the two (2) year transition period (2019-2020) and the FSRF Program was implemented within the year 2020. Based on the letter dated February 17, 2021 sent by the DA to LBP, DA requested and LBP accommodated the extension of the distribution of the cash assistance for both FSRF and RFFA Programs until February 25, 2021.
   3. The Implementing Guidelines for both the FSRF and RFFA Programs stated that the DA shall open and maintain a “DA – FSRF/RFFA Fund and DA – FSRF/RFFA Service Fee Accounts” at LBP Elliptical Road Branch.
   4. The Memoranda of Agreement (MOA) executed and entered into by and between the DA and LBP for the FSRF and RFFA Programs authorized LBP *to collect and debit service fees from the FSRF and RFFA Service Fee Accounts* upon generation of FSRF and RFFA Cash Cards and every successful payout transactions.
   5. The MOA for the FSRF Program and the Implementing Guidelines for the RFFA Program provided that the payment and distribution of cash grants to farmer beneficiaries shall be made either through LBP Cash/Prepaid Cards, Over-the-Counter (OTC) or other electronic modes.
   6. However, the pandemic in 2020 caused the delay in the production of cash cards and the distribution of cash grants so both programs utilized OTC payout as the mode of distribution of cash grants to farmer beneficiaries as instructed by the DA. The service fee for the cost of OTC payout is P30.00 per beneficiary as agreed upon by the Parties.
   7. LBP issued Memorandum dated June 16, 2020 which requires the LBP Servicing Branches to submit billing statements and Certifications of Accounting for OTC distribution of cash grants to the rice farmers for both FSRF and RFFA Programs, ***within ten (10) working days after the last day of payout month*** to facilitate payment of service fee.
   8. The LBP Government Program Support Department (GPSD) handles the monitoring for the efficient distribution of cash grants to eligible farmer beneficiaries in coordination with the DA.
   9. Review of the monitoring report provided by GPSD on the billed amount of service fees for OTC payments of FSRF and RFFA cash grants by various LBP Servicing Branches disclosed a total of P5.264 million which remained uncollected from three (3) days to more than two (2) years as at December 31, 2022 and lodged under Accounts Receivable-Government Entity (AR-GE) account. The details as follows:

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **DA PROGRAM** | **NO. OF PAID RICE-FARMER BENEFICIARIES** | | **TOTAL AMOUNT BILLED AS SERVICE FEE\*** | **PAID SERVICE FEE** | **REMAINING UNPAID SERVICE FEE** | |
| FSRF | 475,492 | 14,264,760.00 | | 9,080,730.00 | 5,184,030.00 | |
| RFFA | 87,081 | 2,612,430.00 | | 2,532,600.00 | 79,830.00 | |
| **TOTAL** | **562,573** | **16,877,190.00** | | **11,613,330.00** | **5,263,860.00** | |
| *\*Transaction Cost for OTC Payment at P30 per paid beneficiary* | | | | | |  |

* 1. GPSD alleged that the main cause of delay in the collection of the service fees and commission income was due to the lack of funds of DA. LBP-GPSD disclosed that several follow ups were made through email to the DA on their requesting for the additional funding but no replies were received from the agency.
  2. A letter sent by GPSD to the DA on 27 February 2023 including an e-mail on 14 June 2023 followed up the request of LANDBANK for additional funds for the payment of cash cards generation and distribution cost of the FSRF Program of P5,335,105.00. The amount requested includes the P5,184,030.00 service fees for over-the-counter (OTC) payouts by LANDBANK servicing branches.
  3. However, verification showed that there were delays in the preparation and submission by the various LBP Servicing Branches of the billing and liquidation documents as prerequisite of the DA to verify and pay the service fees due to the Bank for both FSRF and RFFA Programs. It was stated in the LBP Memorandum dated December 21, 2020, that the required supporting documents shall be submitted within ten (10) working days after the last payout month for reconciliation and billing purposes.
  4. The LBP Servicing Branches officials averred the following reasons that the GPSD’s submission requirement of the billing and liquidation documents within ten (10) workings days after the last day of pay-out month was not complied due to the following:

The task was assigned as an additional work load to personnel with regular function;

The distribution was done amidst the surge of COVID-19, with the risk that personnel might get infected;

The LBP Servicing Branch had experienced several closures due to COVID-19 infections among employees;

Request and instructions to extend the payout to accommodate other beneficiaries who were not able to claim during the scheduled offsite payouts due to various reasons, more particularly the COVID-19 protocols where beneficiaries were either on locked-down in other provinces, on quarantine, infected by the virus, or restricted to go out due to age and heath condition; and

Difficulties in handling reconciliation and completion of supporting documents specifically in completing the lacking signatures of farmer-beneficiaries on the “Received by” portion (some failed to sign on all three copies) of the Payroll List.

* 1. Review also showed that while the distribution of cash grants under the FSRF and RFFA Programs were already concluded on February 25, 2021, the LBP Servicing Branches were not able to prepare and submit the supporting liquidation documents and billing statements to GPSD and their respective Accounting Centers for the proper settlement of the accrued service fees receivable as at December 31, 2022.
  2. The delay in submission of the required documents for the Bank to collect service fees resulted in uncollected service fees and commission income from OTC payments lodged in the AR–GE account amounting to P5,263,860.00 from three (3) days to more than two (2) years, thus, depriving the Bank of additional funds for financial assistance and support services to its mandated and priority sectors.
  3. **We recommended that the LBP Servicing Branches prepare and submit full liquidation documents and billing statements to GPSD, within the timeline set by the GPSD, pursuant to the prerequisite of the DA to enable verification, reconciliation and collection of the service fees and commission income lodged under the AR-GE account.**
  4. GPSD informed that actions are already being undertaken to implement the recommendations.

1. **Delays in responding to and resolving system issues and errors related to InstaPay, PESOnet, BancNet, and iAccess, resulted in long outstanding receivables amounting P16,859,061.65 as at December 31, 2022, contrary to LBP Administrative Order No. 018, and LBP Executive Order (EO) No. 088, and thus, exposing the Bank to risks of unrecoverable losses.**
   1. Section C.2 of LBP Administrative Order (AO) No. 018, Series of 2019 on the General Guidelines of Accounts Receivable (A/R) provides that ***A/R shall be collected immediately upon incurrence.*** *(emphasis ours)*.
   2. Section D.1.b of LBP Executive Order (EO) No. 088, Series of 2015 on the Guidelines in Handling Incident, Problem and Change Management of Information Technology Application Systems prescribed that *The Application Administrator shall respond, evaluate, resolve and/or facilitate resolution of reported incident by performing appropriate incident handling and response/resolution, which includes remedial steps (manual/procedural solution) or work-around procedures to be taken (if any),* ***to address the cause or provide immediate resolution.*** *(emphasis ours)*.
   3. On January 17, 2023, FAD issued a memorandum regarding the reconciliation statement of Due from BSP account as of December 31, 2022 and instructing all concerned units to book/resolve float items pertaining to respective units on or before January 31, 2023.
   4. Review of A/R, Due from BSP and Due from/to Head Office/Branch accounts of the ATM Operations Support Department (AOSD) and Foreign and Domestic Remittance Department (FDRD) disclosed collectibles by the Bank arising from the following:

| **Particulars** | | **Amount** |
| --- | --- | --- |
| AOSD | IBFT/InstaPay transactions not debited from LBP’s cardholders | 1,732,854.00 |
| AOSD | Charge Slip Issued against LBP | 4,966,381.00 |
| FDRD | Errors in manual input of status code in the PesoNet System based on LBRS generated data | 8,319,045.91 |
| FDRD | iAccess system error | 1,840,780.74 |
| **Total** |  | **16,859,061.65** |

