

## OBSERVATIONS AND RECOMMENDATIONS

### A. FINANCIAL ISSUES

1. Reconciling items totaling P616.36 million were not recognized in the proper accounts and corrected retrospectively as at December 31, 2019 contrary to PAS 1 and PAS 8, resulting in the understatement of Due from Foreign Banks, Due from Local Banks – Clearing accounts, and liability accounts by P596.38 million, P19.98 million and P617.33 million, respectively, and overstatement of net income by P0.97 million as at December 31, 2019.

1.1 Relevant provisions of accounting standards are as follows:

a. Paragraph 15 of PAS 1

*15. 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 expenses set out in the Framework. The application of IFRSs, with additional disclosure when necessary, is presumed to result in financial statements that achieve a fair presentation.*

b. Paragraph 41 of PAS 8

*41. Errors can arise in respect of the recognition, measurement, presentation or disclosure of elements of financial statements. Financial statements do not comply with PFRSs if they contain either material errors or immaterial errors made intentionally to achieve a particular presentation of an entity's financial position, financial performance or cash flows. Potential current period errors discovered in that period are corrected before the financial statements are authorised for issue. However, material errors are sometimes not discovered until a subsequent period, and these prior period errors are corrected in the comparative information presented in the financial statements for that subsequent period."*

1.2 The aforementioned accounting standards require an entity to record adjusting events, such as the discovery of fraud or errors, after the reporting period to correct the financial statements.

1.3 The Due from Foreign Banks account represents the balances of the nostro accounts maintained with 25 foreign depository banks primarily to cater the remittances and other transactions of clients, either individuals or corporations within and outside the Philippines. On the other hand, the Due from Local Bank – Clearing account represents the balance of two deposit accounts with local banks. The clearing deposit accounts are being used for the transfer of funds either from or to the nostro accounts. The Foreign and Domestic Remittance Department (FDRD) and Treasury Operations Department (TOD) are responsible for the recording of foreign and fund transfer transactions.

1.4 The daily transactions of LBP with its nostro accounts is being reconciled by the TOD using the CORONA System. Transactions from the Society for Worldwide Interbank Financial Telecommunication (SWIFT) system and the SAP system are uploaded and matched to determine any book or bank reconciling item for adjustment. The unresolved reconciling items are communicated to concerned units of LBP and monitored by TOD.

1.5 As at December 31, 2019, the balances of Due from Foreign Banks and Due from Local Banks – Clearing accounts in the Financial Management System-General Ledger (FMS-GL) were P8,515,844,582 and P218,941,206, respectively,

1.6 The audited Bank Reconciliation Statements of deposit accounts as at December 31, 2019 prepared by TOD showed book reconciling items with a net credit amount of P3,195,580,975. Of this amount, P2,579,220,313 was adjusted in the 2019 financial statements, leaving an unadjusted balance of P616,360,662 as at year-end, as presented in the table below:

Nature	Total Reconciling Items	Adjustment in the 2019 FS	Unadjusted reconciling items
Bank charges and other transaction charges	1,386,552.42	0	1,386,552.42
Matured Investment and its Income	(2,579,220,313.00)	(2,579,220,313.00)	0
Remittance	(574,989,050.49)	0	(574,989,050.49)
Other Interest Income	(331,560.45)	0	(331,560.45)
FATCA Withholding tax	235,865.43	0	235,865.43
Outgoing Telegraphic Transfer	(943,530.18)	0	(943,530.18)
Incoming Telegraphic Transfer	(3,265,510.52)	0	(3,265,510.52)
Fund transfer and deposits	(306,586.40)	0	(306,586.40)
Various Letter of Credits	144,008,902.15	0	144,008,902.15
Various Visa/ Mastercard transactions	68,837,807.04	0	68,837,807.04
SL adjustment	(983,964.64)	0	(983,964.64)
Rebates	(323,684.24)	0	(323,684.24)
No particulars	(249,685,902.01)	0	(249,685,902.01)
<b>Total</b>	<b>(3,195,580,974.89)</b>	<b>(2,579,220,313.00)</b>	<b>(616,360,661.89)</b>

1.7 There were reconciling items at the end of the year adjusted in CY 2020. As explained by Management, the last banking day was December 27, 2019 and also the last day for the Bank's GL system to take up actual transactions for CY 2019. Due to the system cut-off date, the maturity of the US Treasury Notes on December 31, 2019 was only taken up on January 2, 2020.

1.8 While the FMS-GL can only capture transactions up to the last banking day of the year as the cut-off date of the reporting period, Management did not manually recognize transactions occurring from the cut-off date up to December 31, 2019 in order to faithfully represent balances of the deposit accounts as at year-end.

1.9 Also, included in the above table are reconciling items amounting to P329,685 which remained outstanding for more than a year to 15 years, as follows:

<b>Bank Name</b>	<b>Date debited to nostro account</b>	<b>Amount in Original Currency</b>	<b>Amount in Peso</b>
Citibank, New York	9/2/2004	USD 2,868.00	145,221.18
Citibank, New York	3/11/2009	USD 1,113.00	56,356.75
Citibank, New York	3/31/2009	USD 611.54	30,965.38
JP Morgan Chase Bank	12/1/2011	USD 158.00	8,000.33
Citibank, New York	10/6/2014	USD 1,262.70	63,936.81
Citibank, New York	10/6/2016	USD 463.00	23,444.01
Standard Chartered, Frankfurt	9/19/2018	EUR 31.00	1,760.56
<b>Total</b>			<b>329,685.02</b>

1.10 Inquiry with management disclosed that the reconciling items not adjusted in 2019 were due to: a) lack of supporting documents; b) the responsible department or transaction cannot be identified; c) the CORONA System was not working properly; and d) timing difference. Further, there is no existing guidelines and policy on how to handle or resolve the long outstanding reconciling items of nostro and clearing accounts.

1.11 The reconciling items discussed above which were not recognized in 2019 resulted in the understatement of Due from Foreign Banks, Due from Local Banks – Clearing accounts, and liability accounts by P596.38 million, P19.98 million and P617.33 million and overstatement of net income by P0.97 million in the financial statements as at December 31, 2019.

1.12 **We recommended that Management:**

- a. **Identify the nature of all reconciling items and prepare the necessary adjusting entries in order to faithfully represent balances of all affected accounts in the financial statements as at December 31, 2019;**
- b. **Include in the policy guidelines the complete recognition of transactions beyond the cut-off date of the GL System up to the last day of the financial period; and**
- c. **Update the policy guidelines to include the resolution of long outstanding reconciling items of nostro and clearing accounts.**

1.13 Management informed that:

- a. The recording of the reconciling items amounting to P329,685 shall be booked by the concerned units once they have received the pertinent documents to be able to identify the appropriate income/expense account.
- b. TOD regularly coordinates with concerned units/departments for the immediate resolution of outstanding float items which includes dissemination of monthly reconciliation statements as their basis in resolving reconciling items and a quarterly schedule of long outstanding float items (e.g. 180 days and above) is also provided to concerned units/department.

- c. They will consider updating the existing implementing guidelines on the Reconciliation of Due from Foreign Banks through the CORONA System to address the resolution of long outstanding reconciling items.

**2. The balance of Real and Other Properties Acquired (ROPA) in the ROPA Manager System (ROPA MS) and in the Financial Management System General Ledger (FMS GL) showed an unreconciled difference of P99.887 million, thereby affecting the faithful representation of the ROPA as at year-end.**

2.1 Paragraph 15 of Philippine Accounting Standard (PAS) 1 states:

*15. 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 expenses set out in the Framework. The application of IFRSs, with additional disclosure when necessary, is presumed to result in financial statements that achieve a fair presentation.*

2.2 The ROPA MS is a web-based application system that handles the administration, management, reporting, accounting and disposal of ROPA items. This application system captures the acquisition details of the property, as encoded, and eventually monitor the progress of the acquired property from documentation until the conclusion of the sale. Once the property is acquired by the Bank, ROPA MS provides facilities where other attributes of the property can be managed.

2.3 The ROPA MS aims to provide centralized data, electronic storage of information, and efficient monitoring of properties. The application generates timely and accurate reporting of management-required reports and faster response time to customer queries. The Special Assets Department (SPAD) Head is the system owner while the data owner is the Agricultural and Development Lending Sector (ADLS).

2.4 The FMS GL is the centralized and online mainframe-based general ledger used by all booking units of the Land Bank of the Philippines (LBP) and the source of account balances in the financial statements. The Loans Implementation Department (LID) performs the role as Accounting Responsibility Center for Head Office Lending Units' transactions.

2.5 The ROPA MS was installed in concerned departments including the lending centers under LBP Executive Order No. 2 series of 2004. Subsequently, LBP Executive Order (EO) No. 064 series of 2014 dated August 18, 2014 implemented the guidelines on the handling of ROPA MS.

2.6 Resolution No. 2016-(08)-13 mandated that the centralization of the booking of all ROPA in the Head Office be completed by October 31, 2016. The completion of the centralization of booking was extended from October 31, 2016 to June 30, 2017 per ManCom Resolution No. 2016-(10)-34. The said deadline was further extended from June 30, 2017 to November 30, 2017 per ManCom Resolution No. 2017-(07)-21.

