Republic of the Philippines
COMMISSION ON AUDIT
Commonwealth Avenue, Quezon City

ANNUAL AUDIT REPORT

on the

LANDBANK COUNTRYSIDE DEVELOPMENT FOUNDATION, INC.

For the year ended December 31, 2011

EXECUTIVE SUMMARY

INTRODUCTION

The LandBank Countryside Development Foundation, Inc. (LCDFI), formerly Land Bank of the Philippines (LBP) Educational Foundation, Inc. is a non-stock, non-profit foundation that was incorporated in 1983 under the provisions of the Corporation Code. The amended Articles of Incorporation was registered with the Securities and Exchange Commission on January 5, 1993 under Registration No. 110790, embodying Land Bank of the Philippines' commitment to spur development in the countryside particularly among its priority sectors such as the small farmers and fisherfolks, agrarian reform beneficiaries (ARBs), Countryside Financial Institutions, small and medium enterprises and Overseas Filipino Workers (OFWs).

The Foundation is duly accredited with the Philippine Council for NGO Certification (PCNC) and is registered with the Bureau of Internal Revenue as a donee institution in accordance with the provisions of Revenue Regulations No. 013-98 dated January 1, 1999 and donation/s received shall entitle the donor/s to limited or full deduction pursuant to Section 34(H)(1) and (2), and exemption from Donor's Tax pursuant to Section 101 (A)(3) of the National Internal Revenue Code of 1997.

The initial seed money of the Foundation came from the donation of the LBP in the amount of five million pesos (P5,000,000) which must be kept intact and invested in safe and high yield securities and only the earnings thereof shall be used for the purpose of which the Foundation was created. Substantial donations came from the Bangko Sentral ng Pilipinas.

The affairs and business of the Foundation are directed by the Board of Trustees, which as at December 31, 2011 is composed of the Chairman and nine trustees as members.

The corporate officers of the Foundation are composed of an Executive Director, a Corporate Secretary and a Corporate Treasurer.

As at December 31, 2011, four out of ten members of the Board of Trustees and one out of three corporate officers were officers of LBP.

FINANCIAL HIGHLIGHTS (In Philippine Peso)

1. Comparative Financial Position

Particulars	2011	2010	Increase (Decrease)
Assets	100,601,005	92,538,207	8,062,798
Liabilities	1,783,459	2,438,772	(655,313)
Fund balances	98,817,546	90,099,435	8,718,111

2. Statement of Operations

Particulars	2011	2010	Increase (Decrease)
Revenues	31,947,659	31,331,340	616,319
Expenses	23,229,548	29,966,217	(6,736,669)
Net revenue	8,718,111	1,365,123	7,352,988

SCOPE OF AUDIT

The audit covered the examination on a test basis, the accounts and financial transactions of the LCDFI for CY 2011 in accordance with the International Standards on Auditing. Our audit was also made to assess the propriety of financial transactions and compliance with laws, rules and regulations.

INDEPENDENT AUDITOR'S OPINION

We rendered a qualified opinion on the fairness of presentation of the financial statements for CY 2011 of the LCDFI due to the following:

1. The presentation of Statement of Cash Flows (SCF) of LCDFI which is an integral part of the LCDFI's financial statements was not in accordance with paragraph 18 of the Philippine Accounting Standard (PAS) 7. Likewise, the difference of P3.879 million on the reported cash donations received in the SCF for the year 2011 against the actual amount of cash received for the same period is an indication that the information is unreliable, contrary to the faithful presentation principle of the information as stated in paragraphs 31 and 33 of the Framework for the Preparation and Presentation of the Financial Statements.

2. Inconsistencies in the application of the accrual method of accounting in the recording of donations from various donors of LCDFI resulted in the overstatement of Donations income by P4.119 million for the year 2011 and understatement of Donations income by P5.107 million for the year 2010, hence the amounts stated in the financial statements were not reliable and not comparable.

3. The Retirement Fund amounting to P1.124 million was not funded but accrued only resulting in the overstatement of the Retirement Fund (asset) and the understatement of the Fringe benefits expense account by the same amount.

OTHER SIGNIFICANT OBSERVATIONS AND RECOMMENDATIONS

In addition to the afore-mentioned audit observations, the following are the other significant observations and recommendations:

1. Subsidiary ledgers (SLs) were not maintained to support the Program Development Expenses (PDE) controlling account totaling P21.354 million, contrary to

the provisions of Sections 111 and 114 of the Government Auditing Code of the Philippines (PD 1445).

1.1 We recommended and Management agreed to record transactions in such a way that it will show enough details so as to establish an audit trail. Subsidiary ledgers should be maintained, kept currently posted for proper accounting control and in compliance with Sections 111 and 114 of the PD 1445.

2. The LCDFI did not prepare an Annual Procurement Plan (APP) to support its procurement activities for CY 2011 totaling P0.275 million contrary to Sections 7.1 and 7.2 of the Revised Implementing Rules and Regulations of Republic Act No. 9184.

2.1 We recommended and Management agreed to prepare an Annual Procurement Plan to schedule the outflow of cash and budget for specific procurement in order that the availability of cash may not be prejudiced/distorted.

3. Unreconciled cost of Property and Equipment (PE) between the Property and Accounting Sections amounting to P0.324 million cast doubt in the reliability of the financial records, hence contrary to Section 58 of PD 1445. Also, unserviceable property and equipment and semi-expendable supplies totaling to P1.354 million were still recorded under PE contrary to paragraph 67 of PAS 16 and Section 79 of PD 1445.

3.1 We recommend that Management regularly reconcile the Property and the Accounting Sections records in order to reflect a reliable balance in the financial statements.

3.2 Likewise, we recommended and Management agreed to:

a) Reclassify the unserviceable property and equipment to Other Assets account as these are no longer used in the agency's regular operations; and

b) Properly dispose the unserviceable properties at the soonest possible time to minimize the wear and tear of the said properties.

4. Taxes withheld totaling P27,782 and mandatory payroll deductions for SSS, PhilHealth, ECC and HDMF contributions/member loans aggregating P8,813 were not remitted on their due dates, hence exposes the Foundation to interest, fines and penalties.

4.1 We recommended and Management agreed to:

a) Require the Accountant to look into the unremitted balances and remit the amount to BIR.

b) Comply strictly with the prescribed guidelines on payments/remittances of payroll deductions to avoid losses due to fines and penalties to protect the interest of the LCDFI.

5. Non-observance of the provisions of BIR Revenue Memorandum Circular (RMC) No. 23-2007 on all LCDFI purchases of goods and services exposes the Foundation to risk of possible fines and penalties, hence detrimental to the Foundation.

5.1 We recommend that Management comply strictly with the BIR RMC No. 23-2007 to avoid possibility of fines and penalties.

STATUS OF IMPLEMENTATION OF PRIOR YEARS' AUDIT RECOMMENDATIONS

Of the 13 audit recommendations embodied in the prior years' Annual Audit Report, four were fully implemented, five were partially implemented and four were not implemented.

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Republic of the Philippines
COMMISSION ON AUDIT
Commonwealth Ave., Quezon City
CORPORATE GOVERNMENT SECTOR
CLUSTER A – FINANCIAL

INDEPENDENT AUDITOR'S REPORT

The Board of Trustees
LandBank Countryside Development Foundation, Inc.
12th Floor, SSHG Law Centre Building
105 Paseo de Roxas
Legaspi Village, Makati City

We have audited the accompanying financial statements of LandBank Countryside Development Foundation, Inc., (a non-stock, non-profit organization), which comprise the statement of assets, liabilities and fund balances as at December 31, 2011 and the statement of revenues, expenses and changes in fund balances, and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Philippine Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Basis for Qualified Opinion

As discussed in Observation No. 1, the presentation of the Statement of Cash Flows (SCF) which is an integral part of the LCDFI's financial statements was not in accordance with paragraph 18 of the Philippine Accounting Standard (PAS) 7. Likewise, the difference of P3.879 million on the reported cash donations received in the SCF for the year 2011 against the actual amount of cash received for the same period is an indication that the information is unreliable, contrary to the faithful presentation principle in paragraphs 31 and 33 of the Framework for the Preparation and Presentation of the Financial Statements.

