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, 2013

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, 2013 is composed of the Chairman and eight 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, 2013, three out of eight 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	2013	2012	Increase (Decrease)
Assets	105,228,938	106,765,467	(1,536,529)
Liabilities	2,905,851	2,786,656	119,195
Fund balances	102,323,087	103,978,811	(1,655,724)

2. Comparative Results of Operations

Particulars	2013	2012	Increase (Decrease)
Revenues	25,454,232	29,577,997	(4,123,765)
Expenses	27,109,956	24,303,707	2,806,249
Net revenue (loss)	(1,655,724)	5,274,290	(6,930,014)

SCOPE OF AUDIT

The audit covered the examination on a test basis, the accounts and financial transactions of the LCDFI for CY 2013 in accordance with the International Standards on Auditing. It was also made to assess the propriety of financial transactions and compliance with laws, rules and regulations.

INDEPENDENT AUDITOR'S OPINION

The Auditor rendered an unqualified opinion on the fairness of presentation of the financial statements of the LCDFI for CY 2013.

SIGNIFICANT OBSERVATIONS AND RECOMMENDATIONS

1. Of the CY 2013 donations totaling P23.469 million, LCDFI allocated P23.116 million to Program Development Fund instead of the Program Fund, while 10 per cent of earnings on investment was allocated to Reserve Fund. Moreover, indirect program management expenses amounting to P6.389 million was charged to Program Fund instead of General and Administrative Fund. Both are not in accordance with the Foundation's Articles of Incorporation, thereby resulting in the accumulation of fund balances totaling P87.323 million and mismatch of funds received and expenses charged thereto.

We recommended that Management:

a. Refrain from allocating 10 per cent of LCDFI's gross earnings from investments to the Reserve Fund; instead allocate it to the Foundation's programs/projects;

b. Utilize the accumulated reserve fund of P23.845 million to programs/projects as contemplated in the Articles of Incorporation of LCDFI;

c. Ensure the proper utilization of donations in accordance with the specific purpose for which the funds were received as stated in the WFP; and

d. Effect the necessary adjusting entries for the excess indirect program management expenses amounting to P6.389 million, which must be charged to General and Administrative Fund; and for donations which must be allocated to Program Fund instead of Program Development Fund.

2. The classification to Held to Maturity (HTM) Investment account of placements in High-Yield Savings Account (HYSA) with a maturity of less than three months and savings account which can be withdrawn upon demand amounting to P7.718 million is not in conformity with PAS 7, thus resulted in the understatement of Cash and Cash Equivalents and overstatement of HTM Investment account by the same amount.

We recommended that Management reclassify the HYSA and the savings account from HTM Investments account to Cash-in-bank account.

3. Payments for professional fees and transportation allowance totaling P786,666 were not supported with complete documentary requirements contrary to COA Circular No. 2012-001 and Section 4 of Presidential Decree (P.D.) No. 1445.

We recommended that Management comply with the provisions of COA Circular No. 2012-001 and P.D. No. 1445 on the specific documentary requirements for each type of disbursements; and submit to the Auditor the complete documents to establish the validity of said payments.

4. The resource speakers were paid honoraria without evidence of receipt of payment, and one resource speaker was reimbursed for the cost of gasoline used in privately owned motor vehicles, in violation of COA Circular Nos. 2004-006 and 96-004, respectively, for the total amount of P329,279.

We recommended that Management:

a. Require the resource speakers to sign in the portion “Payment Received” of the Payment Orders or ensure that there is a proper proof of receipt of payment attached with the POs as required under COA Circular Nos. 2004-006; and

b. Require the resource speaker to refund of the excess of the reimbursed cost of gasoline over the equivalent fare of ordinary transportation in the location of seminar/trainings conducted.

STATUS OF IMPLEMENTATION OF PRIOR YEARS’ AUDIT RECOMMENDATIONS

Of the seven audit recommendations embodied in the prior years’ Annual Audit Report, one was fully implemented, four were partially implemented and two were not implemented. The partially and not implemented recommendations are presented in Part III of this Report.

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LANDBANK Countryside Development Foundation, Inc.

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of Landbank Countryside Development Foundation Inc. is responsible for all information and representations contained in the accompanying Consolidated Balance Sheet as of December 31, 2013 and the related Consolidated Statement of Income and Expenses and Cash Flows for the year then ended. The financial statements have been prepared in conformity with generally accepted state accounting principles and reflect amounts that are based on the best estimates and informed judgment of management with an appropriate consideration to materiality.

In this regard, management maintains a system of accounting and reporting which provides for the necessary internal controls to ensure that transactions are properly authorized and recorded, assets are safeguarded against unauthorized use or disposition and liabilities are recognized.

DEOGRACIAS N. VISTAN
Chairman of the Board

PETER ANDREW S. GUTIERREZ
Executive Director

DIVINIA L. ADOR DIONISIO
Corporate Treasurer

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LANDBANK COUNTRYSIDE DEVELOPMENT FOUNDATION, INC.
STATEMENT OF ASSETS, LIABILITIES AND FUND BALANCES
December 31, 2013
(In Philippine Peso)

	Note	2013	2012
ASSETS			
Current Assets			
Cash and cash equivalents	3	8,852,781	10,158,833
Accounts receivable	4	23,151,502	7,506,493
Inventories	5	39,231	39,231
Prepaid expenses	6	194,102	192,824
Other current assets		11,617	36,009
		32,249,233	17,933,390
Non-current Assets			
Held-to-maturity investments	7	71,700,605	85,906,603
Property and equipment	8	1,000,193	2,646,567
Other assets		278,907	278,907
		72,979,705	88,832,077
TOTAL ASSETS		**105,228,938**	**106,765,467**
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	9	1,321,514	1,378,843
Accrued expenses	10	1,584,337	1,407,813
		2,905,851	2,786,656
FUND BALANCES	11	102,323,087	103,978,811
TOTAL LIABILITIES AND FUND BALANCES		**105,228,938**	**106,765,467**

The Notes on pages 7 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 affairs and business of the Foundation are directed by the Board of Trustees, which as at December 31, 2013 is composed of the Chairman and Eight (8) trustees as members.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of Preparation of the Financial Statements

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:

	2013	**2012**
Cash in bank	8,832,781	10,138,833
Petty cash fund	20,000	20,000
	8,852,781	**10,158,833**

4. ACCOUNTS RECEIVABLE

This account consists of the following:

	2013	2012
Accounts receivable - donations	22,000,000	6,353,757
Interest receivable	639,587	639,247
Accounts receivable – Others	506,144	508,989
Advances to officers and employees	5,771	4,500
	23,151,502	**7,506,493**

5. INVENTORIES

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

	2013	2012
Marketing Guidebook in Cebuano	19,508	19,508
Marketing Guidebook in Ilocano	12,840	12,840
Election Committee Manuals for Cooperatives	4,905	4,905
Education and Training Committee Manual	1,348	1,348
Accounting Manual	262	262
Audit Manual	136	136
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	**39,231**

6. PREPAID EXPENSES

This pertains to the payment of tax in advance for the investment and payment of training expenses amounting to P194,102 and P192,824 for December 2013 and December 2012, respectively.