2.7 In the audit of ROPA, discrepancies were noted between the balance of the account in the ROPA MS and the FMS GL over the three-year period from 2017 to 2019 and which were not reconciled as at December 31, 2019. The details are as follows:

System Application	ROPA Balances		
	CY 2017	CY 2018	CY 2019
ROPA MS	5,003,977,956.60	4,913,924,617.95	6,616,148,502.07
FMS GL	4,968,447,492.43	4,935,226,235.22	6,716,035,188.05
<b>Discrepancy</b>	<b>35,530,464.17</b>	<b>21,301,617.27</b>	<b>99,886,685.98</b>

2.8 The discrepancy noted in 2019 included the ROPA accounts transferred from People's Credit and Finance Corporation (PCFC) and National Livelihood Development Corporation (NLDC) to LBP, which were not yet encoded in the ROPA MS but already recorded in FMS GL.

2.9 Further review disclosed that other discrepancies between the ROPA MS and FMS GL balances were attributed to the following:

- a. Timing differences on the recording of acquisition and disposal of ROPAs;
- b. Some ROPAs already recorded in the FMS GL were not yet recorded in the ROPA MS due to the absence of required documents for encoding to the system (i.e. acquisition appraisal reports, Transfer Certificate of Titles of ROPA located in regional field units, etc.); and
- c. The ROPA MS automatically deducts a 10 per cent residual value in computing depreciation on all ROPA, old and new, while the FMS GL allows a residual value of P1 for old accounts.

2.10 The foregoing unreconciled discrepancy of the balance of ROPA in the ROPA MS and FMS GL affected the faithful representation of the ROPA.

2.11 **We recommended that Management require:**

- a. **SPAD and LID to reconcile the discrepancy in the balance of ROPA in the ROPA MS and FMS GL;**
- b. **SPAD to effect manual adjustments in the computation of residual value for old ROPA in the ROPA MS to reconcile with the FMS GL; and**
- c. **Lending Centers and Lending Units to submit documents required in encoding ROPA to the ROPA MS.**

2.12 Management informed that as of 30 June 2020, the noted discrepancy between ROPA MS and FMS is reduced to P3,804,285.04, exclusive of the P480,025,144.71 representing the ROPAs transferred by PCFC, NLDC and OF Bank, booked in FMS-GL, but still on the process of encoding/booking the same in the ROPA MS. As to the system limitations, SPAD have coordinated with the Developer-Terra of the ROPA MS regarding enhancements that would address the discrepancies cited. The product implementation

together with the SCR module was approved by the ILC and the target for its implementation is September 2020.

**3. Bank service fees for Cash Card distribution and withdrawal transactions under the Unconditional Cash Transfer (UCT) Program were not properly recognized contrary to PFRS 15 and PAS 1, resulting in the overstatement of Accounts Receivable-Government Entities (AR-GE) and Accounts Payable-Others (AP-Others) by P13.978 million, and P89.057 million, respectively, and understatement of Net Income by P75.079 million as at December 31, 2019.**

3.1 The core principle of Philippine Financial Reporting Standard (PFRS) 15, Revenue from Contracts with Customers, is that an entity recognises revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The said core principle applies the following five-step approach:

- a. Step 1: Identify the contract with customer
- b. Step 2: Identify the performance obligations in the contract
- c. Step 3: Determine the transaction price
- d. Step 4: Allocate the transaction price to the performance obligations in the contract
- e. Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

3.2 In Step 5 of the approach, *an entity recognizes revenue when (or as) it satisfies a performance obligation by transferring a promised good or service to a customer (which is when the customer obtains control of that good or service). The amount of revenue recognized is the amount allocated to the satisfied performance obligation. A performance obligation may be satisfied at a point in time (typically for promises to transfer services to a customer). For performance obligations satisfied over time, an entity recognizes revenue over time by selecting an appropriate method for measuring the entity's progress towards complete satisfaction of that performance obligation.*

3.3 Paragraph 15 of Philippine Accounting Standard (PAS) 1 on Presentation of Financial Statements states:

*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 expenses set out in the Framework.*

3.4 The UCT Program is the biggest tax reform mitigation project of the government to ease the effects of increase in prices and provide social mitigating measures to protect and improve the lives of the poor and vulnerable. It seeks to provide cash grants to poor households and individuals who may not benefit from the lower income tax rates but may be adversely affected by rising prices.

3.5 The Memorandum of Agreement (MOA) executed by and between Department of Social Work and Development (DSWD) and LBP dated April 4, 2018 states that DSWD partnered with LBP for the distribution of UCT/Tax Reform Cash Transfer (TRCT) cash grants. The distribution is through any of the following modes of payment:

1. LBP Cash Card
2. LBP Over the Counter (OTC)
3. LBP Conduits such as:
  - 3.1 Countryside Financial Institutions (i.e., rural bank, cooperative bank or thrift bank);
  - 3.2 Cooperatives;
  - 3.3 Telecommunication Companies;
  - 3.4 Remittance Companies;
  - 3.5 LBP ATMs being managed by other Rural Banks; and
  - 3.6 Other conduits to be procured by LBP (e.g., financial institutions)

3.6 LBP Memorandum dated December 7, 2018 issued by the Conditional Cash Transfer - Program Management Department (CCT-PMD) provides the following procedures for the UCT Program:

Item No	Unit/Branches Concerned	Procedures
3	LANDBANK Servicing Branch	Prepare Memo endorsement through Branch Group Head for CCT-PMD of the Certification of Service Fees and Expenses Incurred and Certifications of Accounting as of 30 November XXXX.
4	LANDBANK Servicing Branch	Book the amount of service fees for payment as: Accounts Receivable- GE-UCT Program (Amount of Service Fee) Fees and Commission Income (Amount of Service Fee)
5	LANDBANK Servicing Branch	Submit to CCT-PMD the Memo together with the Certification of Service Fees and Expenses incurred and Certifications of Accounting as of 30 November XXXX.
6	CCT-PMD	Check Certification of Service Fees and Expenses incurred and Certifications of Accounting submitted by the Servicing Branch.
7	CCT-PMD	Inform the Servicing Branch to revise the Certification of Service Fees and Expenses incurred and Certifications of Accounting submitted by the Servicing Branch.
8	CCT-PMD	Endorse to Intramuros Branch through Memo the photocopies of Certification of Service Fees and Expenses incurred and Certifications of Accounting of the Servicing Branch if found correct and order.
9	Landbank Intramuros Branch	Debit the UCT Service Fee Account corresponding to the amount of Service Fees of the Servicing Branch based on the memo endorsement of CCT-PMD.
15	LANDBANK Servicing Branch	ACCRUE the service fee receivable for the services rendered from 1 to 31 December 31, 2019 (please refer to Annex B for the letter of extension of UCT payouts up to December XXXX of DSWD).

3.7 Further, pertinent provisions of the Implementing Rules and Regulations (IRR) of the UCT/TRCT Program provides:

a. Paragraph 12 on reporting requirements:

*12.1.1 Within ten (10) working days after distribution date of Cash Cards to beneficiaries, LBP Servicing Branches shall submit to CCT-PMO and DSWD RO the accomplished Report on Released and Unclaimed Cash Card;*

*The remaining Cash Cards will be released within 90 calendar days from receipt of Cash Cards by the LBP Servicing Branches. LBP Servicing Branches shall submit to LBP CCT-PMO and DSWD RO a monthly Report on Released and Unclaimed Cash Card within five working days from every month end for the duration of the ninety-day deadline.*

*12.1.2 LBP CCT-PMO shall consolidate the Report on Released and Unclaimed Cash Cards and submit monthly report to DSWD within 15 working days after the reference month, for proper disposition of unclaimed Cash Cards.*

b. Paragraph B on payout through LBP OTC at LBP Branches or areas nearby LBP Servicing Branches:

*B.24 LBP Servicing Branches shall provide LBP CCT-PMO weekly a copy of the Certification of Accounting (COA) of the total Amount Disbursed and Number of Paid and Unpaid Beneficiaries per Municipality signed by LBP Branch Head.*

3.8 The CCT-PMD is responsible in the handling of the Program's implementation requirements for efficient delivery and distribution of cash grants to eligible beneficiaries in coordination with the DSWD.

3.9 Under the agreement between DSWD and LBP for the payment and distribution of UCT, LBP shall collect and debit from the LANDBANK TRCT/UCT Program, the bank service fees and management costs incurred by LBP Head Office and support units. Service fees related to the Program include the P30.00 per paid beneficiary for cash card distributed, P14.00 for cash card withdrawal at LBP ATMs per beneficiary per payroll period, awarded service fee rates for LBP Conduits, and manpower cost and other expenses incurred pertinent to the implementation of the UCT Program. The service fees shall be booked upon rendering services and submission of necessary documents defined in the Memorandum of Agreement between LBP and DSWD, and LBP Memorandum dated December 7, 2018, issued by CCT-PMD.