Also, in Observation No. 2, the inconsistencies in the application of the accrual method of accounting in the recording of donations from various donors of LCDFI resulted in the overstatement of Donations income by P4.119 million.

Furthermore, the asset of the Foundation was overstated by the Retirement fund of P1.124 million which was not funded and the expenses understated by the unrecorded Fringe benefits - retirement by the same amount as discussed in Observation No. 3.

Opinion

In our opinion, except for the effects of the necessary adjustments as discussed in the preceding paragraphs, the financial statements referred to above present fairly, in all material respects, the financial position of the LandBank Countryside Development Foundation, Inc. as at December 31, 2011 and its financial performance for the year then ended in accordance with Philippine Financial Reporting Standards.

COMMISSION ON AUDIT

CYNTHIA M. EVASCO
Supervising Auditor

March 21, 2012

LANDBANK COUNTRYSIDE DEVELOPMENT FOUNDATION, INC.
STATEMENT OF ASSETS, LIABILITIES AND FUND BALANCES
December 31, 2011
(In Philippine Peso)

	Note	2011	2010
ASSETS			
Current Assets			
Cash and cash equivalents	3	12,604,737	6,316,195
Accounts receivable	4	4,819,306	1,220,916
Inventories	5	39,231	39,459
Prepaid expenses	6	61,205	67,317
Retirement fund		1,124,525	1,031,765
		18,649,004	8,675,652
Non-current Assets			
Held-to-maturity investments	7	78,789,950	80,470,553
Property and equipment	8	3,012,051	3,242,002
Other resources		150,000	150,000
		81,952,001	83,862,555
TOTAL ASSETS		**100,601,005**	**92,538,207**
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	9	186,934	875,055
Accrued expenses	10	1,596,525	1,563,717
		1,783,459	2,438,772
FUND BALANCES	11	98,817,546	90,099,435
TOTAL LIABILITIES AND FUND BALANCES		**100,601,005**	**92,538,207**

The Notes on pages 6 to 15 form part of these financial statements.

LANDBANK COUNTRYSIDE DEVELOPMENT FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
(All amounts in Philippine Peso unless otherwise stated)

1. CORPORATE INFORMATION

The LandBank Countryside Development Foundation, Inc. (LCDFI), formerly Land Bank of the Philippines (LBP) Educational Foundation, Inc. is a non-stock, non-profit foundation that was incorporated in 1983 under the provisions of the Corporation Code. The amended Articles of Incorporation was registered with the Securities and Exchange Commission on January 5, 1993 under Registration No. 110790, embodying Land Bank of the Philippines' commitment to spur development in the countryside particularly among its priority sectors such as the small farmers and fisherfolks, agrarian reform beneficiaries (ARBs), Countryside Financial Institutions, small and medium enterprises and Overseas Filipino Workers (OFWs).

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The initial seed money of the Foundation came from the donation of the LBP in the amount of five million pesos (P5,000,000) which must be kept intact and invested in safe and high yield securities and only the earnings thereof shall be used for the purpose of which the Foundation was created. Substantial donations came from the Bangko Sentral ng Pilipinas.

The affairs and business of the Foundation are directed by the Board of Trustees, which as at December 31, 2011 is composed of the Chairman and nine trustees as members.

The corporate officers of the Foundation are composed of an Executive Director, a Corporate Secretary and a Corporate Treasurer.

As at December 31, 2011 four out of ten members of the Board of Trustees and one out of three corporate officers were officers of LBP.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 <u>Basis of Preparation</u>

The financial statements have been prepared in conformity with the Philippine Financial Reporting Standards (PFRS)/Philippine Accounting Standards (PAS) which the Foundation applied for the annual period beginning on January 1, 2005. The financial statements are presented in Philippine peso and all values are rounded to the nearest peso except when otherwise indicated.

2.2 Adoption of the Philippine Financial Reporting Standards (PFRS)/Philippine Accounting Standards (PAS)

The accounting policies adopted are consistent with those of the previous financial year and LCDFI has adopted those new/revised standards mandatory for financial years beginning on or after January 1, 2005. The Foundation has adopted the following standards during the year:

PAS 1 - Presentation of Financial Statements, provides a framework within an entity, assesses how to present fairly the transactions and other events, provides the base criteria for classifying assets and liabilities as current or non-current; prohibits the presentation of income from operating activities and extraordinary items as separate line items in statements of income; and specifies the disclosures about key sources of estimation, uncertainty and judgments that management has made in the process of applying the Foundation's accounting policies.

PAS 8 - Accounting Policies, Changes in Accounting Estimates and Errors, removes the concept of fundamental error and the allowed alternative to retrospective application of voluntary changes in accounting policies and retrospective restatement to correct prior period errors. It defines material omissions or misstatements and describes how to apply the concepts of materiality when applying accounting policies and correcting errors.

PAS 10 - Events after the Balance Sheet Date, prescribes the accounting policies and disclosures related to adjusting and non-adjusting subsequent events. Additional disclosures required by the standards were included in the financial statements, principally the date of authorization for release of the financial statements.

PAS 16 - Property, Plant and Equipment, provides additional guidelines and clarification on recognition and measurement of items of property, plant and equipment. It also provides that each part of an item, property, plant and equipment with a cost that is significant in relation to the total cost of the item shall be depreciated separately.

PAS 19 - Employee Benefits, provides that the cost of providing employee benefits should be recognized in the period in which the benefit is earned by the employee, rather than when it is paid or payable. This standard applies to wages and salaries, compensated absences (paid vacation and sick leave), bonuses, medical and life insurance benefits during employment, separation and retirement benefits.

PAS 24 - Related Party Disclosures, provides additional guidance and clarification in the scope of the standard, the definitions and disclosures for related parties. It also requires disclosures for related parties. It also requires disclosures of the total compensation of key management personnel and benefits types.

PAS 32 - Financial Instruments: Disclosure and Presentation, set out the required disclosures and presentation of financial instruments to enhance financial statement users' understanding of the significance of financial instruments to an entity's overall financial position, performance, and cash flows. Financial instruments should be classified as equity or debt instruments based on the substance of the transaction. PAS 32 includes disclosures about the accounting policy adopted, methods used to apply those policies, the nature of financial instruments held for each class of financial asset, financial liability and equity instruments including significant terms and conditions that may affect the amount, timing and certainty of future cash flows. Fair value information is also required for each class of financial assets and financial liabilities. PAS 32 requires strict offsetting criteria for financial assets and liabilities.

PAS 39 - Financial Instruments: Recognition and Measurement, establishes specific categories into which all financial assets and liabilities must be classified. All financial assets must be classified into "loans and receivables", "held-to-maturity", "fair value through profit or loss" or "available-for-sale" categories. Held-to-maturity financial assets are measured at amortized cost.

2.3 Recognition of revenue and expenses

Revenue and expenses are recorded based on the accrual method of accounting. Interest income was reported net of final withholding tax of 20 per cent.

2.4 Inventories

Inventories are valued at cost. The first-in, first-out method was used in the determination of the cost.

2.5 Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity. These investments are recorded at cost adjusted for discount and premium amortization.

2.6 Property and equipment

These are stated at cost, less accumulated depreciation.

2.7 Fund Balances

Interest income is allocated to different fund balances such as Program Development Fund (PDF), General and Administrative Fund (GAF), and Reserve Fund (RF) in the ratio of 60:30:10, respectively. Donations to a specific program are earmarked to the program and not distributed among the PDF, GAF and RF.