7. HELD-TO-MATURITY INVESTMENTS

This account consists of the following:

	2013	2012
Held-to-Maturity – Treasury	35,231,776	49,617,843
Held-to-Maturity – Trust	35,854,380	35,703,427
10-Year LBP Agrarian Reform bonds	614,449	585,333
	71,700,605	**85,906,603**

8. PROPERTY AND EQUIPMENT

This account consists of the following:

	Furniture and Fixtures	Office Equipment	Vehicle	Leasehold Improvement	Semi-expenda-ble items	Total
Cost						
January 1, 2013	771,670	789,915	882,200	2,861,966	45,036	5,350,787
Acquisitions	0	14,000	19,500	0	11,216	44,716
December 31,2013	771,670	803,915	901,700	2,861,966	56,252	5,395,503
Accumulated depreciation						
January 1, 2013	645,072	382,655	344,057	1,332,436	0	2,704,220
Depreciation/ Amortization	58,668	89,128	80,422	1,440,334	22,538	1,691,090
December 31,2013	703,740	471,783	424,479	2,772,770	22,538	4,395,310
Net book value, December 31,2013	**67,930**	**332,132**	**477,221**	**89,196**	**33,714**	**1,000,193**
Net book value, December 31, 2012	**126,597**	**407,260**	**538,143**	**1,529,531**	**45,036**	**2,646,567**

9. ACCOUNTS PAYABLE

This represents various accounts due to the following:

	2013	2012
Bureau of Internal Revenue - withholding taxes	83,873	107,259
Social Security System - contributions	27,493	24,583
Home Development Mutual Fund - multi-purpose loan	12,371	10,033
Social Security System - salary loan	8,335	9,999
Home Development Mutual Fund - contributions	2,899	2,699
Advances from customers/AP Others	1,945	1,945
Miscellaneous liability	1,184,598	1,222,325
	1,321,514	**1,378,843**

10. ACCRUED EXPENSES

This represents accrual of various expenses as follows:

	2013	2012
Program development expenses	1,151,737	975,813
Audit fee	400,000	400,000
Retirement benefit	32,600	0
Fringe benefits-employees	0	28,000
Representation and transportation allowance	0	4,000
	1,584,337	**1,407,813**

11. FUND BALANCES

This account consists of the following:

	2013	2012
Program development fund [11.5]	40,905,860	17,790,085
Reserve fund [11.3]	23,845,106	23,660,634
General and administrative fund [11.4]	20,542,306	21,851,680
Restricted fund [11.1]	15,000,000	15,000,000
Program fund [11.2]	2,029,815	25,676,412
	102,323,087	**103,978,811**

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:

	2013	2012
Land Bank of the Philippines (LBP)	20,000,000	20,000,000
LBP Leasing Corporation (LLC)	2,000,000	2,000,000
LBP (Scholarship Program)	1,469,198	969,200
LBP Insurance Brokerage, Inc. (LIBI)	0	2,000,000
Global Filipino Cooperative	0	10,000
	23,469,198	**24,979,200**

13. PROGRAM FUND EXPENSES

This represents various expenses of the program as follows:

	2013	2012
Capability Building Program for Cooperatives	5,844,938	5,475,765
Food Supply Chain Program/Bank Assisted Coop	5,098,135	4,083,627
Integrated Community Development Program	3,558,810	3,439,828
Capability Building for CFI's and MFI's	3,394,343	2,161,606
Integrated Rural Financing	2,276,342	3,747,716
Special Projects and Program Development and Management	2,008,430	1,677,910
Indigenous People's Organization Eco-Biodiversity Preservation	1,699,031	1,313,320
GABAY ng LANDBANK (OFW Reintegration Program)	1,235,766	990,415
	25,115,795	**22,890,187**

14. GENERAL AND ADMINISTRATIVE EXPENSES

This account consists of the following:

	2013	2012
Office supplies	353,806	162,365
Salaries and wages	335,493	303,105
Fringe benefits	297,059	238,189
Amortization of leasehold rights and improvements	284,203	27,060
Rent	134,400	168,000
Power, light and water	81,358	77,722
Postage and telephone	59,257	59,259
Depreciation expense	54,015	46,475
Representation and business development	39,375	45,728
Repairs and maintenance	36,856	25,404
Condo dues expense	29,821	29,647
Representation and transportation allowances	25,848	21,000
Retirement benefits	25,265	52,160
SSS, PhilHealth and EC contributions	23,530	21,785
Sports, planning and wellness	20,560	25,742
Security services	18,692	18,308
Taxes and licenses	10,474	5,272
Gasoline expense	5,913	5,613
Membership dues	5,000	5,000
Insurance expense	4,875	11,816
Staff development	3,920	3,000
Dues and subscriptions	2,276	4,210

	2013	2012
Traveling expenses	2,222	1,576
HDMF contributions	1,920	1,815
Business development expenses	115	1,850
Audit fee/trustee fee	0	20,000
Miscellaneous expenses	9,265	30,419
	1,865,519	**1,413,520**

15. 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

	2013	2012
Mayor’s permit	13,277	13,277
Barangay clearance	1,400	1,400
	14,677	**14,677**

B. National

	2013	2012
BIR registration	500	500

C. Withholding taxes paid/accrued for the year:

	2013	2012
Creditable withholding tax/es	631,128	334,493
Taxes on compensation and benefits	398,727	129,744
	1,029,855	**464,237**

16. 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.

17. 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 month ended November 30,2013

Related Party	Transactions	Amount
LBP-Trust Banking Group (TBG)	Investments in government securities	35,854,380
LBP-Treasury Operations Dept. (TOD)	Investments in government securities	35,674,206

Related Party	Transactions	Amount
LBP Insurance Brokerage, Inc. (LIBI)	Lessor of office space	987,105
LBP- Landowners Assistance and Policy Department (LAPD)	Investment in 10-year Agrarian Reform bonds	614,449
Masaganang Sakahan, Inc. (MSI)	Supplier of rice for employees	232,320

Allowances and other benefits of Key Management Personnel

	2013	2012
Corporate Officers RATA, BDE and anniversary bonus	176,849	23,000
Board of Trustees (BOTs) RATA and Business Development Expense (BDE)	6,000	6,000
	182,849	**29,000**

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, 2013, three out of eight members of the Board of Trustees and one out of three corporate officers are officers of LBP.

18. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements of LCDFI for December 31, 2013 have been approved and authorized for issuance by the Board of Trustees on June 30, 2014.

OBSERVATIONS AND RECOMMENDATIONS

1. Of the CY 2013 donations totaling P23.469 million, LCDFI allocated P23.116 million to Program Development Fund instead of the Program Fund, while 10 per cent of earnings on investment was allocated to Reserve Fund. Moreover, indirect program management expenses amounting to P6.389 million was charged to Program Fund instead of General and Administrative Fund. Both are not in accordance with the Foundation's Articles of Incorporation, thereby resulting in the accumulation of fund balances totaling P87.323 million and mismatch of funds received and expenses charged thereto.

1.1 The Ninth paragraph of the Articles of Incorporation of LCDFI, as amended on 16 November, 1992, is quoted as follows:

> "That the amount of money to be devoted in the maintenance of said corporation is such sum as may be received in the form of earnings on investments and other activities and in the form of contributions, donations, bequests and/or endowments from the public, subject to the provisions of Act No. 4075, provided, that <u>at least sixty percentum (60%) of its gross income as defined in the Revised Internal Revenue Code, and unrestricted donations, shall be devoted to granting scholarships for scientific and technological manpower training and/or undertaking, directly financing, or assisting fundamental or applied research or developmental work and/or economic evaluation for the comprehensive development and capability-building program of the cooperatives in the countryside</u>. (Emphasis ours)
>
> <u>"That no more than thirty percent (30%) of the gross income and not more than ten percent (10%) of the unrestricted donations to the Foundation shall be devoted to general and administrative expenses."</u> (Emphasis ours)

1.2 The fund balances as of December 31, 2013 with comparative figures for 2012 is shown below:

Fund	2013	2012	Increase
		(In millions of Pesos)	
Program Development Fund	40.906	17.790	23.116
Reserve Fund	23.845	23.661	0.185
General and Administrative Fund	20.542	21.852	(1.310)
Restricted Fund	15.000	15.000	0
Program Fund	2.030	25.676	(23.647)
	102.323	**103.979**	**(1.656)**

PROGRAM DEVELOPMENT FUND AND PROGRAM FUND

1.3 Note 11 to the financial statements of LCDFI described the Program Development Fund as funds received in the form of donations, contributions, etc., from different agencies including private individuals, plus 60 per cent of LCDFI's yearly earnings on investments. The corresponding expenses of the Program Development Fund is described in the Chart of Accounts as expenses incurred in the development, pre-implementation activities and post-implementation activities and LCDFI counterpart expenses to new programs being implemented.

1.4 The same Note described Program Fund as funds intended for the implementation of specific programs and the corresponding expenses are recorded under Program fund expense account. These programs include the following:

a) Cooperative Manualization Revolving Fund
b) Scholarship Program
c) Countryside Financial Institutions Management Development Program
d) Cooperative Business Integration and Development
e) Program for Overseas Filipino Workers

1.5 Records showed that LCDFI received a total donation of P23.469 million in CY 2013. Each donation is supported by a Proposed Work and Financial Plans that identifies the specific Key Results Area (KRA)/Program. Allocation to and charges from the funds are summarized below:

Fund	Program Development Fund	Program Fund	Total
	(In millions of Pesos)		
Balance, Dec. 31, 2012	17.790	25.676	43.466
Allocations to fund:			
Donations allocated to the fund	23.116	0.353	23.469
Interest income	0	1.107	1.107
Other income	0	0.010	0.010
Charges to fund:			
Program fund expenses	0	(25.116)	(25.116)
Balance, Dec. 31, 2013	**40.906**	**2.030**	**(42.936)**

1.6 It can be gleaned from the above data that there was a mismatch of funds received and expenses charged to the funds. While donations received were allocated to the Program Development Fund and Program Fund, the corresponding expenses were all charged against the Program Fund. Since the Program Development Fund is intended for new programs and the accompanying Proposed Work and Financial Plans of the donations received pertained to old programs, it is but proper to allocate the donations to the Program Fund and not to the Program Development Fund. Thus, the allocation of P23.116 million to Program Development Fund is not in accordance with the Ninth paragraph of the LCFDI Articles of Incorporation.

RESERVE FUND

1.7 As disclosed in Note 11 to financial statements, the Reserve Fund of P23.845 million represents the accumulated 10 per cent of earnings on investment of its various funds. This year's net interest earned amounting to P1.845 million was allocated as follows:

Fund	Percentage of Allocation	Amount (In millions in Pesos)
Program Fund	60%	1.107
Reserve Fund	10%	0.185
General and Administrative Fund	30%	0.553
	100%	1.845

1.8 As stated in the Ninth paragraph of the Articles of Incorporation of LCDFI, the minimum value that can be allocated to its various programs is 60 per cent of the gross income and the maximum value that can be devoted to the general and administrative expenses is 30 per cent. Thus, management can allocate up to 70 per cent of its gross income to its various programs. Management intimated that the 10 per cent allocation to the Reserve Fund was assumed to complete a 10 per cent allocation of the gross income. Thus, the accumulated Reserve Fund of P23.845 million has no legal basis and should have been allocated and used for scholarship grants and other programs aligned with the LCDFI mandate.

GENERAL AND ADMINISTRATIVE FUND

1.9 The General and Administrative Fund balance of P20.542 million as of December 31, 2013 decreased by P1.310 million from CY 2012 balance of P21.852 million. The decrease is caused by:

Accounts	Amount (In millions of Pesos)
Indirect program management expense	(P1.865)
Interest income	0.553
Other income	0.002
	(P1.310)

1.10 The indirect program management expenses represent salaries and wages, rent, supplies, utilities and other general and administrative expenses incurred, which for CY 2013 totalled P12.030 million. The said amount was charged to Program Fund and General and Administrative Fund in the amount of P10.165 million or 85 per cent and P1.865 million or 15 per cent, respectively.

1.11 In the Work Financial Plan (WFP) which is an integral part of the Deeds of Donation executed between LCDFI, as donee, and LBP and LBP Leasing Corporation, as donors, the total amount allotted for program management expense was only P3.776 million. Thus, there was an excess of P6.389 million charged to Program Fund, arrived at follows:

Indirect Program Management Expense	Amount (In millions of Pesos)
Per Books	10.165
Per WFP	3.776
Excess	6.389

1.12 Considering that only P3.776 million was allotted for program management expenses and the expenses amounting to P6.389 million are indirect program management expenses, the excess balance of P6.389 million should have been charged to General and Administrative Fund and not to Program fund.