3.10 On December 16, 2019, the CCT-PMD issued a Memorandum to LBP Batasan Branch advising the branch to record accrual of service fee receivable for CYs 2018 and 2019 amounting to P156.083 million, details as follows:



Item No.	Particulars	Period Covered	Service Fee Receivable
1	Distribution of cash cards by Conduits - Regional Coverage A	CY 2018 and CY 2019	29,390,160.25
2	Distribution of cash cards by Conduits - Regional Coverage B	CY 2018 and CY 2019	10,017,161.95
3	Distribution of Cash Cards by LBP Servicing Branches	CY 2018 and CY 2019	62,975,190.00
4	Cash Card withdrawal transactions of the UCT beneficiaries at LANDBANK ATMs	CY 2019	53,700,066.00
<b>TOTAL</b>			<b>156,082,578.20</b>

3.11 In line with the CCT-PMD Memorandum, the LBP Batasan Branch recorded the distribution of cash cards by Conduits - Regional Coverage A and B, and the cash card withdrawal transactions of the UCT beneficiaries at LANDBANK ATMs totaling P93,107,388.20 by a debit to AR-GE and credit to AP-Others. However, the service fee on the distribution of cash cards by the LBP Servicing Branches amounting to P62,975,190 was not recognized by LBP Batasan Branch. The LBP servicing branches are responsible for the recording of service fees from distribution of cash cards made in the branches.

3.12 Review of the cash card distribution and withdrawal transaction documents , disclosed the following:

**a. Service fee income for the distribution of cash cards by the LBP servicing branches to UCT beneficiaries for CYs 2018 and 2019 not recognized**

3.13 The Bank charges P30.00 service fee for the distribution of cash cards by the LBP servicing branches. The service fee receivable amounting P62,975,190 represents the P30.00 service fee for the 2,099,173 cash cards distributed in 2018 and 2019.

3.14 Of the P62,975,190 service fee receivable for the distribution of cash cards, only P5,542,380 was recognized by the LBP servicing branches. The reasons given by the LBP servicing branches for the non-recognition of the amount of P57,432,810 include the following: a) volume of transactions and beneficiaries under the program; b) unavailability of the signatories; c) job rotation of the bank employees; and d) the extension requested by DSWD on distribution of cash cards, thus, the preparation of liquidation documents and booking of service income was not prioritized.

3.15 The cash cards distributed in the branches in 2018 and 2019 totaling 2,099,173 was already established, however, the total service fee corresponding to these was not recognized, hence, the understatement of the recorded service fees by P57,432,810 as at year-end.

**b. Service fee income from cash card withdrawal transactions of UCT beneficiaries at LBP ATMs not recognized**

3.16 For Cash Card withdrawal transactions of the UCT beneficiaries at LANDBANK ATMs, the Bank charges a service fee of P14.00 for every transaction. The amount of P53,700,066 service fee forwarded by CCT-PMD for cash card withdrawal transactions

was recognized by the LBP Batasan Branch under AP-Others instead of Fees and Commission Income. According to the branch, the Retail Banking Systems Department has not yet forwarded the Cash Card Transaction Report to support the recognition to Fees and Commission Income.

3.17 However, confirmation of the Schedule on Cash Card Transaction Report provided by CCT-PMD disclosed that the required reports for the recognition of the service fee receivable/income pertaining to the 1,260,474 withdrawal transactions in 2019 amounting to P17,646,636 were already submitted, hence, recognition of the correct amount of service fees for withdrawal transactions was not made.

**c. Over accrual of service fee receivables for the distribution of cash cards by conduits**

3.18 The Over-the Counter (OTC) service fees of conduits are being charged per paid beneficiary depending on the MOA signed between DSWD and Regional Conduits. The accrued services fee receivable from conduits recognized under the Regional Coverage A and B amounted to P39,407,322, including the estimated buffer fund of 10 per cent of the budget which is not stipulated in the Contract. There is no basis for the recognition of the estimated buffer fund of 10 per cent. Validation conducted showed that out of P39,407,322, only P4,050,120 represents actual service fee earned for the distribution to beneficiaries by the conduits in CY 2019, hence, an over accrual of P35,357,202, as presented below and with details in Annex A:

CONDUITS	Per Books		Per Audit		Difference/Over Accrual	
	Service Fee booked including 10% buffer		Service Fees Earned in CY 2019			
	No of Beneficiaries	Total Amount of Service Fees	No of Beneficiaries	Total Amount of Service Fees	No of Beneficiaries	Total Amount of Service Fees
Regional Coverage A	773,999	29,390,160.25	71,725	2,576,569.00	702,274	26,813,591.25
Regional Coverage B	372,171	10,017,161.95	61,851	1,473,551.00	310,320	8,543,610.95
<b>Total</b>	<b>1,146,170</b>	<b>39,407,322.20</b>	<b>133,576</b>	<b>4,050,120.00</b>	<b>1,012,594</b>	<b>35,357,202.20</b>

3.19 Further, it was observed that the CCT-PMD has not been regularly coordinating with the Servicing Branches for the timely submission of liquidation reports. On the other hand, the LBP Servicing Branches are not regularly submitting the Certification of Service Fees and Expenses incurred; Certifications of Accounting of the total Amount Disbursed and Number of Paid and Unpaid Beneficiaries; and the Report on Released and Unclaimed Cash Cards to CCT-PMD, required in the MOA for the distribution of cash cards and IRR for the cash disbursements under the UCT program. The non-submission of the required documents for recording the accrued service fees on time contributed to the delay in the collection of service fees from DSWD.

3.20 The improper recognition of UCT service fees for Cash Card distribution and withdrawal transactions resulted in the overstatement of AR-GE and AP-Others by P13.978 million and P89.057 million, respectively and understatement of Net Income by P75.079 million as at December 31, 2019.

3.21 **We recommended that Management require:**

- a. **The concerned LBP Servicing Branches to timely submit the required liquidation documents/reports of the UCT/TRCT program funds as per MOA/IRR/guidelines, prepare Journal Tickets on the accrued service fee receivable totaling P57,432,810 plus reimbursable expenses, and submit to respective Accounting Centers for booking;**
- b. **The CCT-PMD to regularly coordinate with the LBP Servicing Branches for the timely submission of reports required in the MOA between DSWD and LBP for the distribution of UCT, and IRR for the cash disbursements for the UCT Programs; and**
- c. **The LBP Batasan Branch to prepare an adjusting entry to correct the overstatement of AR-GE, and AP-Others accounts amounting to P71,410,632.20 and P89,057,268.20, respectively, and understatement of Fees and Commission Income account amounting to P17,646,636 to present the correct balances of the accounts as at December 31, 2019.**

3.22 Management informed that the adjustments were made to correct the overstatements of AR-GE and AP-Others, amounting to P71.411 million, and P89.057 million, respectively, and understatement of Fees and Commission Income amounting to P17.647 million. They also informed that Journal Tickets were prepared on the accrual of the unrecorded Service Fee of the distribution of cash cards by the LBP Servicing Branches totaling P57.433 million as of August 20, 2020.

3.23 Moreover, CCT-PMD will issue a Memorandum to all LBP Servicing Branches reiterating compliance on the submission of necessary documents/reports required in the MOA and LBP Memorandum.

3.24 We acknowledge the actions undertaken by Management and the audit team will validate the adjustments/entries made and the actions taken to implement the recommendations.

**4. The faithful representation of the balance of Accounts Receivable -Various –Metromart amounting to P12.160 million as at December 31, 2019 was not established due to unreconciled variance totaling P5.091 million between the General Ledger (GL) and Subsidiary Ledger (SL) balances.**

4.1 Paragraphs 15, 27 and 28 of Philippine Accounting Standard (PAS) 1 state:

*15. 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 expenses set out in the Framework. (Underscoring ours)*

*27-28. An entity shall prepare its financial statements, except, for cash flow information, using the accrual basis of accounting. When the accrual*

*basis is used, items are recognized as assets, liabilities, equity, income and expense of financial statements) when they satisfy the definitions and recognition criteria for those elements in the Framework. (Underscoring ours)*

4.2 After the abolition of the National Livelihood and Development Corporation (NLDC), its assets and liabilities were transferred to LBP pursuant to Memorandum Order No. 85. Among the NLDC properties transferred to LBP was the Metromart Complex, located along Epifanio Delos Santos Avenue corner Boni Avenue and Pinatubo Street, Mandaluyong City. The Metromart Complex is being leased to tenants and earns income from leasing operations.

4.3 The receivables from tenants transferred by NLDC to LBP in June 2018 amounted to P12,123,154.62. This was recorded under Accounts Receivable (AR) – Various-Metromart. Inspection of the Metromart Complex conducted on December 16, 2019 by the audit team confirmed the existence of 61 tenants with lease contracts/agreements with LBP.

4.4 As at December 31, 2019, the balance of the Accounts Receivable (AR) – Various-Metromart reflected in the GL was P12,159,524.42, while the balance in the subsidiary ledger of tenants totaled P17,250,781.06, or a variance of P5,091,256.64.

4.5 Verification disclosed that the variance was attributed to the non-accrual of receivables from the rental and other fees of tenants from July 2018 to December 2019. These, however, were recorded in the subsidiary ledgers. Further, collections of receivables transferred from NLDC were directly credited to rental income, instead of crediting the receivable account. It was noted that the bank records the collection of rental from Metromart tenants as a debit to cash and credit to income. The rentals paid by tenants were not deducted from the individual subsidiary ledgers, but these were deducted in the general ledger, hence, the discrepancies which remained unreconciled as at year-end.

4.6 Management acknowledged that the accrual of rental income and other fees from the Metromart tenants were not recognized in the books. The concerned personnel of the Administrative Accounting Department informed that the reconciliation of GL and SL balances of the AR account of the Metromart Complex is ongoing.