3. CASH AND CASH EQUIVALENTS

This account consists of the following:

	2011	2010
Cash in bank	12,584,737	6,296,195
Petty cash fund	20,000	20,000
	12,604,737	**6,316,195**

4. ACCOUNTS RECEIVABLE

This account consists of the following:

	2011	2010
Accounts receivable - donations	3,879,223	-
Interest receivable	453,033	735,914
Accounts receivable – others	457,250	457,250
Advances to officers and employees	29,800	27,752
	4,819,306	**1,220,916**

5. INVENTORIES

This account represents costs of manuals which are composed of the following:

	2011	2010
Marketing Guidebook in Cebuano	19,508	19,508
Marketing Guidebook in Ilocano	12,840	12,840
Election Committee Manuals for Cooperatives	4,905	4,950
Education and Training Committee Manual	1,348	1,395
Accounting Manual	262	262
Audit Manual	136	272
Marketing Guidebook in Pilipino	126	126
Gender Sensitivity Manual	67	67
Marketing Guidebook Volume II	32	32
Pamphlets (Getting to Know the Cooperatives)	7	7
	39,231	**39,459**

6. PREPAID EXPENSES

This pertains to the payment of tax in advance for the investment and payment of training expenses amounting to P61,205 and P67,317 for the years 2011 and 2010, respectively.

7. HELD-TO-MATURITY INVESTMENTS (HTMI)

This account consists of the following:

	2011	2010
HTM – Treasury	76,650,519	78,109,053
HTM – Trust	1,204,486	1,165,664
10-Year LBP Agrarian Reform bonds	934,945	1,195,836
	78,789,950	**80,470,553**

8. PROPERTY AND EQUIPMENT

This account consists of the following:

	Furniture and Fixtures	Office Equipment	Vehicle	Leasehold Improvement	Total
Cost					
January 1, 2011	811,080	2,924,200	1,490,000	2,861,966	8,087,246
Acquisitions	-	156,886	-	-	156,886
December 31, 2011	811,080	3,081,086	1,490,000	2,861,966	8,244,132
Accumulated depreciation					
January 1, 2011	564,764	2,392,986	806,292	1,081,202	4,845,244
Depreciation	58,668	152,689	59,548	115,932	386,837
December 31, 2011	623,432	2,545,675	865,840	1,197,134	5,232,081
Net book value, December 31, 2011	**187,648**	**535,411**	**624,160**	**1,664,832**	**3,012,051**
Net book value, December 31, 2010	**246,316**	**531,214**	**683,708**	**1,780,764**	**3,242,002**

9. ACCOUNTS PAYABLE

This represents various accounts due to the following:

	2011	2010
Bureau of Internal Revenue - withholding taxes	131,300	169,770
Social Security System - contributions	22,397	21,989
Home Development Mutual Fund - multi-purpose loan	20,894	9,800
Social Security System - salary loan	7,899	8,162
Home Development Mutual Fund - contributions	2,499	2,499
Advances from customers	1,945	1,945
Accounts payable - others	-	660,890
	186,934	**875,055**

10. ACCRUED EXPENSES

This represents accrual of various expenses as follows:

	2011	2010
Retirement fund	1,124,525	1,031,765
MFI, Co Sponsorship - Center for Agricultural and Rural Development (CARD)	360,000	360,000
Rent - LBP Insurance Brokerage, Inc. (LIBI)	112,000	56,000
Professional fees - CDS	-	60,925
Traveling expenses	-	50,420
Postage and telephone	-	4,107
Representation and business development	-	500
	1,596,525	**1,563,717**

11. FUND BALANCES

This account consists of the following:

	2011	2010
Restricted fund	15,000,000	15,000,000
Program fund	25,676,412	25,675,839
Reserve fund	23,345,178	20,197,955
General and administrative fund	22,318,648	14,329,375
Program development fund	12,477,308	14,896,266
	98,817,546	**90,099,435**

11.1 Restricted fund – seed fund donated by the Land Bank of the Philippines.

11.2 Program fund – the fund intended for the implementation of a specific program. These programs include the following: Cooperative Manualization Revolving Fund (CMRF), Scholarship Program, Countryside Financial Institutions Management Development Program (CFIMDP), Cooperative Business Integration and Development (COOP-BIND) and Program for Overseas Filipino Workers (OFWs).

11.3 Reserve fund – 10 per cent of the earnings on investment set aside as reserve.

11.4 General and administrative fund – 30 per cent of the earnings in the form of interest income from investments allocated to manpower cost and other operating expenses.

11.5 Program development fund – funds received by the Foundation in the form of donations, contributions, etc. from different agencies including private individuals. Also, 60 per cent is allocated to this fund from the earnings on investments.

12. DONATIONS

This represents donations extended by the following:

	2011	2010
Land Bank of the Philippines (LBP)	25,106,494	25,360,268
LBP Insurance Brokerage, Inc. (LIBI)	1,012,500	-
LBP (Scholarship Program)	969,200	969,200
	27,088,194	**26,329,468**

The first and second tranches of the P20,000,000 LBP donations amounting to P3,217,419 and P6,456,931, respectively, were both received on July 14, 2011, the third tranche LBP donations amounting to P6,446,427 was received on December 07, 2011, and the last tranche LBP donations amounting to P3,879,223 was received on January 26, 2012. The LBP donation for CY 2011 also includes P5,106,494 LBP donations for CY 2010 received on January 03, 2011.

13. OTHER INCOME

This consists of earnings from the sale of manuals.

14. PROGRAM DEVELOPMENT EXPENSES

This represents various expenses of the program as follows:

	2011	2010
Integrated Community Development Program	3,924,051	8,008,295
Integrated Rural Financing	3,902,381	3,058,543
Capability Building Program for Cooperatives	3,891,570	6,295,613
Capability Building for CFI's and MFI's	3,403,951	4,703,061
Food Supply Chain Program	2,910,910	-
Special Projects and Program Development and Management	1,358,113	1,687,869
Indigenous People's Organization Eco-Biodiversity Preservation	1,167,280	1,975,263
GABAY ng LANDBANK (OFW Reintegration Program)	795,645	1,017,296
	21,353,901	**26,745,940**

15. GENERAL AND ADMINISTRATIVE EXPENSES

	2011	2010
Fringe benefits	365,149	570,640
Salaries and wages	284,880	461,194
Office supplies	191,185	276,200
Rent	134,400	134,400
Power, light and water	80,631	90,704
Representation and transportation allowances	57,375	100,500
Postage and telephone	55,027	69,117
Depreciation expense	54,181	72,081
Condo dues expense	30,584	26,137
Amortization of leasehold rights and improvements	23,186	23,186
SSS, PhilHealth and EC contributions	20,826	20,023
Representation and business development	20,701	25,225
Repairs and maintenance	19,808	23,075
Business development expenses	15,964	217,918
Security services	15,850	14,546
Sports, planning and wellness	13,429	116,710
Insurance expense	11,276	10,708
Gasoline expense	7,432	12,169
Membership dues	7,000	6,200
Trustee fee	5,105	12,474
Dues and subscriptions	2,245	2,210
Staff development	1,800	20,332
HDMF contributions	1,800	1,800
Taxes and licenses	1,777	2,143
Traveling expenses	623	285,057
Audit fee	-	31,848
Miscellaneous expenses	31,560	80,407
	1,453,794	**2,707,004**

16. COMPLIANCE WITH TAX LAWS

In compliance with the requirements set forth by Revenue Regulation No. 15-2010 hereunder are the information on taxes, licenses and fees paid or accrued during the taxable year:

A. Local

	2011	2010
Mayor's permit	7,336	7,646
Barangay clearance	1,550	1,560
	8,886	**9,206**

B. National

	2011	2010
BIR registration	500	500

C. Withholding taxes paid/accrued for the year:

	2011	2010
Taxes on compensation and benefits	259,484	491,659
Creditable withholding tax/es	668,987	647,099
	928,471	**1,138,758**

17. PENSIONS AND OTHER RETIREMENT BENEFIT COSTS

LCDFI has established a retirement and separation benefit plan pursuant to Board Resolution No. 10-011 dated July 09, 2010. The Retirement fund was set up for employees who have rendered at least five years of service.

18. RELATED PARTY DISCLOSURES

The LCDFI is a corporate foundation whose parent bank is the Land Bank of the Philippines (LBP). The following table provides the total amount of transactions which have been entered into with related parties for the year ended December 31, 2011.