1.13 Although the total fund balance was not affected, the foregoing deficiencies caused the accumulation of funds in the amount of P87.323 million.

1.14 We recommended that Management:

a. Refrain from allocating 10 per cent of LCDFI's gross earnings from investments to the Reserve Fund; instead allocate it to the Foundation's programs/projects;

b. Utilize the accumulated reserve fund of P23.845 million to programs/projects as contemplated in the Articles of Incorporation of LCDFI;

c. Ensure the proper utilization of donations in accordance with the specific purpose for which the funds were received as stated in the WFP; and

d. Effect the necessary adjusting entries for the excess indirect program management expenses amounting to P6.389 million, which must be charged to General and Administrative Fund; and for donations which must be allocated to Program Fund instead of Program Development Fund.

1.15 Management commented that they will request from the Board of Trustee the approval of the consolidation of the (a) Program Development Fund, (b) Reserve Fund, (c) General and Administrative Fund and (e) Program Fund into a single operating fund. With this consolidation, LCDFI will have two funds: the Restricted Fund and the Operating Fund. Charges to the operating fund will be the specific program expenses and the general and administrative expenses. Allocations to the operating fund will come from donations reimbursing program expenses and from interest income. The operating fund may also be used for investments.

2. The classification to Held to Maturity (HTM) Investment account of placements in High-Yield Savings Account with a maturity of less than three months and savings account which can be withdrawn upon demand amounting to P7.718 million is not in conformity with PAS 7, thus resulted in the understatement of Cash and Cash Equivalents and overstatement of HTM Investment account by the same amount.

2.1. Paragraph 7 of PAS (Philippine Accounting Standards) 7 states that "cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes. For an investment to qualify as a cash equivalent it must be readily convertible to a known amount of cash and be subject to an insignificant risk of changes in value. Therefore, an investment normally qualifies as a cash equivalent only when it has a short maturity of, say, three months or less from the date of acquisition."

2.2. Records showed that included in the HTM Investments account are placements through Land Bank of the Philippines (LBP) Trust Banking Group (TBG) in LBP High Yield Savings Account (HYSA) and savings account amounting to P7.208 million and P0.510 million, respectively. As shown in the Financial Report submitted by LBP TBG, the placement in HYSA has a tenor of 39 days with maturity date on January 06, 2014.

2.3. Such placement in HYSA with maturity of less than three months from date of placement as well as in regular savings account which can be withdrawn upon demand should have been classified as cash equivalents in accordance with paragraph 7 of PAS 7. Consequently, the Cash and cash equivalents and HTM Investment account were understated and overstated, respectively, both in the amount of P7.718 million.

2.4. **We recommended that Management reclassify the HYSA and the savings account from HTM Investments account to Cash-in-bank account.**

1.16 Management commented that it is LCDFI's investment with LBP TBG which was placed by TBG in HYSA. The placement, by its intent and purpose, is still an Investment. Nevertheless, this should be classified as a short-term investment under Current Asset together with Cash on Hand and In Bank. Management further commented that they shall observe the proper presentation wherein the above placement will be included as part of the cash and cash equivalent in the succeeding financial statements.

3. Payments for professional fees and transportation allowance totaling P786,666 were not supported with complete documentary requirements contrary to COA Circular No. 2012-001 and Section 4 of Presidential Decree (P.D.) No. 1445.

3.1. Specific requirements for each type of disbursements prescribed under COA Circular No. 2012-001 dated June 14, 2012, particularly item 4.1.3 on Salary of Casual/Contractual Personnel, enumerates, among others, the following documentary requirements:

a. Certification by the Personnel Officer that the activities/services cannot be provided by regular or permanent personnel of the agency (for first claim);

b. Accomplishment Report; and

c. Approved DTR

3.2. Section 4.(6) of P.D. No. 1445 also provides that "Claims against government funds shall be supported with complete documentation."

3.3. One of the LCDFI's programs is the enhancement of the capabilities of selected cooperatives assisted under the LandBank's Integrated Rural Financing Program, wherein, it needs the services of a Cooperative Development Specialist (CDS) to perform various functions and delivery of necessary outputs. The CDS is under the technical and administrative supervision of the LBP Lending Center (LC) Area Head and being paid a professional fee of P15,000 per month (net of tax) and transportation allowance of P3,000.

3.4. Review of documents attached to the Payment Orders (POs) for professional fees and transportation allowance of CDS totaling P786,666 showed the following:

a. The Daily Time Records (DTR) attached were not duly approved/signed by the LBP LC Area Heads and there were some POs not supported by DTRs; and

b. Only Certificates of Accomplishments signed by the LBP LC Heads were attached to the POs instead of Accomplishment Reports duly signed by the CDS and noted by the LBP LC Heads.

3.5. The payment to CDS of professional fees and transportation allowance totaling P786,666 without the complete documentary requirements is not in consonance with Section 4.(6) of P.D. No. 1445 and COA Circular No. 2012-001 on specific requirements for the disbursements for salary of casual/contractual personnel.

3.6. **We recommended that Management comply with the provisions of COA Circular No. 2012-001 and P.D. No. 1445 on the specific documentary requirements for each type of disbursements and submit to the Auditor the complete documents to establish the validity of payments.**

3.7. Management commented that they will comply with the provisions of COA Circular No. 2012-001 and P.D. No. 1445 and will secure all the required documentation and submit them by December 31, 2014.

3.8. By way of an audit rejoinder, with the pending submission of the complete documentary requirements, a notice of suspension shall be issued on this matter.

4. The resource speakers were paid honoraria without evidence of receipt of payment, and one resource speaker was reimbursed for the cost of gasoline used in privately owned motor vehicles, in violation of COA Circular Nos. 2004-006 and 96-004, respectively, for the total amount of P329,279.

4.1. Provisions of COA Circulars pertinent to the expenses paid to LCDFI resource speakers are as follows:

a. COA Circular No. 2004-006 dated September 09, 2004, which covers all disbursements of government funds where evidence of receipt of payment is a requirement.

> "3.3.1 A paper-based evidence of receipt of payment may take any of the following forms:
>
> X x x
>
> "d. Voucher Receipt (VR) - The VR shall be acceptable for disbursements made to individual persons. The VR is that portion of the Disbursement Voucher/Payroll that is signed by the payee to manifest his receipt of the indicated amount."

b. COA Circular No. 96-004 dated April 19, 1996 prescribing the rates of allowances for travel of government personnel.

> "3.1.1.8 To ensure that government funds and property are used solely for official purposes, no reimbursement of the cost of gasoline and oil shall be allowed a private vehicle is used. However the officials and employees concerned shall be entitled to the reimbursement of the equivalent cost of the customary mode of transportation. Under no circumstances should fuel be issued to privately owned motor vehicles."