4.7 In view of the unreconciled variance between the balance of the receivable account from Metromart in the GL and SL amounting to P5.091 million, the faithful representation of the balance of the Accounts Receivable-Variou Metromart of P12.160 million was not established as at December 31, 2019.

**4.8 We recommended that Management require the Administrative Accounting Department to:**

**a. Determine further the specific cause/s of the variance between the GL and SL balances of AR-Variou-Metromart and effect necessary adjustments to faithfully represent the balance of the account and other related accounts as at December 31, 2019 ; and**

**b. Record the accrual of all rental income and other fees from the Metromart Complex tenants.**

4.9 Management informed that the Bank shall adhere to the accrual basis of recording rental income and committed to adjust the noted variance identified as outstanding rent, maintenance fee and utilities from July 2018 to December 31, 2019, beginning from August to October 30, 2020, after securing approval from management. Also rental income and other fees from all stallholders shall be recorded using accrual basis of accounting effective August 31, 2020.

**5. The balance of Accounts Receivable-Government Entities (A/R-GE) as at December 31, 2019 included non-billable charges for electronic transaction fees from the Bureau of Treasury (BTr) amounting to P5.274 million, contrary to PAS 1 and the Memorandum of Agreement between the Bank and the BTr, resulting in the overstatement of both A/R-GE and Retained Earnings by P5.274 million as at December 31, 2019.**

5.1 Paragraph 15 of Philippine Accounting Standard (PAS) 1 on Presentation of Financial Statements provides the following:

*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 expenses set out in Framework. x x x*

5.2 The Land Bank of the Philippines entered into a Memorandum of Agreement (MOA) with the BTr. Under the MOA the Bank is the Authorized Government Depository Bank (AGDB) for the National Collection System.

5.3 Item II (NATIONAL COLLECTION SYSTEM) paragraph 3 of the MOA states:

**“3. COMPENSATION FOR BANKING SERVICES**

*In consideration of the banking services by the BANK for the National Collection System, the BTr shall pay a transaction fee of Forty Pesos (Php 40.00) for each over-the counter transaction and Ten (Php 10.00) for each electronic payment transaction; provided, that in cases where the BANK has been allowed to charge convenience/interchange fees against the Government Agency-Clients in connection with the payment and collection of National Collections, the BTr shall not be required to pay any transaction fees. ‘x x x’*

5.4 In the audit of accounts and transactions for CY 2018, it was noted that the BIR/BOC and BTr transaction fees totaling P8.075 million recognized in CY 2017 remained uncollected as at December 31, 2018. Accordingly, an Audit Observation Memorandum was issued and management explained that the Bank had committed error by charging/billing the BTr of non-billable charges of convenience/interchange fees of P10.00 for direct electronic transactions such as GCash remittances, and the

adjustment of Accounts Receivable-Government Entities (A/R-GE) account will be effected once the overbilling is confirmed by the BTr.

5.5 In a letter dated December 3, 2019, the BTr advised that the budget for transaction fees in the GAA do not cover direct electronic transactions such as GCash remittances. BTr further emphasized that the MOA clearly states that the entities paying through GCash shall bear the expenses related to the transactions, hence, the BTr cannot pay the transaction fees being billed by the Bank.

5.6 On December 6, 2019, of the total balance of AR-GE amounting to P8,075,559.25 in 2018, the LBP-MCMD collected P2,801,418 from BTr inclusive of the BIR/BOC transaction fee of P1,743,743 . The details of the balance of P5.274 million, representing non-billable charges, is presented as follows:

TRANSACTION FEES BILLED TO BTr (2017)			PAYMENTS RECEIVED		BALANCE (representing amount of non-billable charges)
Date Booked	Particulars	Amount	Date Reversed	Amount	Balance as of 12/31/2019
4/25/2017	<i>BIR/BOC- Transaction Fee</i>	137,834.70	12/6/2019	137,834.70	0.00
5/31/2017		771,474.55	12/6/2019	771,474.55	0.00
7/31/2017		19,455.80	12/6/2019	19,455.80	0.00
8/31/2017		233,651.60	12/6/2019	233,651.60	0.00
9/29/2017		296,541.70	12/6/2019	296,541.70	0.00
10/30/2017		284,784.50	12/6/2019	284,784.50	0.00
2/23/2017	<i>BTr- Transaction Fee</i>	637,203.20	12/6/2019	637,203.20	0.00
3/10/2017		826,170.80	12/6/2019	420,471.60	405,699.20
4/6/2017		308,869.20			308,869.20
5/2/2017		722,488.40			722,488.40
6/2/2017		476,585.20			476,585.20
6/5/2017		299,041.20			299,041.20
6/14/2017		943,160.40			943,160.40
8/1/2017		781,253.20			781,253.20
8/24/2017		833,705.60			833,705.60
9/28/2017		503,339.20			503,339.20
<b>TOTAL</b>		<b>P8,075,559.25</b>		<b>2,801,417.65</b>	<b>P5,274,141.60</b>

5.7 The LBP-MCMD completed the revalidation and reconciliation of the overbilled BTr transaction fees and already sought clearance from the LBP Head of Operations Sector for the reversal. However, these were not reversed as at year-end.

5.8 In view of the non-adjustment on non-billable charges of electronic transaction fees, AR-GE was overstated by P5.274 million as at December 31, 2019.

5.9 **We recommended and Management agreed to prepare an adjusting entry to reverse the BTr Treasury Single Account (TSA) transaction fees amounting P5.274 million recorded under A/R-GE account to present the correct balance of the account as at December 31, 2019.**

## **B. NON-FINANCIAL ISSUES**

**6. The terms and conditions provided in the Lease Contract between LBP and Metromart Complex tenants were not fully complied with, thus, the interest of the bank is not protected.**

6.1 Among the NLDC properties transferred to LBP pursuant to Memorandum Order No. 85 was the Metromart Complex. The Metromart Complex is being leased by tenants. The LBP and Metromart tenants have entered into lease contracts which expire yearly.

6.2 Section 9 of the Lease Contract, Sub Leasing or Assignment of Rights entered into by and between LBP and the tenants provides that - *The Lessee shall not sub-lease the Leased premises or any portion or part thereof nor assign or transfer its rights in whole or in part to any third party in any manner whatsoever. xxx*

6.3 Inspection of the 61 stalls in the Metromart Complex conducted by the Audit Team on December 16, 2019 disclosed the following:

- a) The lease contract of a convenience store already expired, but tenant is continuously paying the monthly rental;
- b) A tenant has no contract on file, but is continuously paying the monthly rental;
- c) A tenant of Stall No. 12 and 13 sub-leased a portion of the leased space to a tenant located at the General Services area near the water reservoir;
- d) A vacant space between Stall Nos. 26 and 27 under lease contract with two tenants is currently occupied as storage area of TODA. The TODA is not paying any rental for the space being utilized. Interview with concerned TODA personnel disclosed that they were allowed by the previous administrator to use the vacant space. However, the new administrator is not aware of the vacant space occupied by the TODA because this was not reported to Management, hence, no rental is being collected;
- e) A tenant leased an open space area of four square meters, located at the Food Plaza area near the convenience store for a monthly rental of P2,676.65. However, in the inspection conducted, it was noted that the lessee is occupying more than the area being rented, but without paying additional income for the added space occupied; and
- f) A tenant is not occupying the actual stall rented under the lease agreement. The lease contract is for stall WC No. 1 located at the Wet and Dry Market, but the area presently occupied is stall No. 12 which is also in the same

location. The monthly rentals for both stalls are the same, and the tenant is regularly paying the monthly rental.

6.4 The noted deficiencies show that the provisions of the contract between LBP and the Metromart Complex tenants were not fully complied with.

**6.5 We recommended that Management require the Facilities Management Department (FMD) to :**

**a. Facilitate the renewal of the lease contract of the tenant with expired lease contract and submit a copy of the lease contract of the tenant with no contract on file;**

**b. Impose reasonable remedies on the tenants who sub-leased portions of leased premises contract in violation of Item No. 9 of the Contract of Lease; and**

**c. Review existing lease contracts of tenants and update these based on actual spaces occupied and collect appropriate rental fee.**

6.6 Management informed that:

a. Follow-up letter was already sent to the owner of the convenience store for submission of the duly signed/notarized Contract of Lease which was previously forwarded to him. Also, a Lease Contract dated January 15, 2020 was already executed by and between LBP and the tenant;

b. FMD shall coordinate/ refer the issue on the violation of Item No. 9 of the Contract of Lease to Legal Department for the sending of "Collection Notice", the proper imposition of penalties based on the contract stipulation and the corresponding computation using "legally accepted" basis with target date of completion until September 2020; and

c. FMD is currently conducting verification/ boundary checking to properly revalidate the location and the area occupied by existing tenants against the technical description/data on the Lease Contracts and Site Development Layout, especially for those existing occupants at the date of transfer of the property to LBP with target date of completion until November 2020.

**7. The Bank's acquired properties located in the regions with an aggregate book value of P679.843 million were not properly administered, protected and maintained, contrary to the Special Assets Department Operations Manual, thus the Bank is exposed to higher risk of losses and may not recover its exposure of investments on these properties.**

7.1 Real and Other Properties Acquired (ROPA) are the real and other properties, other than those for banking purposes or held in the investment portfolio, acquired by the bank in settlement of loans and/or for other reasons. The two types of acquired assets are acquired real estate property, and acquired or repossessed personal property. It



defines real estate property as land and permanently affixed buildings and other structures together with improvements.