***Settled InstaPay transactions but not debited from LBP’s cardholders amounting P1,732,854.00***

* 1. InstaPay is one of the Automated Clearing Houses (ACHs) under the National Retail Payment System (NRPS) framework adopted by the Bangko Sentral ng Pilipinas (BSP) in CY 2017 which aims to establish a fast, efficient, secure, and reliable retail payment system in the Philippines. The InstaPay is an electronic fund transfer (EFT) service that allows transfer of PHP funds almost instantly between accounts of participating BSP-supervised banks and electronic money issuers. BancNet was the designated Clearing Switch Operator (CSO) of InstaPay tasked to act as the system operator of the clearing system to be used by the Participants and to operate the technical infrastructure for fund transfer and bills payment facilities.
  2. The IBFT/InstaPay transactions amounting to P1,732,854.00 are transactions settled in BancNet but not debited from the account of LBP cardholders, aged one (1) day to over two (2) years and provided with allowance for losses as follows:

|  |  |  |  |
| --- | --- | --- | --- |
| **Age** | **Gross Amount** | **Allowance for Losses** | **Net Balance** |
| 1 to 30 days | 6,030.00 | 0 | 6,030.00 |
| 31 to 360 days | 121,098.00 | 121,098.00 | 0 |
| Over 1 year to 2 years | 476,080.00 | 476,080.00 | 0 |
| Over 2 years | 1,129,646.00 | 1,129,646.00 | 0 |
| **Total** | **1,732,854.00** | **1,726,824.00** | **6,030.00** |

* 1. Review of subsidiary ledger of A/R-Resident-Others-Various Receivable of AOSD showed that the foregoing fund transfers made by LBP cardholders to other banks through InstaPay were successfully settled with BancNet, thus, were deducted from LBP’s BSP settlement account, but were not deducted from the LBP cardholders’ accounts. AOSD Assistant Department Manager explained that the amounts were supposed to be automatically deducted from the cardholders’ account, however, due to system issues/glitch, thus, the receivables from cardholders.
  2. Review further disclosed that the Head of AOSD sent a System Feedback Form (SFF) to the Application Administrator which is the Digital Banking Management Department (DBMD) on October 5, 2020 relative to the large volume of unsuccessful InstaPay transactions (settled with BancNet but not debited to source accounts). However, DBMD only responded on January 24, 2023, more than two years from the date the SFF was sent. In its reply, DBMD explained that the investigation, in coordination with the E-Banking Systems Department (EBSD), a system time-out occurred during crediting of settlement and the in-house gateway connection was intermittent which caused the reversal of the transaction. It added that an optimization in the credit inquiry job to handle the scenario was made.
  3. Moreover, review noted that the system issue persists as of January 2023 based on AOSD Schedule of A/R as of January 31, 2023 which showed instances of InstaPay transactions settled with BancNet but not debited from cardholders on January 5 and 13 amounting to P4,100.00 each. It was noted that there were no other contingency measures to reverse the receivable immediately when the system was not functioning effectively (e.g. manual adjustment/debiting of cardholders’ account).
  4. The AOSD Assistant Department Manager informed that Debit Advices were issued and requested clients’ Branch of Account (BOA) to facilitate debiting of account to reverse the A/R. However, this still depends on the cardholder’s available account balance and approval. It was added that follow-ups are being made regularly but the account has either no balance, closed or client can no longer be contacted. It was further informed that these receivables will be requested for write-off subject to approval and existing Bank’s accounting rules/procedures.
  5. The limitations to immediately respond and resolve system issue/glitch through remedial steps (manual/procedural solution) or work-around procedures is not consistent with Section D.1.b of LBP Executive Order No. 088, resulting in accumulation of P1,732,854.00 A/R, P1,726,824.00 or 99.65 per cent of which has been provided 100 per cent allowance for probable losses for being outstanding for 30 days to over two years as of December 31, 2022.

***BancNet Charge Slip Issued Against LBP amounting P4,966,381.00***

* 1. The Accounts Receivable arising from Charge Slip Issued Against LBP amounting to P4,966,381.00 pertained to charges made by BancNet to LBP’s settlement account after the lapse of the Turn-Around-Time (TAT) in responding to complaints against LBP. The balance is aged and provided with allowance for losses as follows:

| **Age** | **Gross Amount** | **Allowance for Losses** | **Net Balance** |
| --- | --- | --- | --- |
| 1 to 30 days | 3,745,109.00 | 0 | 3,745,109.00 |
| 31 to 90 days | 905,540.00 | 114,188.59 | 791,351.41 |
| 91 to 360 days | 261,526.00 | 261,526.00 | 0 |
| Over 1 year to 2 years | 43,886.00 | 43,886.00 | 0 |
| Over 2 years | 10,320.00 | 10,320.00 | 0 |
| **Total** | **4,966,381.00** | **429,920.59** | **4,536,460.41** |

* 1. The complaints originated from withdrawals of other bank cardholders at LBP Automated Teller Machines (ATM) which were debited from their accounts but were not dispensed by the ATM. The complaints were not responded by LBP in accordance with Items 6.2.1 of the BancNet Policies and Guidelines for Interbank Claims revised on May 2021, providing turn-around-time, *for claims on ATM cash withdrawals, POS Cashout and Inter Bank Fund Transfers (IBFT* of *Within eleven (11) banking days (T1 + 10) for chargeback transactions as Acquirer / Transferee).*
  2. AOSD Assistant Department Manager explained that reversal of the accounts receivable is ongoing, with AOSD as either originating unit (i.e. for Inter-Office-Advice [IOA] to branches) or as responding unit (i.e. awaiting IOA from branches). AOSD further informed that the complaints of transactions aged for more than 360 days were affected due to the COVID-19 pandemic wherein various community quarantines were declared, which resulted to branches having limited operating hours in submitting the required documents for reversal. AOSD added that there were instances the ATM Electronic Journals (EJ) were corrupted or not available to verify if the ATM transaction is successful or not. Lastly, AOSD further added that the branches are regularly reminded/advised on the auto-charging of lapsed chargeback by BancNet. However, review of the AOSD Schedule of Accounts Receivable as of January 31, 2023 disclosed 752 instances of lapsed chargeback transactions booked on different dates during the month of January 2023 with total amount of P4,322,433.50 which indicates that the non-responding to complaints within the TAT still persist.
  3. The gaps in responding within the prescribed TAT for the lapsed chargeback transactions is not in accordance with the BancNet Policies and Guidelines for Interbank Claims. This prevented prompt reversals of A/Rs amounting P4,966,381.00, and recognition of P429,920.59 in allowance for probable losses for aged over 30 days.