Related Party	Transaction	Amount
LBP-Treasury Operations Dept. (TOD)	Investments in government securities	76,650,519
LBP-Trust Banking Group (TBG)	Investments in government securities	1,204,486
LBP- Landowners Assistance and Policy Department (LAPD)	Investment in 10-year Agrarian Reform bonds	934,945
LBP Insurance Brokerage, Inc. (LIBI)	Lessor of office space	672,000
Masaganang Sakahan, Inc. (MSI)	Supplier for rice allowance	185,950

Allowances and other benefits of Key Management Personnel

	2011	2010
Board of Trustees (BOTs)		
RATA, Business Development Expense (BDE) and anniversary bonus	33,500	282,596
Corporate Officers		
RATA, BDE and anniversary bonus	25,922	44,000
	59,422	**326,596**

During the audit conducted by the Commission on Audit for the year 2004, allowances and other benefits of the BOTs and corporate officers holding permanent positions at LBP amounting to P457,250 was disallowed and recorded as Accounts Receivable.

As at December 31, 2011, four out of ten members of the Board of Trustees and one out of three corporate officers are officers of LBP.

A. OBSERVATIONS AND RECOMMENDATIONS

1. The presentation of the Statement of Cash Flows (SCF) of LCDFI was not in accordance with the requirements under paragraph 18 of Philippine Accounting Standard (PAS) 7, hence not fairly presented.

1.1 Review of the SCF of the LCDFI disclosed that the cash flows from operating activities were reported using both the direct and indirect method, contrary to the provisions under paragraph 18 of the PAS No. 7, stating that:

> An entity shall report cash flows from operating activities using either:
>
> a) the direct method, whereby major classes of gross cash receipts and gross cash payments are disclosed; or
>
> b) the indirect method, whereby profit or loss is adjusted for the effects of transactions of a non-cash nature, any deferrals or accruals of past or future operating cash receipts or payments, and items of income or expense associated with investing or financing cash flows. (underscoring supplied)

1.2 It bears stressing that paragraph 19 of PAS 7, that although entities are encouraged to report cash flows from operating activities using the direct method, nevertheless, indirect method is also acceptable. Apparently, either the direct method or indirect method only shall be acceptable but not both method at the same time.

1.3 It was disclosed in Note 2 of the Notes to Financial Statements (FS) that since year 2005, the basis of preparation of the LCDFI's FS was in conformity with the Philippine Financial Reporting Standards. Consequent thereto, the LCDFI shall prepare its SCF in accordance with the requirements set under PAS 7.

1.4 Scrutiny of the LCDFI's SCF disclosed that the amount of cash donations received as reported for the year 2011 differed from the actual amount of cash received for the same period by P3.879 million, hence not reliable, contrary to the faithful presentation principle of the information as stated in paragraphs 31 and 33 of the Framework for the Preparation and Presentation of the Financial Statements (FPPFS).

1.5 The SCF is a basic component of the financial statements (FS) which summarizes the operating, investing and financing activities of an entity. The SCF provides information about the cash receipts and cash payments of an entity during the period and that when used in conjunction with the rest of the financial statements, it provides information that enables users to evaluate the changes in net assets of an entity, its financial structure (including its liquidity and solvency) and its ability to affect the amounts and timing of cash flows in order to adapt changing circumstances and opportunities, thus, SCF shall be reported accurately.

1.6 Paragraphs 31 and 33 of the FPPFS states that:

> To be useful, information must also be reliable. Information has the quality of reliability when it is free from material error and bias and can be depended upon by users to represent faithfully that which it either purports to represent or could reasonably be expected to represent and "to be reliable, information must represent faithfully the transaction and other events it either purports to represent or could reasonably be expected to. (underscoring supplied)

1.7 As disclosed in the SCF for the year December 31, 2011, the amount of cash donations received reported in the cash flows from operating activities was P27,088,194 when the actual amount per record is P23,208,971, to wit:

Date Received	Particulars	Amount
01.03.11	4th tranche LBP donation for CY 2010	5,106,494
06.30.11	Donation for Gawad Patnubay Scholarship	969,200
07.14.11	1st tranche LBP donation for CY 2011	3,217,419
07.14.11	2nd tranche LBP donation for CY 2011	6,456,931
07.14.11	3rd tranche LBP donation CY 2011	6,446,427
09.30.11	Donation from LIBI	1,012,500
	Actual donations received for CY 2011	**23,208,971**
	SCF reported donations received	**27,088,194**
	Difference (donations received for CY 2012)	**3,879,223**

1.8 The difference of P3,879,223 indicates that the information per SCF did not represent faithfully the actual donations received in 2011 and therefore unreliable. This amount representing the last tranche donations from LBP was received in January 2012.

1.9 We recommended and Management agreed to comply with PAS 7 in the preparation of the Statement of Cash Flows (SCF) and make the necessary adjustment and correct the figures reported in the SCF to avoid misrepresentation of the information reported therein in order to be useful and reliable.

2. Inconsistencies in the application of the accrual method of accounting in the recording of donations from various donors of LCDFI resulted in the overstatement of Donations income by P4.119 million and understatement of Donations income by P5.107 million for the years 2011 and 2010, respectively, hence the amounts stated in the financial statements were not reliable and not comparable.

2.1 Donations income represents funds/grants received from various donors of LCDFI.

2.2 In line with the Framework for the Preparation and Presentation of Financial Statements (FPPFS), the qualitative characteristics are the attributes that make the information in a set of financial statements useful to users. Two of the four principal qualitative characteristics are reliability and comparability. To be useful, information must also be reliable. Information has the quality of reliability when it is free from material error and bias and can be depended upon by users to represent faithfully that which it either purports to represent or could reasonably be expected to represent. Comparability refers to information being comparable through time and across entities. To achieve comparability, like transactions and events should be accounted for similarly by an entity, over time for that entity, and by different entities.

2.3 Audit of the Donations income disclosed that the accrual method of accounting in the recognition of LCDFI revenues as indicated in Note 2.3 of the Notes to Financial Statements was not consistently applied.

2.4 For the year 2011, the amount of P5,106,494 received on January 03, 2011 representing last tranche money donations from LBP for the year 2010 as embodied in the Deed of Donation and Acceptance dated June 2010 was recorded as Donations income for the year 2011. However, the P3,879,221 representing last tranche donations from LBP for the year 2011 was also recorded as Donations income in 2011 although the amount was received in January 2012, thus a Receivable account was debited.

2.5 Further, the remaining balance of P987,500 of the P2 million donations covered by a Memorandum of Agreement (MOA) between LBP Insurance Brokerage, Inc. (donor) and LCDFI (donee) dated April 28, 2011 received by LCDFI on March 08, 2012 was recorded as Donations income for the year 2012 instead of 2011. Considering that LCDFI uses the accrual basis of accounting in its revenue recognition the amount of the P987,500 should have been recorded as Donations receivable and Donations income for the year 2011.

2.6 The inconsistencies in the application of accrual method of accounting in the recognition of the LCDFI donations resulted in the overstatement of Donations income by P4.119 million for the year 2011 and understatement of Donations income by P5.106 million for the year 2010, hence the amounts stated in the financial statements were not reliable and not comparable.

2.7 We recommend that Management consistently apply the accrual method of accounting in the recognition of LCDFI donations. Likewise, adjust the overstatement and understatement of the income and its related accounts in order that the amount stated in the financial statements be reliable and comparable.

2.8 Management commented that LCDFI resorted to cash basis of recording donations prior to 2011 because of the experience in the releases from Land Bank of the Philippines (LBP) in 2009 and 2010. The requested amount then had a component from Agrarian Reform Fund (ARF) which in 2010 was withdrawn by the government from LBP. Thereby, the portion of donations charged to this fund was not released to LCDFI LBP can only donate up to P20,000,000 of its corporate fund. Subsequently, LCDFI requested donation up to this ceiling only thus in 2011, because the releases of donations are on reimbursement basis the balance of the 2011 donations due was not yet released by end of the year and was accrued because there was certainty of its release. LCDFI shall comply with the COA's recommendation about the adherence to accounting standards (accrual basis) from then on due to certainty of the releases of donations and for consistency.