7.2 The Bank's Special Assets Department (SPAD) Operations Manual (last revised on August 2013) provides for the administration/redemption of foreclosed properties, the consolidation of real properties not redeemed and the administration of consolidated ROPA. Hereunder quoted are salient provisions of the manual:

*a. Chapter 2 Administration/Redemption of Foreclosed Properties*

*1. Administration of ROPA within Redemption Period*

*b. Once possession is granted to the Bank, the following activities, whenever applicable, shall be undertaken by SPAD, in coordination with LBRDC or the third-party property manager, to preserve and maintain the value of the foreclosed properties:*

- 1) Inspection of the properties to assess their physical status or condition;*
- 2) Posting of security guards or hiring of caretakers, as applicable;*
- 3) Up-to-date payment of realty taxes and association dues, if any;*

*c. SPAD shall continue to administer and protect the foreclosed properties until such time that the properties are redeemed or sold.*

*b. Chapter 4 Administration of Consolidated ROPA*

*The administration of ROPA consolidated in the Bank's name shall be performed by the SPAD in order to preserve and maintain the value of properties until its disposal.*

*1. Inspection of the properties to assess their physical status or condition*

*a. Ocular Inspection*

*2. Assessment of appropriate measures to protect the property from informal settlers, theft, pilferage, and other related contingencies*

*3. Repairs and maintenance of chattels and improvements*

*a. xxx Repairs and maintenance shall be on case to case basis or as the need arises*

*Real estate properties may be fenced or repaired by the Bank's appropriate unit (e.g., PMED) or by other service companies subject to the usual accounting and auditing procedures.*

*c. Repair of defective or non-operational chattels shall be undertaken by mechanics or utility workers of the Bank or by private mechanics or service companies subject to the usual accounting and auditing procedures.*

7.3 Moreover, the Bank issued Executive Order No. 019 series of 2000 on the guidelines on foreclosure and other transactions related to ROPA in order to enhance the recovery of the bank's investment in loans.

7.4 Further, the Management Committee approved the centralization of ROPA Administration to the SPAD under LBP ManCom Resolution No. 2013-(06)-09 dated June 13, 2013.

7.5 As at December 31, 2019, the ROPA account has a balance of P6,716,035,188.05, composed of 7,429 real and other properties for residential, agricultural, commercial, and industrial use located in different parts of the country.

7.6 The audit team together with the representatives of the SPAD conducted ocular inspection on 153 ROPA with a total book value of P679,842,818.02 or 10 per cent of the total ROPA balance of P6,716,035,188.05, to determine the existence and condition of the properties. Details as follows:

<b>ROPA</b>	<b>No. of Properties</b>	<b>Book Value</b>	<b>Appraised Value</b>
Real Properties	127	598,374,854.15	661,069,433.67
Chattels	26	81,467,963.87	140,454,941.67
<b>Total</b>	<b>153</b>	<b>679,842,818.02</b>	<b>801,524,375.34</b>

7.7 In October to November 2019, the team inspected 153 ROPA located in Benguet, Pangasinan, Tarlac, Pampanga, Bulacan, Bukidnon, Misamis Oriental, North and South Cotabato, Sarangani, Sultan Kudarat, Isabela, Quirino, Nueva Vizcaya, Agusan del Norte, Agusan del Sur and Nueva Ecija. The actual conditions of these ROPA at the time of inspection were as follows:

<b>Actual Condition of ROPA</b>	<b>Number of Real Properties</b>	<b>Book Value</b>
Informal settlers/unauthorized lessees occupy the property	11	38,454,948.53
Former owners or their relatives occupy the property	12	7,107,656.16
Former owners use the property for business	13	211,522,318.40
Former owners subleased/sold the property	9	8,444,151.27
Property have no signage as owned by the bank	119	419,702,076.73
No perimeter fence to secure the property	72	33,394,106.64

7.8 The ocular inspection further disclosed the following conditions of acquired personal properties of the bank:

<b>Actual Condition of ROPA</b>	<b>Number of Personal Properties</b>	<b>Book Value</b>
Unlocated Property	5	735,459.26
Property not properly maintained	8	1,036,245.40
Property not operational	11	16,053,152.99
Property used by previous owner	5	1,645,993.92
Property disposed thru sale	3	706,562.84

7.9 Below are the details on the results of the ocular inspection:

a. Three personal properties with total book value and appraised value amounting to P187,377 and P14,000, respectively, located at Poblacion, Tagoloan, Misamis Oriental, could not be located during the inspection.

b. Two personal properties with total book value and appraised value amounting to P548,082 and P160,470, respectively, located at Homestead, Talavera, Nueva Ecija, could not be located. Interview with the former officers revealed that there was no turnover of any personal property to the current officers.

c. Eight personal properties with total book value and appraised value amounting to P1,036,245 and P723,762, respectively, located at Concepcion, Tarlac, Kabacan, North Cotabato, Tagoloan, Misamis Oriental, Isulan, Sultan Kudarat and Talavera, Nueva Ecija, were not properly maintained. These were found scrap and dilapidated during inspection.

d. Five properties with total book value and appraised value amounting to P1,645,994 and P1,526,840, respectively, located at Rizal Santiago, Isabela and San Patricio, Delfin Albano, Isabela, were currently used by former owner during inspection. Four of the properties were components/parts of Electric Rice Mill. The former owners intend to purchase or buy-back the personal properties.

7.10 The provisions in the bank policy on the administration of ROPA was not strictly implemented as evidenced by the results of the ocular inspection. Some properties located in Mindanao, CAR and Regions 1- 3 were not properly maintained and closely monitored. There were no measures undertaken to protect these properties from informal settlers. Some informal settlers and former owners are not paying rentals for the properties occupied. The deficiencies noted in the inspection is partly attributed to the centralization of ROPA administration, which is now with the SPAD in LBP Head Office. Other reasons obtained are the limited personnel workforce assigned in the field handling ROPA and inadequate measures to protect and preserve the properties.

7.11 In view of the foregoing deviations from the existing policies and guidelines on the administration of ROPA, the foreclosed properties were not maintained and protected, hence, the Bank is exposed to higher risk of losses and may not recover its exposure of investments on these properties.

**7.12 We recommended that Management:**

- a. Implement the measures in the administration of ROPA provided under the SPAD Operations Manual to preserve and maintain the value of properties until disposal;**
- b. Collect lease rental on properties occupied by informal settlers and former owners; and**
- c. Take appropriate measures to protect the properties against informal settlers, as provided in the policy.**

**7.13 Management informed that the following actions/plans were/will be taken relative to the administration of ROPA:**

- a. The Bank is doing its efforts to collect lease from the former owners and occupants. To further strengthen the collection and ROPA Monitoring, the Bank issued LBP SO 345. S. of 2020 creating the Property Consolidation and Management Units consisting of 10 teams who will handle the ROPA administration.
- b. Though the Bank has existing procedure in sending notices to vacate and filing of Writ of Possession, however, for more efficient implementation of the same, the Bank is reviewing /updating said procedure. The revised procedure is for approval of the Bank's Committee in August 2020.
- c. The Bank is doing its best to comply with the policies on ROPA Administration and Manual of Operations to preserve and maintain the value of properties. Regular inspection of the Properties is being done either by SPAD, PVCID or LBRDC personnel. There are selected ROPAs that are under Property Management Contract with LBRDC.
- d. Posting of signage to the Bank ROPAs is also being done, and COA representative can attest to that, however, it was removed probably by by-passers or the occupants. For instance, in Mindanao, SPAD together with COA representative, has posted signage at the Bank property, however, the next day upon inspection again, it was already removed.
- e. With regard to the inexistent and can no longer be found ROPAs, the Bank requested for derecognition of these properties in the books.

**7.14 We acknowledge the actions taken by Management on the administration of ROPA. The audit team will validate the actions taken to implement the recommendations.**

**8. The monthly Automated Teller Machine (ATM) availability rate of 96 per cent was not maintained by the Third Party Service Provider (SP) engaged by the Bank to handle the outsourcing of its ATM Cash Loading and First Level Maintenance functions, and the related penalties were not collected on time, contrary to the Terms of Reference of the contract, hence, depriving the bank client/customers of continuous period of ATM uptime service.**

8.1 The Land Bank of the Philippines committed to provide world-class services through its ATM network with high 24x7x365 availability to its client/customers, had engaged the services of a Third Party Service Provider, the G4S Cash Solutions Philippines, Incorporated (G4SCSPI), to handle the outsourcing of its ATM Cash loading and First Level Maintenance (FLM) services for the purpose of achieving the following objectives :

- To improve the ATM availability rate that would result in enhanced customer service
- To improve efficiencies in ATM Cash Loading and FLM
- To reduce operational risks
- To allow the LANDBANK to focus on core functions and activities

8.2 The first three-year contract with the SP which started on February 6, 2013 had been renewed for another three years from August 8, 2016 to August 7, 2019 for a contract cost of P324 million. The existing contract had been extended twice. The first six-month contract extension covering the period August 7, 2019 to February 6, 2020 was approved on May 6, 2019. On December 16, 2019, the MANCOM approved the second contract extension for February 7, 2020 to August 6, 2020 in preparation for the bidding process of the same services and for the Bank to be able to award a new contract to the winning bidder before the end of the second contract extension.