4.2. Post-audit of sample expenses paid to LCDFI resource speakers disclosed that resource speakers were paid/reimbursed a total amount of P329,279 despite the following deficiencies:

Particulars	Amount
a. Payments to resource speakers representing honorarium were neither signed in the "Payment Received" box of the Payment Orders (POs) nor were deposit slips attached for those payments deposited to the speaker' bank account.	P319,594
b. Reimbursement to a resource speaker was made for the cost of gasoline used in a privately owned motor vehicles in going to and from the place of training in addition to the actual hotel/lodging, meals and incidental expenses	6,323

Particulars	Amount
c. Payments to resource speakers representing honorarium were received and signed by person other than the payee without written authorization.	3,362
	P329,279

4.3. Management explained that the honorarium of the resource speakers are either handed to the speaker in the venue of the seminar or deposited to the speakers' bank account, and that some of the deposit slips were inadvertently not attached to the corresponding POs. However, to date deposit slips have not been presented to prove that the funds disbursed have actually been received by the payee.

4.4. The reimbursement of the cost of gasoline for private vehicles is prohibited under COA Circular 96-004 and the resource speaker is entitled only to an amount equivalent to the fare of ordinary mode of transportation.

4.5. As a result, the foregoing disbursements are considered irregular and are subject to disallowance or suspension.

4.6. **We recommended that Management:**

a. Require the resource speakers to sign in the portion "Payment Received" of the Payment Orders or ensure that there is a proper proof of receipt of payment attached with the POs as required under COA Circular 2004-006; and

b. Require the resource speaker to refund the excess of the reimbursed cost of gasoline over the equivalent fare of ordinary transportation in the location of seminar/trainings conducted.

4.7. Management commented that they will ensure that resource speakers sign properly on the payment orders as proof of receipt of payment. Also, Management commented that they requested cited resource speakers to acknowledge receipt of payment and to refund P6,322.94, for subsequent claim of equivalent fare of ordinary transportation.

5. The depreciation of a motor vehicle was computed using the estimated useful life of ten years instead of seven years as required in COA Circular No. 2003-007, resulting in overstatement and understatement of the net book value of PPE and depreciation expense accounts, respectively, in the amount of P125,932. Also, the balance per books and per lapsing schedule of the other PPE accounts has an unreconciled difference of P50,021, thus, creating doubt on the accuracy and validity of the balance of said account.

5.1. The net balance of Property Plant and Equipment (PPE) of LCDFI amounting to P1,000,193.16 as of December 31, 2013 is composed of the following:

Account	Cost	Accumulated Depreciation	Book Value
		(In millions of Pesos)	
Leasehold Improvements	2.862	2.773	0.089
Motor Vehicle	0.902	0.424	0.478
Office Equipment	0.804	0.472	0.332
Furniture & Fixtures	0.772	0.704	0.068
Semi-expendable items	0.056	0.023	0.033
	5.396	**4.396**	**1.000**

5.2. Annex A of COA Circular No. 2003-007 dated December 11, 2003 which took effect on January 1, 2004 provided an estimated useful life of seven years for motor vehicles. The COA Circular was issued for uniformity in the application of useful life and simplification in the computation of depreciation of government PPE.

5.3. On August 3, 2005, Land Bank issued its Executive Order No. 40 in order to conform to the provisions of the COA Circular 2003-007, among others, and on the revised computation of depreciation of PPE; and wherein the same estimated useful life of seven years for motor vehicles was adopted.

5.4. Verification of the lapsing schedule of PPE disclosed that the accumulated depreciation of motor vehicles and its capitalized spare parts amounting to P424,479 was computed based on the estimated useful life of ten years. Should the depreciation of the motor vehicles and the capitalized spare parts be based on seven years, the related accumulated depreciation would be P600,035 as of December 31, 2013, as shown in the Table below:

Particulars	Date Acquired	Cost	Depreciable Value (Net of 10% Residual Value)	Accumulated Depreciation as at December 31, 2013		Under Depreciation
				10 years	7 years	
Toyota Innova	9.2008	882,200	793,980	423,456	595,485	172,029
Tires	5.2013	19,500	17,550	1,023	4,550	3,527
		901,700	811,530	424,479	600,035	175,556

5.5. Furthermore, Section 5 of COA Circular No. 2003-007, as amended under COA Circular No. 2004-005 dated August 09, 2004 provides that, “any adjustments arising from the revision of the assets’ useful life to conform with Annex A of COA Circular No. 2003-007 dated December 11, 2003 shall be charged to the current and subsequent years’ depreciation expense of the particular asset”. This is compliant with paragraph 51 of the International Accounting Standard 16 which provides as follows:

> “The residual value and the useful like of an asset shall be reviewed at least at each financial year-end and, if expectations differ from previous estimates, the change(s) shall be accounted for as a change in an accounting estimate in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors.”

5.6. Hence, below is the re-computation of depreciation of motor vehicles and capitalized spare parts based on estimated useful life of seven years and remaining useful life, respectively, which shows that its corresponding depreciation expense for CY 2013 and accumulated depreciation per LCDFI's books as of December 31, 2013 were both understated by P125,932. Subsequently, the net book value of PPE account and the net income for the year were overstated by the same amount.

	Accumulated Depreciation as of December 31, 2012	Depreciation Expense	Accumulated Depreciation as of December 31, 2013
Per LCDFI's books			
Toyota Innova	344,058	79,398	423,456
Tires	0	1,023	1,023
	344,058	80,421	424,479
Per audit			
Toyota Innova	344,058	201,803	545,861
Tires	0	4,550	4,550
	1,072,276	206,353	550,411
Under (over)		**125,932**	**125,932**

5.7. Also, the accuracy and validity of the Accumulated Depreciation of other PPE accounts as of December 31, 2013 are doubtful due to unreconciled difference of the balance per books and schedules amounting to P50,021 as shown below:

Account	Accumulated Depreciation (Per books)	Accumulated Depreciation (Per schedule)	Difference
Furniture & Fixtures	703,740	698,593	5,147
Office Equipment	471,782	446,279	25,503
Leasehold Improvements	2,772,771	2,753,400	19,371
	3,948,293	**3,898,272**	**50,021**

5.8. **We recommended that Management:**

a. For future acquisition of PPE particularly motor vehicles, ensure that the estimated useful life to be used for depreciation shall be in accordance with COA Circular No. 2003-07 dated December 11, 2003;

b. Prepare a lapsing schedule of PPE accounts and reconcile with the balance per books; and

c. Prepare an adjusting entry to correct the balances of Depreciation Expense and Accumulated Depreciation accounts.