***Errors in manual input of status code in the PesoNet System based on LBRS generated data amounting* *P8,319,045.91***

* 1. The Bank Reconciliation Statement of Due from BSP account, prepared by the Financial Accounting Department (FAD) as of December 31, 2022, included reconciling items pertaining to FDRD’s regular transactions in LBRS specifically the BSP debits not in LBP books amounting to P8,319,045.91 with transaction date of August 12, 2020.
  2. Inquiry with FDRD personnel revealed that the reconciling item of August 12, 2020 pertains to LBRS PesoNet remittances to LBP account holders coming from other banks totaling to P8,319,045.91. Treasury Operations Department (TOD) erroneously feedback the remittance transactions as rejected transactions by manually entering wrong status codes in the PesoNet System. The feed-back procedure was manually made by entering the status codes of the remittance transaction, i.e., DS07 for processing “OK”, AC03 for “Invalid Creditor Account Number” and BE01 for “Inconsistent with End Customer”. Inadvertently, TOD inputted the code BE01 instead of DS07 in the PesoNet System. LBRS successfully processed the transactions and eventually credited the respective LBP accounts destination.
  3. The affected LBP accounts credited were recalled due to the error made. Some local banks have returned the amounts, but were received by LBP as a regular inward remittance with no indication as returned items, hence, were credited again to the same LBP account holders via the LBRS system. As of October 31, 2022 the total duplicated figures credited amounted to P5,551,856.31. The process of reclamation of FDRD is still on-going in coordination with the respective LBP Branches of account.
  4. The concerned personnel informed the audit team that the manual processing of entering status codes rather than automatic uploading of LBRS generated file in the PesoNet System have caused the erroneous feedback of the remittance transactions, leading to improper crediting of recipient bank accounts.
  5. The Due from BSP reconciling items amounting P8,319,045.91 which remained in the books for more than two years as of December 31, 2022 is not in accordance with the issued Memorandum requiring reconciling items to be resolved on or before January 31, 2023.

***iAccess system error amounting P1,840,780.74***

* 1. Verification of the Schedule of Reconciliation of IBTOLS Due from/to Head Office/Branch account as of December 31, 2022 disclosed discrepancies amounting P2,517,037.25. The iAccess system error caused the discrepancy between the FMS-GL and IBTOLS-SL balance by P1,840,780.74 or 74.26 per cent of the total net discrepancy. The system error was an erroneous system credit back to the source account of unsuccessful fund transfers through PESONet authorized by LBP account holders using the iAccess, the retail e-banking channel of LBP.
  2. The iAccess perform debiting of client’s source account immediately upon authorization/confirmation of transaction by LBP account holders. The system shall initially indicate in the Bank back office report an initial status of “Awaiting Response from the Destination Bank” and if the system receives the response within the allowable inquiry period of 3 banking days from point of debiting client’s source account for the PESONet transactions, the status should be changed by the system to “Successful” for successful transactions. In case of failed or returned transaction by the destination bank, the corresponding amount to be transferred shall be credited back by iAccess automatically to the source account. In case of no response beyond the allowable inquiry period of 3 days, the system should change the status to “Forwarded to Destination Bank” and, in this instance, FDRD validates the iAccess back office report for manual credit back to the source account.
  3. We noted however, that the status of 206 PESONet transactions from November 17, 2020 to January 26, 2021 with total amount of P2,253,108.74 remained at “Awaiting Response from the Destination Bank” status, contrary to the expected change of status within the allowable inquiry period of 3 banking days for PESONet transactions. The amount of P2,253,108.74 to be transferred were manually credited back by FDRD to the source account in coordination with Digital Banking Management Department (DBMD), the application system administrator. However, during the batch processing on January 27, 2021 the system encountered error and performed another credit back transaction to the respective source account, hence, the corresponding amount to be transferred were credited back twice to the source accounts.
  4. FDRD informed thru email the DBMD on January 28, 2021 of the incident in paragraph 11.23 with list of affected transactions. DBMD issued a memorandum dated March 01, 2021 to the concerned branches of the affected LBP accounts informing the incident and requesting to observe the following procedures: a) Validate any double credit to the account based on the list, b) Debit the source account and c) Originate debit IOA contra FDRD. This was reiterated by FDRD in a memo dated November 16, 2022. As of December 31, 2022, a sum of P412,328.00 was collected leaving a balance of P1,840,780.74. FDRD mentioned that the collectibility of the balance depends on the available balance of the account holder, or the account has either no balance, or a closed account or account holder can no longer be contacted.
  5. It was further noted that no other contingency measures were undertaken to reverse the erroneous credit back to the source account performed by the iAccess system such as manual debiting of the affected source account or halting the withdrawal considering that the affected accounts were immediately accounted, contrary to Section D.1, Application System Incident Management, of LBP Executive Order No. 088.
  6. System issues and errors related to InstaPay, PESOnet, BancNet, and iAccess, which were not immediately resolved resulted to long outstanding receivables of P16,859,061.65 as at December 31, 2022, contrary to policy on immediate collection of A/R under LBP AO No. 018, and immediate resolution under LBP EO No. 088, which exposed the Bank to risks of unrecoverable losses.
  7. **We recommended and Management agreed:**

1. **For the AOSD and FDRD, in coordination with the concerned branches to expedite reconciliation and collection of the receivables resulting from system issues and errors;**
2. **For the DBMD to:**

**b.1 Identify and resolve within specified timelines, system issues/glitches to prevent accumulation of long outstanding Accounts Receivable; and**

**b.2 Immediately respond to Application System-related incidents reported by system users through SFF and perform remedial steps (manual/procedural solution) or work-around procedures, in instances of system failure.**

* 1. Management informed that the outstanding A/R pertaining to IBFT/InstaPay and chare-back transactions have decreased to P1,292,672.00 from P1,732,854.00, and to 204,032.00 from P4,966,381.00, respectively, as of June 30, 2023. Also, of the total float items on BSP debits not in LBP books amounting to P8,319,045.91, the remaining outstanding balance is P7,119,270.34 classified to Accounts Receivable – Various. Other actions are being undertaken by management to implement the recommendations.