8.3 Audit of the LBP Outsourcing of ATM Cash Loading and FLM Services was conducted in 2019 to determine whether the SP engaged by the Bank for the services was able to meet the expected ATM availability and efficiency in the conduct of ATM Cash Loading and FLM as required in the Service Level Agreement/contract. The audit disclosed the following deficiencies:

**a. The SP failed to maintain the monthly Total Uptime Maintenance Rate of 96 per cent provided in the Terms of Reference**

8.4 The contract Terms of Reference (TOR) provides that the SP shall maintain a monthly Total Uptime Maintenance Rate of 96 per cent of the total ATM population turned over to them. In case the SP fails in providing the proper services, a Service Level Agreement (SLA) penalty of two per cent of the total monthly charges of the total ATM population turned over to the SP shall be imposed as sanction or penalty for failure to meet the Total Uptime Maintenance Rate of 96 per cent. The Bank reserves the right to recover the amount of penalties by off-setting from any payments to be made by the Bank to the SP.

8.5 The ATM Monitoring Unit (AMU) of the Bank summarizes the ATM uptime for each month. Evaluation of the G4S ATM Servicing Availability Report as reported by AMU for the months of January to December 2019 showed that the ATMs under outsourced with the SP did not reach the target uptime rate of 96 per cent for eleven months, as shown below:

**Table 1- ATM Availability in CY2019**

COVERING PERIOD	TOTAL ATM UNIT OUTSOURCED	AVAILABILITY/UPTIME RATE			REMARKS
		PER CONTRACT	ACTUAL *	DIFFERENCE	
January 2019	243	96.00%	95.09%	0.91%	<b>Failed</b> Total Uptime Maintenance Rate below 96%, thus subject to a penalty of 2%
February 2019	240	96.00%	95.63%	0.37%	
March 2019	242	96.00%	95.81%	0.19%	
April 2019	241	96.00%	94.84%	1.16%	
May 2019	241	96.00%	93.88%	2.12%	
June 2019	241	96.00%	95.11%	0.89%	
July 2019	243	96.00%	95.09%	0.91%	
August 2019	238	96.00%	95.11%	0.89%	
September 2019	238	96.00%	<b>96.04%</b>	-0.04%	<b>Passed</b>
October 2019	235	96.00%	95.35%	0.65%	<b>Failed</b> Total Uptime Maintenance Rate below 96%, thus subject to a penalty of 2%
November 2019	237	96.00%	94.60%	1.40%	
December 2019	235	96.00%	93.77%	2.23%	

\*Based on the G4S ATM Servicing Availability Report from the ATM Monitoring Unit

8.6 In 2019, the required ATM availability rate was only maintained in September. Further, for the period February 2013 to December 2019 or for the past 83 months of contract with the Bank, the SP maintained the contracted ATM Uptime Maintenance Rate of 96 per cent only in 17 months and was not able to provide the agreed ATM availability for a period of 66 months (please refer to Annex B), contrary to the agreement.

**b. Inability of the SP to timely respond to ATM concerns, resulting in more frequent and prolonged period of ATM downtime and out of cash status**

8.7 Under the contract the SP shall keep the downtime of the ATM population in a month to a minimum level of less than four per cent. *ATM downtime* refers to the period of time when the ATM is not available to the user for whatever reason except for the following time factors beyond the Service Provider's control excluded from the ATM downtime calculation:

- No site access (i.e., ATM cash loading/servicing/site visit not allowed by host agency/LGU after office hours or during weekends)
- ATM Network communication failures
- Scheduled site outages
- Force Majeure events
- No fault found

- Project work (e.g., renovation, repair etc.)
  - Vandalism (foreign objects)
  - Second Line Maintenance (ATM problem within the ATM vendor's scope e.g., dislodged belt, defective card reader, parts for replacement etc.)
  - Unavailability of cash (bill shortage)
- (Note: The complete list of SLA exclusions is enumerated in Item A.4 of the TOR)

8.8 “Percentage downtime” on the other hand, refers to the aggregate of downtime of the particular ATM during a month expressed as total percentage of total available time in a month. The detail of ATM Downtime as reported by AMU in the ATM Servicing Availability Report for CY 2019 is presented below:

Table 2- ATM Downtime\*\*

COVERING MONTHS	NO. OF ATM UNIT	TOTAL AVAILABLE TIME (in hours)	FIRST LEVEL MAINTENANCE (FLM)					CASH LOADING OUT OF CASH (in hours)	TOTAL DOWNTIME (in hours)	PERCENTAGE DOWNTIME (%)
			CARD READER (in hours)	DISPENSER (in hours)	Balancing Discrepancy (Shortage/ Overage)	ELECTRONIC JOURNAL (in hours)	CHECK /RESET ATM (in hours)			
January 2019	243	179,289	427.29	6,537.53	-	-	799.87	1,044.80	8809.49	4.91%
February 2019	240	154,422	221.02	5,200.79	-	-	561.78	768.84	6752.43	4.37%
March 2019	242	169,423	245.06	4,889.85	-	-	409.57	1,557.04	7101.52	4.19%
April 2019	241	164,136	222.53	4,937.88	-	-	380.24	2,928.43	8469.08	5.16%
May 2019	241	169,423	486.64	2,870.78	-	-	355.55	6,651.62	10364.59	6.12%
June 2019	241	163,012	238.20	2,154.17	-	-	451.25	5,126.61	7970.23	4.89%
July 2019	243	179,289	427.29	6,537.53	-	-	799.87	1,044.80	8809.49	4.91%
August 2019	238	171,097	192.78	1,956.79	2.93	-	431.18	5,777.27	8360.95	4.89%
September 2019	238	164,220	321.69	1,581.22	-	-	268.72	4,332.31	6503.94	<b>3.96%</b>
October 2019	235	168,659	298.91	1,853.88	-	-	371.83	5,316.22	7840.84	4.65%
November 2019	237	162,748	188.85	2,034.36	-	-	303.05	6,257.91	8784.17	5.40%
December 2019	235	167,118	161.24	1,994.34	-	-	345.62	7,902.25	10403.45	6.23%
			3,431.50	42,549.12	2.93	-	5,478.53	48,708.09	100,170.18	
			3%	42%	0%		5%	49%	100%	

\*\*Based on the G4S ATM Servicing Availability Report from the ATM Monitoring Unit

8.9 Review and analysis of the ATM Servicing Availability Report showed that the downtime rate of the ATMs in CY 2019 ranged from **3.96 per cent** to **6.23 per cent**. The SP was only able to keep the minimum downtime level of four per cent or less for the month of September. “Out of Cash” or Cash dry situations accounts for most of the ATM downtime at **49 per cent** of the Total Downtime reported during the year. This showed that there were frequent prolonged periods of “no cash status” in ATMs. This is due to the inability of the SP to provide the required loading of ATMs within two hours for NCR ATMs and four hours for provincial locations, after notification of the SP of the “no cash status” by the Bank.

8.10 The SP was not able to keep the downtime of the ATM population in a month to a minimum level of four per cent or less, hence, was subjected to the payment of SLA penalty of two percent of the total monthly charges of the total ATM population turned over to them as provided in the agreement.

8.11 It was also noted that issues and concerns of branches in the performance of the SP in handling the offsite ATMs were not addressed in CY 2019.

8.12 LANDBANK Executive Order (EO) No. 005 Series of 2013 dated January 21, 2013, "Interim Implementing Guidelines on the Outsourcing of ATM Cash Loading and First Level Maintenance Services", provides that there shall be conduct of regular review of contract and performance of Service Provider, enhancement and amendment as may deemed necessary.

8.13 Aside from the ATM Servicing Availability Report, the Quarterly Performance Assessment Report (QPAR) is being utilized by the Bank as another tool to assess and measure the performance and efficiency of the SP in handling the cash loading and FLM requirements of enrolled ATMs. The QPAR is the result of a survey conducted quarterly by the Bank thru the Debit Cards and ATM Management Department (DCAMD) having the Bank branches as respondents in the survey and as the owners of the ATMs under outsourced to the SP. DCAMD summarizes and consolidates the QPAR to be discussed during their regular monthly meetings with the SP.