3. The LCDFI's Retirement fund amounting to P1.124 million was not funded but accrued only, resulting in the overstatement of the Retirement fund (asset) and the non-accrual of the Fringe benefits – retirement understates the Fringe benefits expenses account by the same amount.

3.1 Retirement fund is a deposit or investment account into which retirement and disability contributions are added, and from which payment for retirement annuities are withdrawn.

3.2 The LCDFI Board of Trustees approved Board Resolution (BR) No. 10-011 on July 09, 2010, bearing the adoption of the LBP Subsidiaries Retirement and Separation Benefits Plan for the LCDFI employees.

3.3 A perusal of the said LBP Subsidiaries Retirement and Separation Benefits Plan (a.k.a. Retirement Plan) provides the following:

> ARTICLE IV – SOURCE OF FUND AND INVESTMENTS
>
> ***Section 1. Source of Fund*** - Each subsidiary shall put an amount which shall serve as the initial contribution of the Retirement Fund.
>
> Subsidiaries shall pay monthly to the Retirement Fund an amount equivalent to five percent (5%) of each member's monthly salary, provided that any deficiency in the retirement fund for the provision of retirement benefits shall be shouldered by Subsidiaries to be determined every end of the year.
>
> ***Section 2. Investments*** - The Retirement Fund shall be deposited with the Land Bank of the Philippines for Investment in government securities. Other forms of investments as may be recommended by the Retirement Committee shall require approval of all the individual Board of Directors of the participating subsidiaries. xxx.
>
> ARTICLE VII- ADMINISTRATION
>
> ***Section 1. Joint Management/Investment, Per Subsidiary Valuation*** - The Retirement Fund shall be jointly administered and managed by the Retirement Committee and jointly invested. Each subsidiary shall, however, be responsible for ensuring sufficiency of its fund and timely remittance of their respective contributions. The "trustee" while investing the

Retirement Fund as one, shall be required to track all initial, regular, and other contributions as well as withdrawals on a "per Subsidiary" basis and periodically value the Retirement Fund indicating the subsidiary share.

Section 2. Retirement Committee–Composition - The Retirement Committee shall be composed of the Heads of the participating Subsidiaries, who by a simple plurality vote choose from among themselves a Chairman and a Secretariat who shall be the over-all administrator of the records of the participating subsidiaries. The committee shall administer and manage the affairs, business and properties of the plan.

3.4 On October 8, 2010, LCDFI under BR No. 10-017, approved the creation of Retirement fund for its employees but allotment of initial fund is subject for review. On December 30, 2010, LCDFI recorded its initial retirement fund for its employees at an amount equivalent to P987,905 per JV No. 263 by debiting Retirement fund and crediting Accrued expenses – fringe benefit/retirement. There was no Board Resolution or other documents supporting the approval of the allotment of the initial fund of P987,905.

3.5 Subsequently, starting December 30, 2010, monthly accruals of retirement fund were recorded at an amount equivalent to five percent (5%) basic pay for all its permanent officials and employees totaling to P136,620.

3.6 The total amount of Retirement fund accrued as at December 31, 2011 aggregated to P1,124,525. This amount was presented as an asset account in the financial statements but it was neither funded as there were no contributions both for the initial and the monthly payments to the Retirement fund which shall be deposited to the Land Bank of the Philippines (LBP) as required in Section 2, Article IV of the LBP Subsidiaries Retirement Benefit Plan.

3.7 The accrual of the Retirement fund contradicts the very definition of a Retirement fund which is a deposit or investment account where retirement and disability contributions are added and from which payment for retirement annuities are withdrawn.

3.8 Further, it was observed that from the inception of the initial recording of the Retirement fund, the LCDFI has no recording of Fringe benefits expense – retirement.

3.9 The Philippine Accounting Standards (PAS) 19 prescribes the accounting treatment and disclosure by employers for employee benefits (retirement benefits). In accordance with the said standard, an employer should recognize a liability when service has been provided by an employee in exchange for the benefits to be paid in the future. Similarly, an employer should recognize an expense when the economic benefits are received by the employer from the services provided by the employee.

3.10 We recommended and Management agreed to:

a) **Derecognize the accrual of Retirement fund in the mean time that the Retirement Plan is not yet in place and its funding is subject for review; and**

b) **Subsequent to the implementation of the approved Retirement Plan, obtain Board approval for the amount of the initial funding and observe the accounting entries in line with PAS 19.**

4. Subsidiary ledgers (SLs) were not maintained to support the Program Development Expenses (PDE) controlling account totaling P21.354 million, contrary to the provisions of Sections 111 and 114 of the Government Auditing Code of the Philippines (PD 1445).

4.1 To determine that individual day-to-day activities are recorded in the order of occurrence not only as a means of remembering what has been done but also as an aid in facilitating report preparations, SLs are to be maintained by an entity. These SLs are vital to facilitate audit trail in meeting the needs of the agency in the conduct of its decisions.

4.2 Sections 61, 111, and 114 of the PD 1445 state that:

> *Section 61: Audit of expense accounts.* The examination of expense accounts shall be undertaken to ascertain that all expenses incurred have been duly authorized; adequately funded and documented; properly recorded; all recorded expenses have been actually incurred; and the classifications of expenses are appropriate and have been consistently followed.
>
> *Section 111: Keeping of accounts.*
>
> 1. The accounts of an agency shall be kept in such detail as is necessary to meet the needs of the agency and at the same time be adequate to furnish the information needed by fiscal or control agencies of the government.
>
> *Section 114: The general ledger.*
>
> 1. The government accounting system shall be on a double entry basis with a general ledger in which all financial transactions are recorded.
>
> 2. Subsidiary records shall be kept where necessary.

4.3 Audit showed that LCDFI grouped its expenses into two: (1) General and Administrative Expenses (GAE) and; (2) Program Development Expenses (PDE). The GAE represents 20 per cent (20%) and the PDE 80 per cent (80%) of the total expenses incurred by LCDFI, except for the personal services which is allocated into 30 per cent

(30%) GAE and 70 per cent (70%) PDE. The PDE also include the expenses incurred by LCDFI in the development of new programs (conceptualization, proposals preparation, marketing, outsourcing of funds), pre-implementation activities (negotiations, laying down the groundwork, legal review, signing of agreements, etc), post pre-implementation activities (audit and terminal report) and LCDFI counterpart expenses to existing programs being implemented.

4.4 Further, review disclosed that the GAE were posted individually according to its expense classifications, while the PDE consisting of seven different programs totaling P21,353,901 for the year 2011, were posted in the books lumped together as PDE (controlling account). No subsidiary ledgers (SLs) were maintained to support the PDE controlling account. Schedules were prepared showing the allocation of the expenses per program but the debit and credit postings were not reflected. The practice of maintaining schedules instead of SLs is contrary to the proper maintenance of books of accounts as the determination of the balance of the account at a given point in time can not be done at once since debits, credits and balances were not shown in detail. Hence, vouching/tracing of transactions is very tedious. Said practice runs counter with the provisions in Sections 61, 111 and 114 of the PD 1445.

4.5 Moreover, Fund Accounting for non-profit organizations in the industry practice require the matching of costs against contributions which entails defining the expenses related to the project by adding descriptive labels pertaining to the program they are related to. However, there should be an accounting of expenses classified according to expense account which will be categorized per program basis.

4.6 We recommended and Management agreed to record transactions in such a way that it will show enough details so as to establish an audit trail. Subsidiary ledgers should be maintained, kept currently posted for proper accounting control and in compliance with Sections 111 and 114 of the PD 1445.

4.7 However, Management further commented that the SLs for the PDE expenses are maintained in soft copy.

4.8 As an audit rejoinder, we stand by our recommendation that a subsidiary ledger be maintained to support the PDE controlling account because the soft copy that the Management is referring to are only schedules or working papers per se showing the allocation of expenses on a per program basis and is not a subsidiary ledger because it lacked the basic components of a subsidiary ledger such as but not limited to the debits, credits and outstanding balance of the account.