1. **Management of Accounts Payable (A/P) as outlined in LBP Executive Order (EO) No. 47 series of 2021 was not complied, resulting in accumulation of payables in the Branches totaling P143.110 million, outstanding for more than one (1) to twenty-eight (28) years as of December 31, 2022.**
   1. Section A of LBP EO No. 047 series of 2021 on Guidelines in Handling of Accounts Payable – Definition of Terms defines ***Accounts Payable*** as:

*“A* ***short-term debt payment*** *incurred in the normal course of business which* ***needs to be paid within a given period*** *to avoid default “.*

* 1. Section B of the same EO provides the following General Guidelines, in Handling AP:

*3. Monitoring of AP*

* + 1. *A* ***monthly report of outstanding A/P shall be* prepared *by the AU and sent to IU within ten (10) banking days after month-end for monitoring and payment purposes*** *xxx****.***
  1. *Within 30 calendar days from receipt of report from Accounting Unit (AU),* ***Incurring Unit (IU) shall provide AU the status of A/P and action taken****.*
  2. *xxx*

*4. Disposition of Long Outstanding A/P*

1. *Based on the aging report,* ***a “Notice” shall be sent by the IU through mail to all payees to be completed within (1) month after end of semester*** *as follows:*

|  |  |
| --- | --- |
| ***Notice*** | ***Age*** |
| *First Notice (Exhibit 3)* | *Over three (3) months outstanding* |
| *Final Notice (Exhibit 4)* | *Over six (6) months outstanding* |

*Note: The Final Notice shall be sent through a registered mail. The Registry Return Card shall be then safe kept on file.*

* 1. Moreover, Section D of the same EO provides the following as part of Internal Controls:

*Ensure the completeness of supporting documents and other evidence of indebtedness before booking of A/P.*

*IU shall safekeep all documents related to the booking of A/P as reference for its proper disposition. Xxx*

* 1. Review of the Schedules of Accounts Payable as at December 31, 2022 disclosed payable balances of several branches under various Accounting Centers which remained unadjusted to the proper accounts for more than one (1) year to 28 years:

| **Accounting Center (Branches)** | **Total** |
| --- | --- |
|
| South NCR | 25,323,635.65 |
| North NCR | 6,738,432.97 |
| CAR | 1,175,351.23 |
| REGION I | 2,618,155.60 |
| REGION II | 3,179,866.97 |
| REGION IV | 1,441,100.00 |
| REGION VI | 94,434,706.01 |
| REGION VIII | 3,665,893.82 |
| REGION XI | 4,532,568.26 |
| **TOTAL** | **143,109,710.51** |

* 1. Verification of the payable balances showed that the amount of **P143,109,710.51 includes various transactions which has been outstanding from 1 year to 10 years (details in Annex A).**
  2. Verification further disclosed the following causes that contributed in the accumulation of the long outstanding A/Ps:
  3. AU’s and the branches’ non-compliance on provisions of the monthly report of outstanding APs contrary to Section B.3.a and Section B.3.b, respectively.

ACs averred that the branches are regularly furnished the required monthly report on outstanding A/Ps but the ranches did not provide updates on the status of A/Ps and the actions taken within 30 days from receipt of the report. On the other hand, the branches claimed that the ACs do not forward the required monthly report on outstanding A/Ps to them within ten (10) banking days after month-end for monitoring and payment purposes.

* 1. Branches’ non-compliance on sending notices of long outstanding APs to payees contrary to Section B.4.b of EO No. 47.

Branches/ IUs did not faithfully comply with the preparation and sending of the notices of the long outstanding A/Ps to payees that resulted in delays in settling liabilities and accumulation of long outstanding liabilities. Additionally, it could impede the implementation of subsequent actions or measures that need to be taken on A/Ps, such as reversals or reclassification to the Miscellaneous Income account, after the prescriptive period has expired reckoning from the date of sending the final notice.

* 1. Branches/ IU's non-compliance to keep A/P within short periods and to ensure the completeness of supporting documents and other evidence of indebtedness before booking of A/P, contrary to Section D of EO No. 47.

It is worth noting that EO No. 47 defined A/P as a short-term debt payment incurred in the normal course of business which needs to be paid within a given period to avoid default. A short-term liability is a financial obligation that is to be paid within one year. Thus, the existence of payables for over one (1) to 28 years, totaling P143,109,710.51 in the books of various NCR and Regional Branches, contravenes LBP EO No. 047 (Par 1).

It was also noted that the transactions were not provided with a specific period for settlement, which goes against the above definition of A/P that it “*needs to be paid within a given period”*.

Additionally, the schedules provided did not adhere to the standard description for the recording of accounts payable, making it difficult to accurately identify the nature of each of the account.

* 1. The gaps in the management and oversight of the A/P process, as outlined in Executive Order (EO) No. 47 series of 2021, raise concerns on the validity of the outstanding A/P amounting to P143,109,710.51, which have been unsettled ranging from one (1) to twenty-eight (28) years as of December 31, 2022.
  2. Further, inability to settle or return the long outstanding payables in the books of several Branches may lead to client complaints and dissatisfaction, which could potentially affect the Bank's reputation in terms of fulfilling its obligations and making payments.
  3. **We recommended and Management agreed to:**

**Review and establish validity of the A/P and make the necessary reversals/settlements, in accordance with existing rules and procedures, of those that that have been found no longer valid or whose validity can no longer be established;**

**Utilize the Monthly/ Quarterly / Semi-Annual Aging Report of A/P provided by the ACs to monitor liabilities, and promptly send notices of outstanding AP to payees. The ACs to consistently provide timely reports to Branches/IUs for same purposes; and**

**Verify the completeness of supporting documents before booking A/P pursuant to the standard description outlined in Annex B of EO No. 47, including the recorded A/P, and organize all documents relating to the booking of A/P to ensure proper reference and basis for disposition.**

* 1. Management necessary actions are being undertaken to implement the recommendations.

1. **ATM overages and shortages of P81,862,175.25 and P42,762,516.32, respectively, were unresolved/unaccounted for more than 3 days to over 360 days as at December 31, 2022 due to: a) the RARS’ frequent inability to automate retrieval of ATM files and the prescribed contingency procedures in case of system failure not employed; and b) the procedures on resolving overages and shortages not complied, contrary to LBP Executive Order Nos. 37 and 58, on implementation of RARS and LARS, respectively.**
   1. Remote Automated Teller Machine (ATM) Reading System (RARs) is a software facility that enables the automatic retrieval/pull of Electronic Journal (EJ) File and Terminal Readings (TR) from the ATM and sends it to the Remote ATM reading server for uploading to Integrated Documents and Reports Archival and Retrieval System (IDRARS), now LARS). The LANDBANK Automated Teller Machine Reconciliation System (LARS) was employed because of the upgrading and enhancements of the LANDBANK ATM Hosts.
   2. LBP EO No. 37, dated May 10, 2013, Implementing Guidelines on the Remote Automated Teller Machine (ATM) Reading System (RARS),states the objectives of the RARs:

Automate the retrieval of ATM’s Electronic Journal (EJ) File and Terminal Readings (TR);

Maximize the efficiency of LBP Branches in serving Bank clients (customer service focus) through timely retrieval of transaction data from ATM’s and for prompt response to customer complaints;

Reduce costs attributed to manual method of performing EJ File downloading and ATM terminal reading;

Ensure on-time and accurate reporting of the Bank’s cash position;

Improve/streamline the Bank’s processes thru system automation; and

Optimize the use of IDRARS through the Land Bank’s Intranet Facility in the transmission/retrieval of reports thus, providing on time/easy access to and the most convenient method of obtaining accurate information thru its on-line availability.