5.9. Management commented that the depreciation was adjusted to seven years and the adjustment was made in accordance with PAS 8- Accounting Policies, Changes in Accounting Estimates and Errors.

5.10. In addition, Management commented that LCDFI is now conducting an inventory and clean-up of its fixed assets. Adjustments will be made individually upon identification of items for adjustment. Target date of completion and full accounting of Fixed Asset account is set on December 31, 2014.

6. Payment for tax penalties of P15,551 was incorrectly debited to Accounts Payable (AP) – BIR instead to an expense account thus resulted in understatement to AP-BIR by P15,551, while withholding taxes on compensation and suppliers of goods and services amounting to P14,561 were not remitted to BIR for CY 2013, thereby exposing LCDFI to fines, penalties and interests.

6.1. Paragraph 15, IAS 1 on Presentation of Financial Statements provides as follows:

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

6.2. Section 2.58(2)(a) of BIR Revenue Regulation 2-98 dated April 17, 1998 states that:

> "The withholding tax return, whether creditable or final, shall be filed and payments should be made within ten (10) days after the end of each month except for taxes withheld for December which shall be filed on or before January 25 of the following year."

6.3. Transactions related to withholding of taxes on payments of compensation of employees and officers and to suppliers of goods and services and remittances of the same are recorded to AP - BIR account which has a balance of P83,873 as of December 31, 2013.

6.4. Verification of the account disclosed that the remittance of expanded withholding tax for the month of June 2013 amounting to P64,889 included tax penalties for late payment/remittance of P15,551. The entire amount of P64,889 was debited to AP – BIR account, instead of P49,338 only and the amount of P15,551 to receivable/expense account. This caused understatement of the balance of the said liability account as of December 31, 2013 by P15,551.

6.5. Further, there were unremitted withholding taxes for CY 2013 amounting to P14,561 covering expanded, compensation and final taxes.

6.6. Also, the amount of P20,062 was carried forward from the previous year's balance which we cannot determine whether these are unremitted withholding taxes. The non-remittance of taxes withheld within the period prescribed in the above-mentioned tax regulations exposed LCDFI to penalties.

6.7. Likewise, it was noted that subsidiary ledgers for each type of tax withheld are not maintained by LCDFI. These would facilitate the preparation and determination of the amount to be remitted per tax type to BIR.

6.8. **We recommended that Management:**

a. Ensure the proper remittance of taxes withheld from employees' compensation and suppliers of goods and services within the prescribed period;

b. Determine the nature of the previous year's balance of P20,062 and remit to BIR the amount, if warranted;

c. Draw necessary adjusting entries to correct the balance of the AP-BIR; and

d. Maintain a subsidiary ledger for each type of tax withheld to facilitate the preparation and determination of the amount to be remitted to BIR.

6.9. Management commented that Withholding taxes are remitted to BIR on September 10, 2014 and right now reconciliation of the Accounts Payable is on-going. Target date of completion is set on December 31, 2014.

6.10. Further, Management commented that adjustment of erroneous entry has already made and subsidiary ledger for Accounts Payable will be maintained and updated regularly.

7. The fidelity bond of seven accountable officers (AOs) were procured from private insurance company with total premium amounting to P13,245, while the fidelity bond of two AOs were not renewed as of August 29, 2014, contrary to P.D. No. 1445 and the Public Bonding Law.

7.1. Relevant provisions of laws, rules and regulations are quoted as follows:

a. Section 101 of P.D. No. 1445, the Government Auditing Code of the Philippines

"Section 101. *Accountable officers, bond requirement*

"1. Every officer of any government agency whose duties permit or require the possession or custody of government funds or property shall be accountable therefore and for the safekeeping thereof in conformity with law.

"2. Every accountable officer shall be properly bonded in accordance with law."

b. SECTION 315 of Act 2711, part of the Public Bonding Law under the Revised Administrative Code of 1917

"Administrative regulations. – The administrative regulations necessary for carrying into effect the provisions of this chapter relative to the fidelity fund and insurance of Government officers therein shall be prescribed by the (Insular) Treasurer of the Philippines with the approval of the Department Head".

c. Section 1.9 of Executive Order No 449 series of 1997

"SECTION 1. Restatement of the functions of the Bureau of the Treasury. The Bureau of the Treasury, hereinafter referred to as the Bureau, shall have the following functions:

X x x

"9. Bond all accountable public officials and employees pursuant to the provisions of the Public Bonding Law and issue appropriate guidelines therefor; x x x"

7.2. Records show that the fidelity bond of seven accountable officers with total premium amounting to P13,245 were procured from private insurance company. Likewise, the fidelity bond of the LCDFI cashier and accountant expired on September 25, 2013 and there was no document showing that their bonds were renewed as of August 29, 2014. These are contrary to above cited provisions laws, rules and regulations.

7.3. It is worth noting that paragraph 9 of Treasury Circular No. 02-2009 dated August 06, 2009 of the Bureau of Treasury provides that "Unjustified failure of an accountable public officer to comply with the requirements to apply the Fidelity Bond pursuant to this Circular and the Public Bonding Law shall subject the responsible official/employee to applicable criminal, and/or administrative liability under the Revised Penal Code and PD No. 1445."

7.4. **We recommended that Management comply with the provisions of P.D. No. 1445 and the Public Bonding Law relative to the fidelity bond of LCDFI accountable officers.**

7.5. Management commented that upon expiry of existing fidelity bonds, they will start procuring the fidelity bonds from the Bureau of the Treasury.

8. The paid payment orders of LCDFI, in lieu of disbursement vouchers (DVs), were not signed as to the availability of fund and propriety of the expenditure, in violation of the Executive Order No. 292. Likewise, the payment order form is not fully compliant with the COA Circular No. 92-389 which prescribed the use of the DV, General Form No. 5(A).

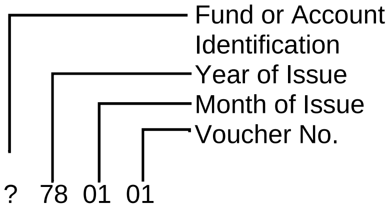
8.1. Section 40, Chapter 5, Book VI of Executive Order No. 292 or the Administrative Code of 1987 provides as follows:

"SECTION 40. Certification of Availability of Funds. - No funds shall be disbursed, and no expenditures or obligations chargeable against any authorized allotment shall be incurred or authorized in any department, office or agency without first securing the certification of its Chief Accountant or head of accounting unit as to the availability of funds and the allotment to which the expenditure or obligation may be properly charged.