4.9 Moreover, it was noted that the BIR registration of the LCDFI books of accounts is manual, hence the maintenance of such records is for Management purposes but not for regulatory bodies or 3rd parties consumption. In case the LCDFI opted to choose a loose leaf or computerized books of accounts registration, compliance with various conditions set by the BIR Revenue Memorandum Order (RMO) No. 29-2002 to a loose leaf or computerized books of accounts shall be strictly followed.

5. The LCDFI did not prepare an Annual Procurement Plan (APP) to support its procurement activities for CY 2011 totaling P0.275 million contrary to Sections

7.1 and 7.2 of the Revised Implementing Rules and Regulations of Republic Act No. 9184.

5.1 The Revised Implementing Rules and Regulation (IRR) of Republic Act (RA) No. 9184 states the following:

> Section 7.1 All procurement shall be within the approved budget of the procuring entity and should be meticulously and judiciously planned by the procuring entity. Consistent with government fiscal discipline measures, only those considered crucial to the efficient discharge of governmental functions shall be included in the Annual Procurement Plan (APP). For purposes of this IRR, a procurement project shall be considered crucial to the efficient discharge of governmental functions if it is required for the day-to-day operations or is in pursuit of the principal mandate of the procuring entity concerned. The APP shall include provisions for foreseeable emergencies based on historical records. Xxx.
>
> 7.2 No procurement shall be undertaken unless it is in accordance with the approved APP of the procuring entity. The APP shall bear the approval of the head of the procuring entity or second-ranking official designated by the head of the procuring entity to act on his behalf, and must be consistent with its duly approved yearly budget. (underscoring supplied)

5.2 Under the law, all procurement shall be in accordance with the approved APP but verification disclosed that procurement by LCDFI of office supplies, computers, vehicle tires and battery, other properties and repairs and maintenance of various properties totaling P274,160 were not supported with an approved APP. Inquiry with the personnel concerned disclosed that budget for all procurement that is not included in the Budgetary Requirement for 2011 came from the earned income from investments.

5.3 We recommended and Management agreed to prepare an Annual Procurement Plan to schedule the outflow of cash and budget for specific procurement in order that the availability of cash may not be prejudiced/distorted.

6. Unreconciled cost of Property and Equipment (PE) between the Property and Accounting Sections amounting to P0.324 million cast doubt in the reliability of the financial records, hence contrary to Section 58 of PD 1445. Also, unserviceable property and equipment and semi-expendable supplies totaling to P1.354 million were still recorded under PE contrary to paragraph 67 of PAS 16 and Section 79 of PD 1445.

6.1 Section 58 of PD 1445 states that:

> The examination and audit of assets shall be performed with a view to ascertaining their existence ownership, valuation and encumbrances as well as the propriety of items composing the respective asset accounts, determining their agreement with records, proving the accuracy of such records; ascertaining if the assets were utilized

economically, efficiently and effectively; and evaluating the adequacy of controls over the accounts. (underscoring supplied)

6.2 Verification of the inventory list as at December 31, 2011 disclosed discrepancies with the balance reflected in the books by P323,605 as follows:

	Cost		
Type of PPE	**Per Lapsing Schedules**	**Per Inventory List**	**Difference Over (Under)**
Furniture and Fixtures	811,079	840,295	29,216
Office Equipment	3,036,050	2,702,641	(333,409)
Vehicles	1,490,000	1,600,500	110,500
Semi-Expendables	-	517,298	517,298
	5,337,129	**5,660,734**	**323,605**

6.3 The unreconciled amount is a reiteration of previous years' audit finding which has not been corrected since 2008.

6.4 Further, unserviceable property and equipment and semi-expendable supplies totaling P1.354 million are still recorded under Property and Equipment which is not in accordance with paragraph 67 of PAS 16 and Section 79 of PD 1445.

6.5 Paragraph 67 of PAS 16 states that:

The carrying amount of an item of property, plant and equipment is derecognized:

(a) on disposal; or
(b) when no future economic benefits are expected from its use or disposal.

6.6 Likewise, Section 79 of PD 1445 states that:

Destruction or sale of unserviceable property. When government property has become unserviceable for any cause, or is no longer needed, it shall, upon application of the officer accountable therefor, be inspected by the head of the agency or his duly authorized representative in the presence of the auditor concerned and, if found to be valueless or unsalable, it may be destroyed in their presence. If found to be valuable, it may be sold at public auction to the highest bidder under the supervision of the proper committee an award or similar body in the presence of the auditor concerned or other duly authorized representative of the Commission, after advertising by printed notice in the Official Gazette, or for not less than three consecutive days in any newspaper of general circulation, or where the value of the property does not warrant the expense of publication, by notices posted for a like period in at least three public places in the locality where the property is to be sold. In the event that the public auction fails, the property may be sold at a private sale at such price as may be fixed by the same committee or body concerned and approved by the Commission.

6.7 The physical Inventory report as at December 31, 2011 submitted by the Property Officer revealed that there were LCDFI vehicles, office equipment and semi-expendable items which were unserviceable and for disposal amounting to P1,354,227 as follows:

Type of Property	**Particulars**	**Acquisition Cost**	**Remarks/ Status**
Vehicles	Nissan Power Pick up acquired in 1996	P537,800	For disposal
	Motorcycle Yamaha DT125 acquired in 1997	70,000	For disposal
Office equipment and semi-expendable	Various	746,427	Unserviceable
		P1,354,227	

6.8 We recommended that Management regularly reconcile the records of the Property and the Accounting Sections to reflect a reliable balance in the financial statements.

6.9 Management commented that reconciliation is still being done. The discrepancy arises from recording/booking of purchases. Property Officer booked purchases of items below P10,000 under the Semi-expendable property whereas the Bookkeeper recorded majority of these types of purchases under Miscellaneous expenses. The Accountant and Property Officer are now into item by item reconciliation with the accountant tracing from Miscellaneous expenses all those recorded purchases lodged as Semi-expendable and create the required subsidiary ledger for PE for easier monitoring and reconciliation.

6.10 Likewise, we recommended and Management agreed to:

a) Reclassify the unserviceable property and equipment to Other Assets account as these are no longer used in the agency's regular operations;

b) Properly dispose the unserviceable properties at the soonest possible time to minimize the wear and tear of the said properties

7. Taxes withheld totaling P27,782 and mandatory payroll deductions for SSS, PhilHealth, ECC and HDMF contributions/member loans aggregating P8,813 were not remitted at audit date, hence expose the Foundation to interest, fines and penalties.

7.1 The BIR Form No. 1601-C (Monthly Remittance Return of Income Taxes Withheld on Compensation) and The BIR Form No 1601-E (Monthly Remittance Return of Creditable Income Taxes Withheld–Expanded) provide guidelines and instructions relative to the withholding and remittance of taxes withheld by an entity, as follows:

> Every officer or employee of the Government of the Republic of the Philippines or any of its agencies and instrumentalities, its political subdivisions as well as government-owned or controlled corporations, xxx is charged with the duty to deduct and withhold any internal revenue tax and to remit the same in accordance with the provisions of the Tax Code, as amended, and other laws is guilty of any offense xxx upon conviction of each act or omission, be fined in a sum not less than five thousand pesos (P5,000) but not more than fifty thousand pesos (P50,000) or imprisoned for a term of not less than six (6) months and one day but not more than two (2) years or both:
>
> a-c) xxxx.
>
> If the withholding agent is the Government or any of its agencies, xxx or a government owned or controlled corporation, the employee thereof responsible for the withholding and remittance of tax shall be personally liable for the additions to the tax prescribed by the National Internal Revenue Code.

7.2 Penalties shall be imposed and collected as part of the tax for remittances beyond due date such as:

a) Surcharge of 25 per cent (25%) for each violations;
b) Surcharge of 50 per cent (50%) of the tax deficiency tax;
c) Interest at the rate of 25 per cent (25%) per annum;
d) Compromise penalty.

7.3 Audit of the Accounts Payable - BIR disclosed that the account consists of the following:

a) withholding tax on compensation;
b) expanded withholding tax on income;
c) expanded withholding tax on rent.