* 1. On the other hand, LBP EO No. 58, series 2020, dated May 28, 2020, Guidelines on the Implementation of Land Bank ATM Reconciliation System (LARS), during terminal balancing and matching, provides that *for missing EJ and TR,* ***manually copy the files from the ATM/CDM Terminals and upload the same into the LARS*** *(only if not all terminals were affected, otherwise, coordinate with DCAMD for possible RARS issue/concern*.
  2. On handling of ATM/CDM Overage and Shortage, LBP EO No. 58 prescribes that *overages and shortages from daily balancing or cash retrieval shall be recognized and booked upon discovery and the same shall be investigated and resolved at the Branch level.* Further, said EO provides that ***unaccounted ATM/CDM overages or shortages*** *shall be* ***reversed to “Miscellaneous Income or Expense”*** *immediately upon approval in accordance with the provisions of the Codified Approving and Signing Authority (CASA),* and that *ATM/CDM overage or shortage* ***resulting from the daily balancing’s time difference may be temporarily booked to Sundry Account*** *subject to immediate reversal once investigated and resolved. Overages and shortages during the* ***cash retrieval*** *shall be* ***investigated and resolved within three (3) banking days from retrieval date.***
  3. Review of the Schedules of ATM Outstanding Shortages and Overages of several LBP Branches showed a total of P42,762,516.32 and P81,862,175.25 in shortages and overages, respectively, that remained unresolved/unaccounted for more than 3 days as at December 31, 2022, as shown below:

| **REGION** | **SHORTAGE** | **OVERAGE** | **TOTAL** |
| --- | --- | --- | --- |
| CAR | 6,348,300.00 | 6,626,500.00 | 12,974,800.00 |
| NCR | 22,526,300.00 | 21,753,880.25 | 44,280,180.25 |
| II | 154,800.00 | 190,500.00 | 345,300.00 |
| III | 231,400.00 | 44,592,995.00 | 44,824,395.00 |
| IV-A | 85,800.00 | 20,800.00 | 106,600.00 |
| IV-B | 56,400.00 | 460,600.00 | 517,000.00 |
| VI | 1,292,400.00 | 877,100.00 | 2,169,500.00 |
| VIII | 11,322,300.00 | 6,473,000.00 | 17,795,300.00 |
| XI | 744,816.32 | 866,800.00 | 1,611,616.32 |
| **TOTAL** | **42,762,516.32** | **81,862,175.25** | **124,624,691.57** |

* 1. ***RARS’ frequent inability to automate retrieval of ATM files and the prescribed contingency procedures in case of system failure not employed***
  2. A LARS in-charge informed that there were several instances that RARS was unable to remotely generate the EJ and TR. As a result, if the RARS was not functioning properly, LARS was unable to facilitate the automatic reconciliation and balancing and settlement of ATM and CDM Transactions, necessitating Branches to use manual procedures for reconciliation, causing delay to the reconciliation of undispensed cash withdrawn in the ATM and crediting of the undispensed amount to client’s account.
  3. Inquiry with Branch Banking Support Department (BBSD), the system owner of RARS, revealed that during system malfunctions, an advisory is regularly send to all branches informing of the remote retrieval of EJ is unavailable. Consequently, the branches are instructed to manually copy EJs from the ATM Terminals and upload them to the LARS for daily balancing and reconciliation.
  4. However, it was observed that most of the designated personnel often faced difficulties in manually retrieving the EJ due to the offsite ATM terminals' remote accessibility and the considerable number of terminals that required servicing. Furthermore, the files could not be saved as the necessary compact disc was usually unavailable. At times, the files from the said terminals were also inaccessible due to machine/connection problems. As a result, the LARS in-charge either upload the last available EJ/TR into the system or will not upload any EJ/TR at all leading to shortages and overages if automated reconciliation is performed through LARS. The LARS in charge will just make necessary adjusting entries once the correct EJ and TR are accessible.
  5. ***Procedures on resolving overages and shortages not complied***

* 1. It was verified that unaccounted ATM/CDM overages and shortages were not immediately reversed to Miscellaneous Income or Expense accounts contrary to LBP EO No. 58. A LARS bookkeeper disclosed that they cannot validate the discrepancies immediately due to the unavailability of the Electronic Journal (EJ) file. Further, it was noted that some of the initiated request for reversals were disapproved by their respective AC because the supporting documents provided were incomplete, incorrect, or not in compliance with policies.
  2. Also, it is worth noting that an Internal Control Policy of the Branches and Extension Offices (EOs) that the Branch Head or designated Branch Officer shall conduct an independent review of the recorded ATM shortages and overages every quarter to determine frequency; if booking/reversal are in accordance with policies; and request investigation if necessary. However, according to our inquiry, independent review of the recorded shortages and overages was not made by the Branch Head or designated Branch Officer that contributed to the accumulation of unresolved/unaccounted shortages and overages.
  3. Further, it was noted that the ATM Machine end-of-day balancing cut-off and the bank’s transaction cut-off that were not synchronized. There were ATM/CDM overages and shortages resulting from the said daily balancing’s time difference that were not temporarily booked to Sundry Account, for immediate reversal once investigated and resolved, contrary also to LBP EO 58. The reason these could not be resolved within three (3) banking days from the date of booking was the continued unavailability of reports generated by LARS through RARS. As a result, the branches had to keep track of any discrepancies in the daily balancing as an additional workload.
  4. In addition, it was noted that the Land Bank Information System Technology - Summary of Inter Branch Transaction (SIBT) / Transaction Log File (TLF) Reports, which were utilized to reconcile the transaction data obtained from the ATM Terminals through RARS, failed to account for transactions related to Cardless and Land Bank Prepaid Master Card Withdrawals. Consequently, this has resulted in a substantial accumulation of unresolved shortages and overages, which have not been transferred to Sundry Accounts for prompt resolution.
  5. Lastly, overages and shortages during the cash retrieval were not investigated and resolved within three (3) banking days from retrieval date, contrary to LBP EO 58. According to the LARS Bookkeeper, there have been cases of real cash transactions that were not dispensed due to machine errors. In such cases, they usually had to wait for the next ATM retrieval cycle to ensure that no complaints were filed, which could take an extra three to four days, or sometimes even up to a month, to resolve the issue due to the unavailability of the necessary RARS reports required to confirm and validate the appropriate resolution for the said shortages or overages.
  6. The frequent non-availability of the reports generated by LARS through RARS and the failure of the designated Branch personnel to employ contingency procedures, and the lack of faithful compliance with the handling of overages and shortages, resulted to overages and shortages of P81,862,175.25 and P42,762,516.32, respectively, which remained unresolved/unaccounted for 3 to over 360 days as at December 31, 2022.
  7. **We recommended and Management agreed that:**