No obligation shall be certified to accounts payable unless the obligation is founded on a valid claim that is properly supported by sufficient evidence and unless there is proper authority for its incurrence. Any certification for a non-existent or fictitious obligation and/or creditor shall be considered void. The certifying official shall be dismissed from the service, without prejudice to criminal prosecution under the provisions of the Revised Penal Code. Any payment made under such certification shall be illegal and every official authorizing or making such payment, or taking part therein or receiving such payment, shall be jointly and severally liable to the government for the full amount so paid or received."

8.2. The use of DV is prescribed under COA Circular No. No. 81-155 and restated in COA Circular No. 92-389, which in addition, prescribed the use of the DV, General Form No. 5(A). The revision of the DV format was to simplify and minimize the number of the signatories therein and to make it more effective and responsive to the requirements of Republic Acts No. 6713 and 7160, the Code of Conduct and Ethical Standards for Public Officials and Employees and the Local Government Code of 1991, respectively.

8.3. Clause 2 of COA Circular No. 92-389 enumerates the modifications in the DV, and the examination of the paid POs of LCDFI disclosed the following:

Clause 2 of COA Cir. No. 92-389	Observation
"2. Voucher Preparation The Voucher should be prepared in Triplicate copies or more if necessary.	
A. Boxes for "Prepared by and Upon Request/Direction of and Date Prepared" are deleted.	"Prepared by:" box is still provided in the PO format.
B. The "Voucher No." box shall indicate the number of the voucher in accordance with COA Circular No. 78-79 dated April 5, 1978, which prescribes the Voucher Numbering System. The voucher number shall be indicated on the face of the voucher and on every supporting document.	The Payment Order Number is a continuous number series and is not in accordance with COA Circular No. 78-79 which prescribes the following format: 

	Clause 2 of COA Cir. No. 92-389	Observation
D.	The "Name and Address of Claimant" box shall indicate the identity of the payee or creditor and his place of residence or office.	The address of the claimant is not always indicated.
E.	The "Employee No./TIN" box shall indicate the Employee No. if the claimant is an employee of the paying agency or the Taxpayer Identification Number in case the claimant is not an employee of the paying agency, private person or entity.	There is no provision for this box nor for the required information.
I.	Boxes Nos. 2 & 3 are consolidated in Box A. This box shall be signed by the responsible Officer having direct supervision and knowledge of the facts of the transaction.	Box A pertains to the certification as to expenses/cash advances being necessary, lawful and incurred under the direct supervision of the signatory officer. There is no provision for this box nor for the required information, consequently, no identified officer responsible and no signature.
J.	Box No. 4 is now Box B. This box shall be accomplished by the Accountant or other equivalent Officials in the Government Owned or Controlled Corporation. The "journalized by" and "indexed by" section shall be signed or initialed by the Accountant or his duly designated subordinates.	Box B pertains to the required certification as to adequate available funds/budgetary allotment; expenditure properly certified; supported by applicable documents; account codes proper; and previous cash advance liquidated/accounted for. There is no provision for this box nor for the required information. The signature of the Accountant pertains only to the “Account Qualification” of the accounting journal entry. Consequently, the non-certification mentioned is not in accordance with Section 40, Chapter 5, Book VI of E.O. No. 292 or the Administrative Code of 1987.
K.	Box No. 5 is now Box C which shall be approved by the Head of the Agency or other duly authorized Official/s	The amount approved is not indicated.
L.	The "Allowed in Audit" box is for the exclusive use of the COA Auditor.	There is no provision for this box.

Clause 2 of COA Cir. No. 92-389	Observation
M. The "Received From" of the voucher shall be accomplished by the claimant or his authorized representative after actual receipt of cash or check. The details of the "Check" portion shall be immediately indicated after the check preparation. The "Official Receipt" portion shall be accomplished by the Releasing Officer after the claimant had affixed his signature. The cash or check shall be released only to the payee or his duly authorized representative."	The Payment Received box with date is provided, but it does not contain the other required information.

8.4. The omission of some necessary requirements for a DV showed that the existing PO format of LCDFI is not fully compliant with COA Circular No. 92-389.

8.5. **We recommended that Management:**

a. Require the Accountant to certify the adequacy/availability of funds/budgetary allotment; expenditure properly certified; supported by applicable documents; account codes proper; previous cash advance liquidated/accounted for;

b. Require the signature on the certification as to expenses/cash advances being necessary, lawful and incurred under the direct supervision of the signatory officer; and

c. Consider the revision of the existing format of payment order by adopting the prescribed format of the disbursement voucher under COA Circular No. 92-389, particularly General Form No. 5(A).

8.6. Management commented that they will adopt a new form of their Payment Order prospectively. In the meantime, existing form will be used with the required additional information.

9. No Annual Plans, Programs and Budget for Gender and Development was formulated in response to the requirement of Republic Act (RA) 9710 or the Magna Carta for Women.

9.1. Gender and Development (GAD), as defined in the Primer for Gender Mainstreaming and Institutionalization in the Budgeting Process is an approach to or a development that focuses on how social, economic, political and cultural forces determine how differently women and men participate in, benefit from, and control resources and activities for development. It is a framework of analysis that seeks to understand the role of gender in the attainment of development goals.

9.2. Paragraph A.1, Section 37 of the Implementing Rules and Regulations of RA 9710, Women in Development and Nation Building Act, specifically provides for the development of and budgeting of GAD Plans and Programs, as follows:

> X x x. All agencies, offices, bureaus, SUCs, GOCCs, LGUs, and other government instrumentalities shall formulate their annual GAD Plans, Programs and Budgets within the context of their mandates. Further:
>
> X x x
>
> a. Following the conduct of a gender audit, gender analysis, and/or review of sex-disaggregated data, each agency or LGU shall develop its GAD Plans, Programs, and Budget in response to the gender gaps or issues faced by their women and men employees, as well as their clients and constituencies. Along with the Act and these Rules and Regulations, the Philippine Plan for Gender-Responsive Development (PPGD), the Beijing Platform for Action (BPfA), and the CEDAW, among others, shall serve as key documents to guide the identification of gender issues and the formulation of GAD Plans, Programs and Budget;
>
> b. Where needed, temporary special measures shall be included in their plans. The agency or LGU is encouraged to consult with their employees and clients to ensure the relevance of their GAD Plans and Programs;
>
> c. At least five percent (5%) of the total agency or LGU budget appropriations shall correspond to activities supporting GAD Plans and Programs. X x x.

9.3. Further, Section 36 of RA 9710 requires the creation of GAD Focal Point System composed of the agency head, an executive committee and technical working group or secretariat.

9.4. Inquiry with Management and review of LCDFI's annual budget disclosed that the Corporation did not appropriate budget for GAD Plans and Programs. Neither is there a GAD project or program.