7.4 Subsequent review of the account disclosed that P27,782 was not yet remitted as at audit date. The bulk of the amount was a carry forward balance from previous years.

7.5 Scrutiny of the records disclosed that there **was no separate ledger intended for each Withholding Tax (WT) classification**. As a result, the Accountant finds it hard to determine the actual amount withheld per WT classification as there were times that the remittance were different from the amount withheld, hence not remitted.

7.6 This is not in accordance with Section 111 and 114 of the Government Auditing Code of the Philippines as quoted in paragraph 4.2 of the Observation No. 4.

7.7 The non-maintenance of a ledger for each WT account resulted in the difficulty of monitoring the actual amount withheld versus the amount of remittance on a per WT classification basis which may result in the accumulation of erroneous remittances if not adjusted accordingly.

7.8 The filing of the WT on Compensation is done using the BIR Form No. 1601-C while the rent, uses the BIR Form No. 1601-E, hence a proper segregation of the WT should be maintained by the use of an individual ledger to facilitate monitoring and filing.

7.9 Needless to say that the BIR imposes interest and penalties on all taxes remitted beyond the required due date which exposes the funds/resources of the Foundation to greater risk of loss.

7.10 Also, mandatory payroll deductions for SSS, PhilHealth, ECC and HDMF contributions/member loans aggregating P8,813 were not remitted on its due dates, thus exposes the LCDFI to fines and penalties, hence disadvantageous to the Foundation.

7.11 Social Security System (SSS) Circular No. 2011-003, series of 2011 provides the SSS Revised Payment Deadlines for Contributions and Member Loans, to wit:

For regular employers (ERs):

If 10th digit of the 13-digit ER number ends in:	**Payment Deadline (following the applicable month)**
1 or 2	10th day of the month
3 or 4	15th day of the month
5 or 6	20th day of the month
7 or 8	25th day of the month
9 or 0	Last day of the month

7.12 Likewise, PhilHealth Circular No. 01, series of 2005 requires PhilHealth contributions from the public and private sector employers shall be remitted on or before the 10th calendar day of the month following the applicable month.

7.13 For HDMF contributions, the HDMF MI-I provides the schedule of payments, to wit:

First letter of Employers'/ Company Name	**Due Date**
A to D	10th to the 14th day of the month
E to L	15th to the 19th day of the month
M to Q	20th to the 24th day of the month
R to Z	25th to the end of the month

7.14 Audit of the Accounts payable disclosed that there were mandatory payroll deductions for SSS contributions/member loans; PHIC/ECC contributions and HDMF contributions/member salary loans totaling P8,813 representing prior years' balances which remain unremitted as at December 31, 2011, to wit:

Account Name	Balances as at December 31, 2011	Status/remarks as at March 15, 2012
SSS/PHIC/ECC	5,152	still not remitted
SSS members' salary loans	1,162	-do-
HDMF contribution	2,499	-do-
	8,813	

7.15 Non-remittance of the above contributions and members' salary loans to its scheduled due dates exposes the LCDFI to possible fines and penalties which is disadvantageous to the Foundation and deprive members of the benefits from their prompt remittance.

7.16 Paragraph 3 of the PhilHealth Circular No. 01, series of 2005 which states that:

> Failure of the employer to remit the required contribution and to submit the required remittance list shall make the employer liable for the reimbursement of payment of a properly filed claim in case the concerned employee or his/her qualified dependent/s avail/s of PHilHealth benefits, without prejudice to the imposition of other penalties as provided in the revised Implementing Rules and Regulations of the National Health Insurance Act of 1995 (Republic Act 7875 as amended). (underscoring ours)

7.17 Moreover, Item b, Section 23, Republic Act (RA) No. 9679 – An act further strengthening the Home Development Mutual Fund, and for Other Purposes, that:

> (b) Every employer required to set aside and remit such contributions as prescribed under this Act shall be liable for their payment, and nonpayment shall further subject the employer to a penalty of three percent (3%) per month of the amounts payable from the date the contributions fall due until paid. (underscoring supplied)

7.18 We recommended and Management agreed to:

a) Require the Accountant to look into the unremitted balances and remit the amount to BIR.

b) Maintain a separate ledger for each classification of WT to facilitate monitoring of remittance and avoid penalties and in compliance with Sections 111 and 114 of the PD 1445.

c) Comply strictly with the prescribed guidelines on payments/remittances of payroll deductions to avoid losses due to fines and penalties to protect the interest of the LCDFI.

7.19 Management further commented that the unremitted mandatory deductions are still being investigated.

8. Non-observance of the provisions of BIR Revenue Memorandum Circular (RMC) No. 23-2007 on all LCDFI purchases of goods and services exposes the Foundation to risk of possible fines and penalties, hence detrimental to the Foundation.

8.1 Paragraph 2 of the BIR Revenue Memorandum Circular (RMC) No. 23, 2007 dated March 20, 2007 states that:

> Section 4.112-2 of RR No.16-2005, as amended, provides for the withholding of the 5% Final VAT on Government Money Payments (GMP). The application of the said provision should be synchronized with the provisions of RR No. 2-98, as amended, on the withholding of income tax of 1% on purchase of goods and 2% on purchase of services, xxx. The basis of the withholding of income tax should always be net of the Value-Added Tax (VAT) imposed on the said purchase of goods and/or services. (underscoring supplied)

8.2 Further, paragraph 5 states that:

> Government purchases that are subject to percentage tax shall be governed by RA No. 1051 on the withholding of percentage tax, as well as, by RR N0. 2-98, as amended, on the withholding of Percentage Tax and Income Tax. Xxx. (underscoring supplied)

8.3 Audit disclosed that the LCDFI failed to withhold five per cent (5%) Final VAT and the three per cent (3%) withholding of Percentage tax from its suppliers of goods and services as required in the BIR RMC No. 23-2007, hence exposes the Foundation to possible fines and penalties by the BIR.

8.4 Inquiry with the Bookkeeper/Accountant disclosed that the reason for non-withholding of the VAT and Percentage tax from LCDFI suppliers of goods and services was the understanding that LCDFI is not a Government Owned Controlled Corporation (GOCC) as their creation was under the Corporation Code.

8.5 Under Presidential Decree (PD) 2029, a GOCC is defined as "a stock or non-stock corporation, whether performing governmental or proprietary functions, which is directly chartered by special law or if organized under the general corporation law is owned or controlled by the government directly, or indirectly through a parent corporation or subsidiary corporation, to the extent of at least majority of its outstanding capital stock or of its outstanding voting capital stock."

8.6 In addition, Executive Order (EO) No. 64 series of 1993 expanded the definition of a GOCC as follows: "xxx a corporation created by special law or incorporated and organized under the Corporation Code and in which government, directly or indirectly, has ownership of the majority of the capital stock. Any subsidiary of a GOCC shall be deemed a GOCC."

8.7 Thus, LCDFI being one of the subsidiaries of the Land Bank of the Philippines (a GOCC), although created under the Corporation Code of the Philippines shall be considered GOCC, therefore, the provisions of BIR RMC No. 23-2007 is applicable on all its money payments due and payable to its suppliers of goods and/or services.

8.8 We recommend that Management comply strictly with the BIR RMC No. 23-2007 to avoid possibility of fines and penalties.

8.9 Management commented that LCDFI is a non-government organization (NGO), hence its purchases of goods/services do not fall under Government Money Payments. LCDFI followed the Land Bank Government Money Payment Chart of the BIR Revenue Memorandum Circular 56-2009.

8.10 As an audit rejoinder, we maintain our recommendation that Management comply strictly with the BIR RMC No. 23-2007 considering that LCDFI is a GOCC being a subsidiary of LBP.

8.11 Also, the Government Payment Chart under BIR RMC No. 56-2009 which is being followed by LCDFI as mentioned in its reply differs from the RMC No. 23-2007. BIR RMC No 56-2009 pertains to withholding of taxes on sale of goods and services to the government or to any of its political subdivisions while RMC No. 23-2007 pertains to withholding of taxes on all government purchases of goods and services. Considering that LCDFI is a GOCC, both the RMC No. 56-2009 and RMC No. 23-2007 are applicable.