**The Branch designated personnel consistently perform contingency procedures in accordance with existing guidelines when no files are uploaded into the LARS or when a system failure occurs;**

**The Branches in coordination with their respective Accounting Centers, reconcile and immediately reverse unaccounted Overages and Shortages to Miscellaneous Income/Expense and Sundry Accounts, in accordance with LBP EO No. 58; and**

**For the system owner to monitor necessary enhancements to RARS to ensure that the system delivers the expected output of automating retrieval of ATM reports for accurate and timely reporting, maximizing efficiency of Bank personnel and reducing costs to the Bank.**

* 1. BBSD has been consistently upgrading the bank’s RARS version as recommended and provided by their ATM vendors and there was already a system enhancement on RARS implemented as of April 2023, thus, the performance of RARS is expected to be maximized and the pulling of reports and availability of these reports to LARS will be more feasible.

1. **The Bank’s GAD Agenda 2022-2025 was not completed/finalized, still subject to calibrations; GAD Plan and Budget (GPB) and GAD Accomplishment Report (AR) for FY 2022 were submitted, however, pending review and endorsement by the Philippine Commission on Women (PCW); and, GAD budget was underutilized, contrary to PCW NEDA DBM Joint Memorandum No. 2012-01.** 
   1. PCW-NEDA-DBM Joint Memorandum Circular (JMC) No. 2012 01 on Guidelines for the Preparation of Annual Gender and Development (GAD) Plans and Budgets and Accomplishment Reports to Implement the Magna Carta of Women provides:

*5.1 Set the GAD agenda or identify priority gender issues and/or specific GAD mandates and targets to be addressed over a one year or three-year term by the* *central office in consultation with regional offices, bureaus and attached agencies. This GAD agenda shall be the basis for the annual formulation of PAPs to be included in the GPB of the department and its attached agencies, bureaus, regional offices and units.*

*X x x*

*6.1 At least five percent (5%) of the total agency budget appropriations authorized under the annual GAA shall correspond to activities supporting GAD plans and programs. The GAD budget shall be drawn from the agency’s maintenance and other operating expenses (MOOE), capital outlay (CO), and personal services (PS). It is understood that the GAD budget does not constitute an additional budget over an agency’s total budget appropriations.*

*X x x*

*8.2 The GFPS of the agency shall review all submitted GPBs and as needed, provide comments or recommendations for revision. Agency review of GPBs shall focus on the alignment of the GAD plan with the GAD agenda and the correctness and alignment of the entries in each column of the GPB template, e.g. if the proposed activities respond to the identified gender issue or cause of the issue, the issues are correctly identified or formulated, if there are clear indicators and targets, if the proposed budget is realistic, if the number of proposed activities are doable within the year, among others. The GFPS shall then submit the final GPBs and the corresponding GAD ARs to PCW for review and endorsement to DBM.*

*The agency submission to PCW shall include:*

*8.2.1 A letter signed by the head of agency informing the PCW that the GFPS of the agency has accordingly reviewed the GPBs and GAD ARs;*

*X x x*

*9.2 Agencies shall inform the PCW in writing if there are changes in the PCW --endorsed GPBs as a result of revising the GPB based on the approved GAA and or the need to implement additional PAPs relevant to current gender issues or GAD--related undertakings as needed. PCW, in turn, shall acknowledge receipt of adjusted GPB and shall inform the agencies if the GAD PAPs or activities in the adjusted GPB are acceptable.*

*X x x*

*10.1 Attached agencies, bureaus, regional offices, constituent units and all others concerned shall submit their GAD ARs to their central offices. The agency GFPS shall prepare the annual GAD AR based on the PCW--endorsed GPB or the GPB adjusted to the approved GAA following the form prescribed in Annex B. X x x.*

* 1. In addition, PCW Memorandum Circular No. 2011-01 dated October 21, 2011 states: under *5.3 Roles and Responsibilities,* thatthe *Executive Committee shall xxx Recommend approval of agency GAD Plans and Budgets and GAD ARs; x x x.*
  2. In line with PCW Memorandum Circular No. 2011-01, the Bank adopted in the LBP Special Order No. 0225 dated February 19, 2019, on the functions and responsibilities of the Executive Committee.
  3. Further, PCW Memorandum Circular No. 2021-04 dated August 24, 2021 set deadline of submission on 15 November 2021 for encoding and submission to PCW of FY 2022 GPBs of GOCCs through the GMMSGPB Submission through the GMMS Version.
  4. Review of the Bank’s implementation of GAD disclosed that the GAD Agenda 2022-2025 was not completed/finalized, and the GAD Plan and Budget and GAD Accomplishment Report for FY 2022, though submitted and showing programs, activities, and projects (PAPs) budgeted with more than the minimum required of at least 5% of the Corporate Operating Budget, are pending review and endorsement by the Philippine Commission on Women (PCW).

***GAD Agenda***

* 1. The non-completion of the GAD Agenda 2020-2025 was raised in CY 2021 audit. Management acknowledged that the Bank’s GAD Agenda 2022-2025 was not completed/finalized and still subject to calibrations. According to the Management, the GAD Agenda entails the collective participation of and contribution of pertinent information by various units of the Bank; thus, the complexity of its preparation. Such an extensive coordination must be made by the GAD Technical Working Group (TWG) Secretariat to ensure that budget estimates and other significant information needed for the implementation of the GAD programs, activities and projects (PAPs) are identified. The preparation of the GAD Agenda started at the height of the COVID-19 pandemic when work priorities had to be refocused. Currently, however, coordination with various Bank units is nearing completion. In 2022, certain recalibrations had to be undertaken in view of the following: (1) a directive to align the GAD Agenda with the Bank’s newly crafted Medium Term Development Plan, and (2) the appointment of a new President and CEO in May 2023, which may lead to new directions.