9.5. As stated in the Primer, there is a need to establish a GAD Plan to provide the Framework for responding to gender issues and encourage stronger accountability in pursuit of gender equality goals.

9.6. **We recommended that Management take the following courses of action:**

a. Comply with R.A. 9710 and its Implementing Rules and Regulations;

b. Include in the formulation of its plans, programs and budget gender and development related activities in response to the gender gaps or

issues faced by the women and men employees, as well as the clients and constituencies; and

c. Create the GAD Focal Point System and designate the GAD Focal person.

9.7. Management commented that they will request for exemption from the National Commission on Women based on (a) the nature of LCDFI as a non-stock, non-profit foundation, (b) the relatively small size of the foundation, and (c) the dependence of the foundation's operating budget on donors, i.e. LBP and the intended purpose of the donation.

Compliance with Tax Laws

The taxes withheld from the compensation and benefits of LCDFI personnel and those withheld from suppliers amounting to P631,128 and P398,727, respectively, as disclosed in Note 15 to the Financial Statements, were remitted to the Bureau of Internal Revenue within the reglementary period, except for the amount of P14,561 as discussed in Observation No. 6.

SSS Contributions and Remittances

LCDFI has been compliant with Republic Act No. 8282 on the collection and remittance of contributions to SSS as follows:

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

b. Remittance of employees' and employer's contributions and employees' compensation premium within the due date pursuant to Section 19.

Philhealth and Pag-ibig Premiums

LCDFI has been compliant with Title III Rule III, Section 18 of the Implementing Rules and Regulations of R.A. No. 7875, as amended, in the payment of national health insurance premium contributions to the Philhealth.

LCDFI is also compliant 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.

Status of Disallowances, Suspensions and Charges

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.

A Motion for Reconsideration was filed by LBP with COA on March 19, 2012, however, it was denied by the Commission through its Resolution dated April 4, 2014 for lack of merit.

Subsequently, the Legal Services Group, LBP, filed a Petition for Certiorari to the Supreme Court on August 4, 2014 on the aforementioned COA Resolution.

STATUS OF IMPLEMENTATION OF PRIOR YEARS' AUDIT RECOMMENDATIONS

Of the seven audit recommendations embodied in the prior years' Annual Audit Report, one was fully implemented, four were partially implemented and two were not implemented. The partially and not implemented recommendations are presented below.

OBSERVATIONS AND RECOMMENDATIONS	ACTIONS TAKEN
2012	
1. The Retirement Fund of LCDFI amounting to P1,214,175 as at December 31, 2012 was not deposited with the LBP-Trust Banking Group (TBG) contrary to Article IV, Section 2 of the LBP Subsidiaries Retirement Benefit Plan (RBP). Moreover, there is no adequate disclosure on retirement fund in the Notes to Financial Statements (FS) as required in paragraphs 50 and 120a of PAS 19. a. Comply strictly with the provisions of Article IV Section 2 of the LBP Subsidiaries Retirement Benefit Plan requiring the investment of the retirement fund in government securities through the LBP-TBG; b. Make a formal query with the Retirement Committee created under Article VII Sections 1 and 2 of the RPB and request for a decision on the proper disposition of the LCDFI's Retirement Fund. c. Require full disclosure on the details of Retirement Fund in the LCDFI's Notes to Financial Statements.	Partially implemented The required disclosure in the Notes to Financial Statements was already complied. It was placed in the separate account under retirement fund account however, it was not yet deposited in the Trust Account.
2. The LCDFI's Annual Procurement Plan for Common-Use Supplies and Equipment (APP-CSE) for calendar year 2012 was not submitted to the Department of Budget and Management (DBM), which is non-compliant with DBM Circular Letter No. 2011-6 dated August 25, 2011 requiring the submission of the APP-CSE.	Partially implemented The LCDFI's APP-CSE for CYs 2012 and 2013 were already submitted to DBM. Audit rejoinder: The LCDFI's APP-CSEs are subject to further verification because there is no proof/s that the said APP-CSEs are received by DBM.

OBSERVATIONS AND RECOMMENDATIONS	ACTIONS TAKEN
Comply with the provisions of DBM Circular Letter No. 2011-6 dated August 25, 2011 prescribing the procedures and guidelines for the implementation of AO No. 17.	
2011	
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. Reconcile regularly the records of the Property and the Accounting Sections to reflect a reliable balance in the financial statements. Reclassify the unserviceable property and equipment to Other Assets account as these are no longer used in the agency's regular operations; Dispose the unserviceable properties at the soonest possible time to minimize the wear and tear of the said properties.	Partially implemented. There is on-going reconciliation by the Accounting and Property Section. As of December 31, 2013, the fully depreciated property with cost of P2,377,235 were reclassified into other assets account. We are still in the process of disposal of the unserviceable 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 at audit date, hence expose the Foundation to interest, fines and penalties. Require the Accountant to look into the unremitted balances and remit the amount to BIR. 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.	Partially implemented. The unremitted amount of P 23,141.60 was the over deduction from the former LCDFI President which was refunded to her under Payment Order No. 12571 dated June 28, 2012. An adjustment to Accounts payable account-BIR was made per Journal Voucher No. 86 dated May 29, 2012. Reconciliation made yielded the following results: As of March 2012, an error amounting P2,514.30 was found deducted and remitted but was not booked in

OBSERVATIONS AND RECOMMENDATIONS	ACTIONS TAKEN
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.	Accounts payable account-BIR. A subsequent correcting entry was made under Journal Voucher No. 76 dated May 28, 2012. These adjustments reduced the discrepancy to P7,154.70. For the remaining differences in the account, reconciliation is still on-going.
5. 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. Enforce strictly 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.	Not implemented. The NGO partner of LCDFI was the one who selected these scholars from their first level in the primary school. Their bases for selection were non-affordability, residents of Agrarian Reform Communities and beneficiaries of CARP. Most of the families of the scholars live in abject poverty and difficult situations. Hence, the Program Management Committee of the Scholarship Program decided to be lenient in imposing the 80 per cent grade requirement provided the scholar passed the subject. All these 40 scholars are now in their 3rd level, secondary school and shall finish high school by next school year. LCDFI shall implement the 80 per cent grade requirement with future scholars.
2004 6. 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. 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.

OBSERVATIONS AND RECOMMENDATIONS	ACTIONS TAKEN
	A Motion for Reconsideration was filed by the LBP with COA on March 19, 2012 however, it was denied by the Commission through its Resolution dated April 4, 2014 for lack of merit. Subsequently, the Legal Services Group, LBP, filed a Petition for Certiorari to the Supreme Court on August 4, 2014 on the aforementioned COA Resolution.