8.14 The respondent branches utilized the QPAR to assess the performance of the SP on a quarterly basis by providing a rating from 1 to 5, (1 - Poor; 2- Needs Improvement; 3-Satisfactory; 4-Very Satisfactory and 5-Excelent) on a number of specific performance criteria that is within the function and responsibilities of the SP. Respondent branches were asked to take note of their concerns/identified problems during the quarter and provide comments and suggestions to improve the services of the SP. The QPAR in CY2019 are summarized as follows:

**Table 3: Quarterly Performance Assessment Report Summary\*\***

<b>No. of Respondent Branches</b>	<b>68</b>	<b>68</b>	<b>67</b>	<b>67</b>
<b>Period Covered:</b>	1st Quarter ending March 31, 2019	2nd Quarter ending June 30, 2019	3rd Quarter ending Sept. 30, 2019	4th Quarter ending Dec. 31, 2019
<b>Performance Criteria:</b>				
Cash Loading	Needs Improvement	Needs Improvement	Needs Improvement	Needs Improvement
First Level Maintenance	Needs Improvement	Needs Improvement	Needs Improvement	Needs Improvement
Response Time	Needs Improvement	Needs Improvement	Needs Improvement	Needs Improvement
Security Procedures	Needs Improvement	Needs Improvement	Needs Improvement	Needs Improvement
Cassette and Consumable Management	Needs Improvement	Needs Improvement	Needs Improvement	Needs Improvement
ATM Cleanliness and Maintenance	Needs Improvement	Needs Improvement	Needs Improvement	Needs Improvement



Courteousness of G4S Personnel	Satisfactory	Satisfactory	Satisfactory	Satisfactory
<b>Overall Assessment</b>	<b>Needs Improvement</b>	<b>Needs Improvement</b>	<b>Needs Improvement</b>	<b>Needs Improvement</b>
<b>Are you willing to continue ATM outsourcing services?</b>				
Yes	39	39	34	31
No	1	1	6	3
Abstention	28	28	27	33

\*\*Based on the Quarterly Performance Assessment Report from DCAMD

8.15 The Bank management commented that they are conducting regular monthly service meetings with the SP to discuss and address the concerns of Branches with regard to operational efficiency and performance of the ATMs serviced by SP and being monitored by the Branches which are mostly offsite ATMs. However, despite regular monthly meetings conducted, the issues and concerns in the past were not yet addressed and were still noted in ATM services in 2019 as indicated in the performance reports. As a result, the respondent Branches gave the SP a rating of below satisfactory or **Needs Improvement** in most of the performance categories within the function and responsibilities of the SP except "Courteousness of G4S Personnel" where the SP was rated satisfactory. This shows that the objective to improve efficiencies in ATM Cash Loading and FLM was not attained during the year.

**c. Delay in the collection of penalty charges due from the SP for not providing the proper services and complying with the Service Level Agreement**

8.16 Annex A of the TOR LBP Outsourcing of ATM Cash Loading and First Level Maintenance (FLM) Services provides that :

*a. If the Service Provider fails in providing the proper services and complying with the Service Level Agreement, as per the terms and requirements specified, the Bank shall charge the Service Provider with the following penalties:*

- 1. A penalty of 2% of the total monthly charges of the ATM population turned over to the SP shall be imposed for failure to meet the Total Uptime Maintenance Rate of 96%.*
- 2. Penalty on late response time in the conduct of FLM after the acceptable two (2) hours response time for Metro Manila sites and four (4) hours for provincial sites shall be imposed in the following manner:*

<b>Time of Delay</b>	<b>Amount of Penalty per ATM per Incident (Php)</b>
<i>Up to 1 hour</i>	<i>50</i>
<i>More than 1 hour but less than 2 hours</i>	<i>100</i>
<i>More than 2 hours</i>	<i>200</i>

3. The Service Provider shall pay a fine of Php500.00 per incident per day if the ATM is out of cash for more than four (4) hours from the time the “no-cash status” is reported by the Bank. If the same ATM is still out of cash after eight (8) hours from the time the “no-cash status” is reported by the Bank, an additional penalty of Php1,000.00 shall be imposed and shall continue until the ATM is loaded and OPERATIONAL; Xxx.

4. On MIS Report Daily Cash Summary Reports, the Service Provider shall provide the Bank with accurate MIS Reports on or before the agreed cut-off time Xxx.

b. The total monthly charges shall be collected on the following month after the month where deficiency is incurred which shall commence within six (6) months from the commencement of the contract and shall continue until the termination of the Contract. (underscoring ours)

c. The deficiency shall be tallied on a monthly basis and the Bank shall bill the Service Provider of the total amount of penalty thru a Claim Letter every 10<sup>th</sup> day of the following month.

d. The Bank reserves the right to recover these amounts by off-setting from any payments to be made by the Bank to the Service Provider.

8.17 Verification of the Disbursement Orders (DOs) evidencing all payments made by the Bank to the SP for its ATM services rendered for the period December 1, 2018 to December 15, 2019 disclosed that the Bank did not religiously collect the computed monthly Service Level Agreement penalties. Likewise, there was delay in the settlement of SLA penalties charged to the SP for not providing the proper services and not complying with the agreement provided in the Terms of Reference (TOR). Details of penalties imposed on the SP is as follows:

**LBP Outsourcing of ATM Cash Loading and FLM Services  
Payments of Services and Penalty Deductions**

ATM SERVICES FOR THE PERIOD	GROSS PAYMENT	W/TAX	PENALTIES DEDUCTED				NET PAYMENT	REMARKS
			LATE REPORTING*	COVERING MONTH	SLA **	COVERING MONTH		
Dec 2018	4,713,096.77	294,568.54	-		328,350.00	July & Aug. 2018	4,090,178.23	
Jan 2019	4,596,967.72	287,310.49	3,500.00	Dec. 2018	-		4,306,157.23	No "Service Level Agreement" penalty deduction
Feb 2019	4,383,000.02	273,937.51	1,500.00	Jan. 2019	-		4,107,562.51	
Mar 2019	4,338,000.00	271,125.00	2,000.00	Feb & March 2019	-		4,064,875.00	
Apr 2019	4,351,800.00	271,987.50	2,500.00	Apr. 2019	-		4,077,312.50	
May 2019	4,338,000.00	271,125.00	3,000.00	May 2019	-		4,063,875.00	
Excess ATM services Aug 2018 to Jan. 2019	264,024.85	16,501.55	-		-		247,523.30	
Jun 2019	4,329,000.00	270,562.50	1,000.00	June 2019	-		4,057,437.50	
July 2019	4,350,193.55	271,887.09	3,000.00	July 2019	-		4,075,306.46	
Aug. 2019	4,321,161.29	270,072.58	3,250.00	Aug 2019	111,750.00 302,850.00	Sept. 2018 Apr. 2019	3,633,238.71	
Sept 2019	4,284,000.00	267,750.00	3,000.00	Sept 2019	468,250.00 375,900.00	May 2019 July 2019	3,169,100.00	
Oct 2019	4,256,709.68	266,044.35	3,500.00	Oct 2019	317,400.00	June 2019	3,669,765.33	
Nov 2019	4,245,600.00	265,350.00	4,750.00	Nov 2019	-		3,975,500.00	
Dec1-15, 2019	2,106,000.00	131,625.00	-		-		1,974,375.00	No "Service Level Agreement" penalty deduction
	<b>54,877,553.88</b>	<b>3,429,847.11</b>	<b>31,000.00</b>		<b>1,904,500.00</b>		<b>49,512,206.77</b>	

\* Based on document "Penalty Charged on Delayed transmittal of Reports by G4S" from COSD

\*\* Based on document "Summary of Service Level Agreement (SLA) Penalty Beyond the Allocated Response Time" from DCAMD

8.18 As can be gleaned from the Table above, the Bank deducted a total of P1,904,500 SLA penalties from the SP service billings for the period December 1, 2018 to December 15, 2019, but charging of the monthly SLA penalties were delayed. This is inconsistent with the Contract which provides that the penalties should be collected on the following month after the deficiency was incurred. The penalties incurred for the months of July, August and September 2018 were deducted from the December 2018 and August 2019 billings. Likewise, penalties for April, May, June and July 2019 were only deducted from the August, September and October 2019 service billings.

8.19 Moreover, it was not determined whether the SLA penalties for the period October 2018 to March 2019 and August 2019 to November 2019 have been collected from the SP, since there were no documents submitted by the concerned office. The audit team requested from the concerned personnel of DCAMD the submission of all Claim Letters sent to SP to determine the total amount of unpaid SLA penalties as at December 31, 2019 but no reply was received to date. In response to our similar observation in CY 2017 audit, management commented that the penalties to be incurred by SP will be charged within ten calendar days after receipt of Claim Letter starting July 2018 to comply with TOR Clause No. 8. This, however, was not complied with, hence, the observation is reiterated.

8.20 The monthly Total Uptime Maintenance Rate of 96 per cent and the minimum downtime level of four per cent per month not maintained by the SP is not in accordance with the TOR of the contract. This also contributed to the growing dissatisfaction of clients on the ATM services provided by the Bank, particularly on the often off-line or out of cash status of ATMs. Likewise, the delay in the collection of penalties charged to the SP for not complying with the agreement deprived the Bank of the immediate use of the funds.

**8.21 We recommended that Management:**

- a. Require the SP to maintain the monthly Total Uptime Maintenance Rate of 96 per cent and the minimum downtime level of four per cent per month as provided in the Terms of Reference to mitigate the complaints from Branches, Bank clients and customers deprived of the benefits of longer ATM uptime service;**
- b. Collect all penalties due from the SP for not providing the services agreed upon in the contract and promptly deduct from the payments of services within 10 calendar days after receipt of SP of the Claim Letter as provided in the TOR; and,**
- c. Provide the COA auditor a copy of all billings for penalties issued to the SP (Claims Letters and its supporting documents), particularly those that were not yet settled/deducted from the payment of services, for verification and monitoring of the SLA penalties.**

8.22 Management commented that the Bank has taken measures to improve the availability rate of ATMs handles by the Third Party Service Provider (TPSP as well as the collection of penalties. For 2019, the penalties imposed on the TPSP for the delays in the response time of the TPSP were collected from April to December 2019 amounting to P3,391,250. The months of January to March 2019 are still being contested by G4S and will be further validated by the NOD-ATM Monitoring Unit. Due to the manual handling of the computations, the 10 calendar days period to collect the penalty is quite a challenge for the Bank but claim letters were sent to G4S. It was agreed with G4S to settle the discrepancies/mitigation on availability rates before the actual collection.