***GAD Plan and Budget (GPB) and GAD Accomplishment Report (AR****)*

* 1. Despite the lack of a finalized/completed GAD Agenda, the Bank prepared its FY 2022 GAD GPB showing a budget of P184,826,109,288.94, or 50% of the FY 2021 DBM-approved Corporate Operating Budget (COB) of P369,584,125,000.00, submitted to PCW on November 30, 2021, fifteen days late from the deadline set for encoding and submission to PCW, as required by PCW Memorandum Circular No. 2021-04 dated August 24, 2021. The ERD informed that GPBs for years 2020 to 2023 are still pending review of PCW, as reflected in the GMMSv3.
  2. In spite of the absence of a PCW-endorsed GPB, the Bank managed to prepare its FY 2022 GAD AR and submitted it to PCW through the Gender Mainstreaming Monitoring System version 3 (GMMSv3) on March 17, 2023, within the set deadline of PCW. The ERD informed that GAD ARs for years 2020 to 2022 are still pending review of PCW, as reflected in the GMMSv3.
  3. ERD acknowledged that the GAD Plan and Budget (GPB) and GAD Accomplishment Report (AR) for FY 2022 are pending review and endorsement by the PCW. However, ERD commented that this matter is beyond the Bank’s control. Once submitted to the Gender Mainstreaming Monitoring System or GMMS (in the Bank’s case, GMMS Version 3), the GPB and GAD AR are now subject to the review of the PCW-assigned reviewee and, subsequently, endorsement by the PCW. The Bank can only wait for the said endorsement and/or respond to or address feedback from PCW, if any, prior to its final endorsement. Management added that the Bank was able to comply with the reportorial requirements (e.g., submission of the GPB and GAD AR as scheduled) as prescribed in the pertinent laws, rules, regulations, and issuances.

***GAD Accomplishments***

* 1. On the basis that the Bank is not precluded from conducting its GAD PAPs despite lack of a finalized GAD Agenda and PCW-endorsed GPB, the GAD Accomplishment Report (AR) for FY2022 submitted to the audit team vis-à-vis the GPB for FY 2022 submitted to PCW was reviewed. The Bank utilized a total of P13,686,895,692.28, or 30.25 per cent, using the revised GAD Budget of P45,244,068,986.82.
  2. The review of the FY 2022 AR vis à vis the GPB was conducted to also determine whether planned activities were accomplished during the year, in accordance with the prescribed budget. Presented below are the observations noted in the review:
  3. GAD budget reflected in the GAD AR is P45,244,068,986.82, representing the 8.51 per cent of the DBM approved Corporate Operating Budget (COB) of LANDBANK for FY 2022, amounting to P531,447,853,000.00. The budget is a revision of the GPB submitted to PCW showing P184,826, 288.94 or 50 per cent of the FY2021 COB. However, the Bank did not inform the PCW in writing about the revision of the budget based on the DBM approved FY2022 COB, contrary to paragraph 9.2 of PCW NEDA. Management cited the following factors that influenced the revision of the CY 2022 GAD budget, which was consequently reflected in the Bank’s CY 2022 GAD AR:

Significant increase in the Bank’s COB (from P369.584 billion to P531.448 billion) resulting from the merger between Land Bank and the former United Coconut Planters Bank in March 2023 - The COB had to be adjusted four (4) months after the submission of the CY 2022 GPB to the PCW in consideration of this institutional development.

Learning curve of Bank employees concerned in terms of evaluating GAD PAPs using the Harmonized Gender and Development (HGDG) Tool – It can be noted that intensive capability building on GAD (especially on gender analysis and GAD planning and budgeting) was seriously undertaken starting 2021. Understandably, the level of employees’ understanding of the use and application of gender analysis tool was different at the beginning (i.e., at the time of preparation of the GPB) and progresses over time (i.e., at the time of the preparation of GAD AR) as they gain more maturity, better appreciation of concepts, and additional competencies on GAD. This explains why in certain instances, PAPs that were previously identified in the GPB using Box 7 of the HGDG Tool were no longer part of the GAD AR since employees concerned had become more adept at evaluating the said items using Boxes 16 and 17 of the HGDG Tool.

* 1. The GAD budget amounting to P45,244,068,986.82 is underutilized with only P13,686,895,692.28 or 30.25 per cent utilization rate, or an actual GAD expenditure of only 2.58 per cent of the DBM approved COB of P531,447,853,000.00. The budget, in effect, was not maximized to fulfill the requirements of paragraph 6.1 of the PCW NEDA DBM Joint Circular No. 2012 01 requiring “at least five per cent (5%) of the total agency budget appropriations authorized under the annual General Appropriations Act shall correspond to activities supporting GAD plans and programs.” The underutilization of the planned budget is linked to non-conduct of planned activities under the GAD attributed programs/projects. ERD mentioned that the LPMG, the primary responsible unit in the GAD implementation, encounters challenges in the attribution of expenditures because the credit process of the Bank involves various units from the Head Office to the field units and is not solely a responsibility of LPMG. Upon management’s further review of the submitted GPB as part of their continual capability building, employees concerned were directed to reclassify several GAD PAPs under program attribution using the HGDG Tool because they were found to be not direct GAD initiatives. When subjected to the tool, a number fell short of the threshold allowed per PCW-NEDADBM Joint Circular No. 2012-01; hence, they are part of the ongoing mitigation process to address the gaps. ERD also reiterated mention of the challenges encountered by the Bank’s lending personnel in the actual implementation and/or attribution of GPB consisting of development lending programs in view of the extent of the credit process.
  2. Nine planned activities under the client focused gender issue/gender mandate were included in the GPB but none was accomplished as reported in the GAD AR. These activities were not conducted during the year due to the following reasons by Management: a) the units/offices involved are still on-going the basic GAD trainings, and b) GAD Agenda is still pending completion and presentation to the LBP GFPS Chairperson. Also, it was mentioned that the Bank did not inform PCW of the revision on the GAD Budget amount, and the same was not done to include the additional PAPs relevant to current gender issues.
  3. The Bank reported a total of P111,499,761.74 GAD expenditures for the organization focused gender issues/mandates, which exceeded the budget of P77,006,982.44 by P34,492,779.30.
  4. The activity on the participation of LANDBANK to celebrate the pride month for members of the LGBTQIA community, not included in the budgeted organization-focused gender issues/mandate, was reported as actual GAD activity conducted.
  5. For GAD-attributed programs/projects, only four (4) out of 25 programs included in the GPB were reported in GAD accomplishment, is indicated in section C, item nos. 22 to 25 in the table under item 2.4. Also, three (3) programs were reported as GAD accomplishment but were not included in the GPB (section C, item nos. 26 to 28). For these seven programs included in GAD AR, no actual outcome/result performance was indicated but a total of GAD expenditure amounting to P 13,575,395,930.54 was attributed.
  6. For the above observations, ERD commented as follows:

The items reflected in the GAD AR are the GAD PAPs/initiatives that were undertaken or implemented during a given year. The GAD budget and the corresponding PAPs that are reported in the GAD AR may the vary from the previously submitted GPB since they are reflective of the actual accomplishments of the agency (e.g., actual availments of special leave privilege under the Magna Carta of Women). Moreover, the PCW allows the implementation of additional GAD PAPs that were not previously part of the GPB (e.g., Pride Month Celebration) for as long as these fall within the mandate of the implementing agency (i.e., the Bank) and are relevant to current gender issues or GAD-related undertakings.

Some of the programs in the GPB were encoded without budget and corresponding AR because these were part of the GAD Agenda which are still for approval by the GFPS. Other programs, as mentioned earlier, were for reclassification and should be subjected to the HGDG Tool. In some cases, those reviewed using the HGDG Tool had to pass the prescribed threshold before they can be attributable to GAD.