9. GAWAD PATNUBAY scholars are only required an academic average grade of no less than 75 per cent contrary to the 80 per cent minimum average grade of the Revised Implementing Guidelines on GAWAD PATNUBAY Scholarship Program.

9.1 The Articles of Incorporation of the Land Bank Countryside Development Foundation, Inc. (LCDFI), as Amended on November 16, 1992 has further amended its main purpose as indicated in item No. 1, as follows:

> 1. To <u>grant and extend formal and non-formal education and training assistance to deserving and qualified farmer beneficiaries of the agrarian reform program and their children</u> and to members of Land Bank of the Philippines assisted cooperatives and other people's organizations to enable them to attain technological, vocational and management capability through a planned educational assistance program. (underscoring supplied)

9.2 Among the products and services programs of LCDFI is the GAWAD PATNUBAY Scholarship Program which aims to enhance opportunities available for the LBP's priority clients, particularly primary school children of direct beneficiaries of small farmers/fisherfolks who are members of LBP-assisted cooperatives, hence the establishment of the Scholarship Program Fund.

9.3 The Revised Implementing Guidelines on the GAWAD-PATNUBAY Scholarship Program states among others, that if the scholar gets a general percentage average

(GPA) grade lower than 80, the scholar will be given a first warning and a chance to improve their performance for the next quarter.

9.4 Review of the GAWAD PATNUBAY Scholarship Program disclosed that it is supported by a contract between the LCDFI and the parents/guardian of the scholar.

9.5 The said contract provides that the scholar is entitled to a stipend of P24,280 per annum to cover meals and transportation allowance of P20,000 and P4,280 to cover expenses for uniform, school supplies, books, projects and matriculation fees.

9.5 Further, the contract specifically provides the manner of release of the stipend which shall be in two tranches. The first tranche equivalent to P14,280 shall be released before the school year while the second tranche shall be released after the second grading period after the submission of the scholar's copy of report card and the monitoring report signed by the scholar's class adviser.

9.6 Inquiry with the Program Officer revealed that the first tranche of stipend shall be released in cash with the following conditions:

a. release to the parent/guardian of the scholar within the school premises with the presence of the school principal and the class adviser;
b. last year's school/report card of the scholar with grades not lower than 75 per cent; and
c. scholar's quarterly performance monitoring report, accomplished by the school.

9.7 For the second tranche of stipend equivalent to P10,000, this shall be released and deposited to the bank account of the scholar, parent or guardian during the month of January upon receipt of the second grading report card and the scholar's quarterly performance monitoring report accomplished by the school.

9.8 Under the contract of GAWAD PATNUBAY Scholarship Program executed between the scholar and LCDFI, the scholarship shall be terminated on the following grounds:

a) if the scholar gets an overall failing grade which necessitates repetition of the same grade level;
b) if the scholar is dismissed from the school for grave misconduct; and
c) when the scholar voluntarily stops his/her schooling.

9.9 The contract between the scholar and the LCDFI revealed that the scholars are only required a passing grade of 75 per cent (75%) contrary to the 80 per cent (80%) general percentage average (GPA) grade requirement in the Revised Implementing Guidelines on GAWAD PATNUBAY Scholarship Program. With this low expectation from the students, there is no incentive to strive to get better grades to maintain their scholarship with LCDFI. Such requirement will not assure quality graduates of the LCDFI/government.

9.10 We recommend that Management strictly enforce the revised implementing guidelines on GAWAD PATNUBAY Scholarship Program by considering the requirement of 80 per cent GPA grade so that LCDFI will be assured of quality graduates.

9.11 Management commented that because of the difficult situations, most of these scholars, on a case to case basis, have obtained an average grade lower than what is prescribed and are still considered provided they don't have failing grades.

9.12 As an audit rejoinder, we reiterate our audit recommendation that Management strictly enforce the policy guidelines on Scholarship.

10. Notice of Disallowance (ND) No. LBP-Subs. 2008-015 (2002-2003) dated August 11, 2008, amounting to P0.561 million was issued for the payment of additional allowances and benefits of LBP Officials acting as Officers/Board of Trustees of LCDFI. The said ND was affirmed under COA Decision No. 2012-018 dated February 16, 2012. However, a Motion for Reconsideration dated March 12, 2012 was filed by the Land Bank of the Philippines with COA on March 19, 2012.

B. STATUS OF IMPLEMENTATION OF PRIOR YEARS' AUDIT RECOMMENDATIONS

Of the 13 audit recommendations embodied in the prior year's Annual Audit Report, four were fully implemented, five were partially implemented and four were not implemented. The partially/unimplemented recommendations are presented below:

OBSERVATIONS AND RECOMMENDATIONS	**ACTION TAKEN**
2010	
1. Payment of retirement pay to the former LCDFI President of P331,034 was not in accordance with Section 1 of Republic Act (RA) No.7641.	
Comply strictly with the provisions of Section 1, RA No. 7641 requiring at least five years minimum service to be entitled to retirement benefits.	Partially implemented. Final guidelines adopted by the Foundation reflects at least five-year service requirement.
2. The recorded cost of Property and Equipment as at December 31, 2010 amounting to P5,225,279 does not reconcile with the inventory list totaling P5,568,647 or a difference of P343,368 rendering the reliability of the financial records doubtful.	Reiterated under No. 6 of the Observations and Recommendations.
Require the Property and the Accounting Sections to regularly reconcile their records in order to settle the differences noted.	Partially implemented. Inventory preparation is complied every semester.
3. Unserviceable property and equipment and semi-expendable supplies amounting to P1,351,577 were still recorded under Property and Equipment which is not in accordance with Paragraph 67 of IAS 16 and Section 79 of PD 1445.	Reiterated under No. 6 of the Observations and Recommendations.
Reclassify unserviceable property and equipment to Other Asset account as this is no longer used in the agency's regular operations.	Not implemented.
Properly dispose the unserviceable properties at the soonest possible time to	Not implemented. Disposal however is still in the process

minimize the wear and tear of the said properties.	as items still be selected for donation, and for approval of Board of Trustees.

2009

4. The financial statements were prepared without updating the General Ledgers (GL) which indicate a lapse on internal control thereby resulting in the unreconciled balances between the Trial Balance and the GLs/schedules.	
Review and reconcile the differences noted and effect adjustments in the balances of affected accounts.	Fully implemented.
Post the transactions in the general ledgers to arrive at the correct balance of each account, which should be the basis of preparing the Trial Balance.	Fully implemented.
Maintain Subsidiary Ledgers in compliance with Section 188 of GAAM Volume II to facilitate determination and reconciliation of balances.	Partially implemented.

2008

5. The balance per books of the property and equipment account and the records of the property officer showed a net discrepancy of P277,352 casting doubt on its accuracy and reliability. It also included unserviceable items with a book value of P12,999.	Reiterated under No. 6 of the Observations and Recommendations.
Reconcile the general ledger balances with the records of the property custodian and dispose the unserviceable properties in accordance with Section 79 of PD 1445.	Partially implemented. LCDFI is in the process of reconciliation its records.

2007

6. Fidelity bond of LCDFI accountable officers were not in accordance with COA	

Circular No. 2006-005 dated July 13, 2006.	
Comply with the bond requirements of COA Circular No. 2006-005 dated July 23, 2005 and Treasury Order No. 5, particularly Section 2.1 thereof.	Not implemented.
2004	
7. Mandatory payroll deductions for SSS/HDMF contributions and BIR withholding taxes were unremitted.	Reiterated under No. 7 of the Observations and Recommendations.
Comply strictly with the prescribed guidelines on payments/remittances of payroll deductions	Partially implemented.
8. Double compensation of LCDFI Officers/Board of Directors – P334,000	
Immediately refund all additional allowances granted to the officers/ employees (including the previous years) in compliance with the provisions of laws regarding double compensation.	Not implemented. COA decision was received by LCDFI on February 27, 2012.