8.23 As a rejoinder, the TPSP had been short in fulfilling its responsibilities as the service provider of the Bank in the Outsourcing of its ATM Cash Loading and FLM services. The SP had incurred delays in the performance of its obligation to conduct the necessary cash replenishment or attend to the ATM problem within the agreed upon response time of two hours for NCR ATMs and four hours for provincial locations. This is evidenced by the penalties charged to the SP amounting to P3.391 million covering only the period April to December 2019. We maintain our recommendation to require the SP to fulfil its responsibilities in the contract to improve the ATM availability rate that would result in enhanced customer service.

## **Gender and Development (GAD)**

**9. LBP attributed bank deposit liabilities and other Gender and Development (GAD) activities not included in the PCW endorsed GAD Plans and Budget (GPB) amounting to P1.672 trillion, contrary to PCW-NEDA-DBM Joint Circular No. 2012-01. Likewise, GAD Focal Point System (GFPS) is not fully operational affecting accuracy of the attribution of GAD related activities of the bank as a whole, contrary to Section 10 of the aforementioned Joint Circular.**

9.1 The pertinent provisions of the PCW-NEDA-DBM Joint Circular No. 2012-01 are quoted hereunder:

a. Section 3.0 General Guidelines in GAD Planning and Budgeting

*3.5 Agency GAD Focal Point Systems (GFPS) shall take the lead in mainstreaming gender in agency PAPs. As such they shall coordinate the preparation of the agency GPB and the GAD AR, monitor its implementation and report on its results. In the process, they shall provide technical assistance to offices or units within their agency on gender mainstreaming. To enable them to perform their roles, it is important that the GFPS members are provided with the required gender capacity, such as application of gender analysis tool.*

b. Section 6.0 Costing and Allocation of the GAD Budget

*6.1 At least five per cent (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.*

*6.4 Attributing agency major programs the GAD budget*

*Attribution to the GAD budget of a portion or the whole of the budget of an agency's programs is a means toward gradually increasing the gender responsiveness of government programs and budgets.*

*6.4.1 If an agency intends to attribute a portion or the whole budget of major programs during the GAD planning and budgeting phase, it may subject the program to gender analysis using the HGDG tool. Xxx*

c. Section 10 Preparation and Submission of GAD Accomplishment Report

*10.1 Attached agencies, bureaus, regional offices, constituent units and all other concerned shall submit their GAD ARs to their central offices. The agency GFPS shall prepare the annual GAD AR based on the PCW-endorsed GBP adjusted to the approved GAA following the form prescribed in Annex B. Activities completed until the end of the year may be included in the final GAD AR of agency submitted to PCW in January.*

*10.2 In case an agency attributes a portion or the whole of the budget of its major program to the GAD budget, it shall subject the same to the HGDG test to determine the actual expenditures that may be attributed to the GAD budget. xxx*

9.2 The PCW-endorsed GAD Plan and Budget (GPB) initially amounted to P6,000,000 for CY 2019. However, the actual GAD Accomplishment Report (AR) submitted to PCW showed a total revised budget of P1,672,452,336,558.85, and an actual cost/expenditure of P1,672,446,336,558.85.

9.3 Review of the GAD AR for FY 2019 disclosed that the significant increase in the initial PCW-endorsed GPB was due to the inclusion of cost/expenditure pertaining to banks' clients' deposits from the unbanked/unserved population in the amount of P1,667,943,033,140.00 and other GAD activities not included in the PCW-endorsed GBP totaling P4,503,303,418.85. These deposits, however, are liabilities of the bank and not part of LBP's maintenance and other operating expenses (MOOE), capital outlay (CO), and personnel services (PS), hence, is not considered an activity supporting the GPB as provided in the above-cited regulation.

9.4 Further review disclosed that only three employees from the Bank strategic units were able to attend the Seminar on Gender Statistics, Sectoral Gender Analysis using Harmonized Gender and Development Guidelines, while 16 GAD-TWG members and Chairperson of the Regional attended the Gender Sensitivity Training on October 14-16, 2019. The Bank's GFPS-TWG members still need capacity building in the use of the HGDG tool to assess the gender-responsiveness of the Bank major programs and projects in compliance with paragraph 3.5 of PCW-NEDA-DBM Joint Circular No. 2012-01.

9.5 Management acknowledged that the GBP for CY 2019 was formulated when the GFPS was not yet strengthened (i.e., prior to its reconstitution in February 2019) and one of the prevailing concerns then was the low level of awareness and skills among LBP personnel on GAD and related programs, activities and policies. It further explained that the majority of the inconsistencies between the PCW-endorsed GPB and the AR are PAPs that have been in place in the organization for many years which were not listed in the previous GPBs, but were included in the AR due to profound understanding of the concept and dynamics of GAD planning and budgeting at a later date.

9.6 On the other hand, the LBP CAR, Regions 1, 5 and 12 audit teams observed that the GFPS is not yet fully functional, hence, the concerned LBP Regional Branches did not prepare their GPB nor participated in the formulation of the consolidated GPB of LBP.

9.7 As a result, the identified gender issues in CY 2019 were not efficiently and effectively addressed.

9.8 **We recommended that Management:**

**a. Comply with the guidelines in the attribution of major programs to the GAD budget;**

**b. For subsequent preparation of the GPB, make representation with PCW to clarify the inclusion of the bank clients-deposit cost as accomplishment on GAD since it is not part of the Bank COB rather a liability to depositors; and**

**c. Strengthen the GFPS-TWG members through gender capacity particularly in the use of Harmonized Gender and Development tool to assess the gender-responsiveness of the Bank major programs and projects, and in order to provide the technical assistance to all concerned personnel from different units/groups of the Bank on gender mainstreaming.**

9.9 Management informed that:

a. LBP has been identified by PCW as one of the pilot agencies for the implementation of GMMS Version 3. Hence, the Bank expects to have more opportunities to get proper guidance with respect to making attributions to the GAD budget;

b. The Bank will make representation and coordinate with the GAD Reviewer assigned by PCW to LBP on the inclusion of the deposit liabilities in the AR. Although part of the Bank's liabilities, these deposits represent the total output of the Bank's various efforts to make Filipino women and men, especially the marginalized, unbanked, unserved and underserved more financially included;

c. The Bank has been discussing with the PCW and with a prospective training provider/GAD Resource Pool member for the possible conduct of virtual seminar workshops/ webinars to continue what was started in building the GAD

KSA of the LBP whole GFPS. This way, the Regional GFPS can actively participate in the crafting of the GAD GPBs in their respective areas and contribute to the 5 per cent allocation to the GAD Budget; and

d. The proposed initiatives for mainstreaming GAD for field units start with building the GAD capabilities and competencies of Bank personnel concerned. The positive developments are expected on or before the 4th quarter of 2020.

## **Compliance with Republic Act No. 7656**

### **10. Parent**

The LBP Board of Directors in Board Resolution No. 20-324 dated April 30, 2020 approved the request for dividend relief for CY 2019 net income to the Department of Finance (DOF). The letter dated May 14, 2020 requesting for dividend relief was forwarded to DOF on May 15, 2020.

#### **10.1 Subsidiaries**

In compliance with Republic Act No. 7656, three of five subsidiaries declared and remitted cash dividends totaling P119.955 million to the Bureau of the Treasury (BTr) for CY 2019 net income, details as follows:

<b>Name of Subsidiaries</b>	<b>Amount</b> (In million pesos)
LBP Leasing and Finance Corporation	28.405
LBP Insurance Brokerage, Inc.	62.767
LBP Resources and Development Corporation	28.783
	119.955

The other two subsidiaries, Overseas Filipino Bank, Inc. and Masaganang Sakahan, Inc., did not declare and remit dividends due to net loss in 2019.

## **Compliance with Tax Laws**

12. 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.

12.1 In compliance with Tax Laws, information on taxes and licenses paid or accrued during the taxable year 2019 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 P5.503 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

13. In CY 2019, 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.

13.1 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

14. In CY 2019, 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; and
- b. Remittance of employee's and employer's contributions and employee's compensation premium within the due date pursuant to Section 19 of the GSIS Act of 1997.

### STATUS OF AUDIT SUSPENSIONS, DISALLOWANCES AND CHARGES

15. The total audit suspensions and disallowances as at December 31, 2019 is P2,858 million, broken down as follows:

	Suspensions		Disallowances		Total	
Head Office*	P	-	P	2,824,431,297.32	P	2,824,431,297.32
Regional Offices/Branches		25,977,699.37		12,491,438.40		38,469,137.77
	<b>P</b>	<b>25,977,699.37</b>	<b>P</b>	<b>2,832,922,735.72</b>	<b>P</b>	<b>2,862,900,435.09</b>

\* Included are the NLDC and PCFC disallowances

15.1 These suspensions and disallowances included P2,811,297,998.74 Priority Development Assistance Fund (PDAF) and Development Acceleration Program (DAP) from National Livelihood Development Corporation. The other suspensions and disallowances are payments of benefits and allowances to LBP Board of Directors, officers and employees 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 (RRPC).

15.2 There are no audit charges as at December 31, 2019.