Upon consultation with the Policy Development, Planning, and Monitoring and Evaluation Division (PDPMED) of the PCW, it was informed that PCW need not be informed of changes in the GPBs, including such instances when there is a need to implement additional PAPs. For PDPMED-PCW, this requirement under PCW-NEDA-DBM JMC No.2012-01 (issued at the time when submissions were done physically or manually) has become moot with the implementation of the online submission of GPBs and GAD ARs using the GMMS.

* 1. ERD, being the LBP-GFPS Secretariat, consolidates the data provided by various departments/units responsible for the GAD activities and encodes them for the annual GAD AR. However, the GAD AR is not reviewed and recommended by the GPFS Executive Committee, for approval by the Head of Agency, prior to its encoding submission to PCW via GMMSv3. In the absence of the said review and the GAD Agenda as guide for review, the correctness and alignment of the entries made in the GPB and GAD AR, including but not limited to the clarity of indicators/targets and achievable budget and number of activities, cannot be ascertained. ERD explained that the items reported in the GPB and the GAD AR were presented to and approved by the Credit Committee (CreCom), the ManCom, and/or the Board of Directors. ERD emphasized that per LANDBANK Special Order No. 0225, s. 2019, the ManCom serves as the Executive Committee of the Bank’s GFPS. Other items in the report have special approvals as part of the delegated authority in accordance with the Bank’s Codified Approving and Signing Authorities. As a government financial institution, the Bank implements PAPs designed to address gender gaps and improve gender equality and equity within the bounds of international treaties and agreements (e.g. JICA), and national laws (MCW, Safe Spaces Act, etc.) alongside the country’s national development plan (including the National Financial Inclusion Strategy).
  2. GAD Accomplishment Report for FY 2022 not reviewed by the PCW, and not based on a GAD Plan and Budget and supported by a complete/finalized GAD Agenda 2022-2025 is contrary to PCW-NEDA-DBM Joint Memorandum Circular No. 2012-01, thus, FY 2022 GAD PAPs reported are not assured whether they are in conjunction with international treaties and national laws and plan on gender equality.
  3. **We recommended and Management agreed to:**
  4. **Support GAD programs, activities and projects in the GAD Plan and Budget and the GAD Accomplishment Report with a completed/finalized of GAD Agenda, to comply with PCW NEDA DBM Joint Memorandum Circular (JMC) No. 2012-01 on Guidelines for the Preparation of Annual Gender and Development (GAD) Plans and Budgets and Accomplishment Reports to Implement the Magna Carta of Women;**
  5. **Subject the GAD Plan and Budget and the GAD Accomplishment Report to the review of the Executive Committee of the GFPS of the Bank prior to submission to PCW using the GAD Agenda as basis, to conform to PCW MC No. 2011-11 and LBP Special Order No. 0225 series of 2019; and**
  6. **Maximize utilization of GAD budget to at least 5 per cent of the Corporate Operating Budget to align with paragraph 6.1 of the PCW NEDA DBM Joint Circular No. 2012-01 requiring “at least five per cent (5%) of the total agency budget appropriations authorized under the annual General Appropriations Act shall correspond to activities supporting GAD plans and programs.”**
  7. Management committed to continue to undertake actions towards the implementation of recommendations on GAD issues.

**Compliance with Republic Act No. 7656**

1. Parent

The LBP Board of Directors in its Board Resolution No. 23-315 dated May 10, 2023 approved the request for dividend relief for CY 2022 net income to the Department of Finance (DOF). The letter dated May 12, 2023 requesting for dividend relief was duly received by DOF on May 15, 2022.

* 1. Subsidiaries

In compliance with Republic Act No. 7656, three subsidiaries declared and remitted cash dividends totaling P240.721 million to the Bureau of the Treasury (BTr) for CY 2022 net income, details as follows:

| **Name of Subsidiaries** | **Amount** |
| --- | --- |
| **(In million pesos)** |
| LBP Leasing and Finance Corporation | 54.474 |
| LBP Insurance Brokerage, Inc. | 151.604 |
| LBP Resources and Development Corporation | 34.643 |
| **Total** | **240.721** |

**Compliance with Tax Laws**

1. Taxes withheld for the month were remitted on or before the 10th day of the following month, except those withheld for the month of December which were remitted on or before the 15th day of January of the following year.
   1. In compliance with Tax Laws, information on taxes and licenses paid or accrued during the taxable year 2022 were disclosed in Part I of this report, specifically under Note 26 to the Financial Statements. The taxes withheld from compensation, benefits and other sources amounting to P4.707 billion were remitted to the Bureau of Internal Revenue in accordance with the deadlines on payment/remittance of taxes prescribed by the National Internal Revenue Code.

**Philhealth and Pag-ibig Premiums**

1. In CY 2022, LBP complied with Title III Rule III, Section 18 of the Implementing Rules and Regulations of Republic Act (R.A) No. 7875 as amended in the payment of national health insurance premium contributions to the Philhealth.
   1. LBP also complied with Rule VII, Section 3 of the Implementing Rules and Regulations of R.A. No. 9679 in the collection and remittance of contributions to the Pag-ibig Fund.

**GSIS Contributions and Remittances**

1. In CY 2022, LBP complied with the rules and regulations implementing the GSIS Act of 1997, particularly on the collection and remittance of contributions to GSIS as follows:

a. Mandatory monthly contribution of covered employees and employer in accordance with Section 18 of the GSIS Act of 1997; and

b. Remittance of employees’ and employer’s contributions and employees’ compensation premium within the due date pursuant to Section 19 of the GSIS Act of 1997.

**Status of Audit Suspensions, Disallowances and Charges**

1. The total audit suspensions and disallowances as at December 31, 2022 is P2.848 billion, broken down as follows:

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | **Suspensions** | | **Disallowances** | | **Total** | |
| Head Office\* | P | 0 | P | 2,813,431,297.32 | P | 2,813,431,297.32 |
| Regional Offices/Branches |  | 22,371,830.10 |  | 12,139,217.23 |  | 34,511,047.33 |
| **Total** | **P** | **22,371,830.10** | **P** | **2,825,570,514.55** | **P** | **2,847,942,344.65** |

*\* Included are the NLDC and PCFC disallowances*

* 1. The total disallowances of P2.825 billion consists of P2.800 billion Priority Development Assistance Fund and Development Acceleration Program from National Livelihood Development Corporation, P0.016 billion payments of benefits and allowances to LBP Board of Directors, officers, and employees, and P0.009 billion payments for other expenses which were not in accordance with existing laws, rules and regulations. Management has pending appeals with the Commission on the Notices of Disallowance, in accordance with the Revised Rules and Procedures of the Commission on Audit.
  2. The total suspensions of P22,371,830.10 issued by Audit Teams in Regions VI and IX pertain to payments of various expenses without complete supporting documents.
  3. There are no audit charges as at December 31, 2022.