

EXECUTIVE SUMMARY

INTRODUCTION

The Land Bank of the Philippines (LBP), the “Bank”, was established on 8 August 1963 under the Agricultural Land Reform Code (Republic Act No. 3844) to finance the acquisition and distribution of agricultural estates for division and re-sale to small landholders and the purchase of landholdings by agricultural land tenants.

In July 1973, under Presidential Decree (PD) No. 251, the Bank became the first universal bank by charter and was granted expanded commercial banking powers to sustain its social mission of spurring countryside development. PD No. 251 empowered the Bank to grant loans to agricultural, industrial, home-building or home financing projects and other productive enterprises and enabled the Bank to extend credit assistance to farmers’ cooperatives and associations to facilitate the production and marketing of crops and the acquisition of essential commodities.

In 1988, following the enactment of the Comprehensive Agrarian Reform Law (Republic Act No. 6657), the Bank became the financial intermediary of the government’s Comprehensive Agrarian Reform Program (CARP). The government established an Agrarian Reform Fund for payment, in cash and bonds, of land compulsorily or voluntarily acquired from landowners.

In 1990, the government transferred to the Bank the primary responsibility of determining land valuation and compensation for land acquisition, which was previously the function of the Department of Agrarian Reform.

The Parent and its subsidiaries (Group) are engaged in the business of banking, financing, leasing, real estate, insurance brokering and other related services to personal, commercial, corporate and institutional clients. The Group’s products and services include deposit-taking, lending and related services, treasury and capital market operations, trade services, payments and cash management, and trust services.

The Board of Directors is composed of nine members and chaired by the Secretary of the Department of Finance. The Bank is headed by its President and Chief Executive Officer.

The total manpower of 7,664, consisting of 1,124 officers and 6,540 operating staff as of December 31, 2015, is deployed as follows:

	Officer	Staff	Total
Head Office	496	1,548	2,044
Branches/Field Units	628	4,992	5,620
	1,124	6,540	7,664

SCOPE AND OBJECTIVES OF AUDIT

The audit covered the examination, on a test basis, of the accounts, financial transactions and operations of LBP for the period January to December 31, 2015 in accordance with the Philippine Public Sector Standards on Auditing to enable us to express an opinion on the fairness of presentation of the financial statements for the years ended December 31, 2015 and 2014. It was also made to assess the propriety of financial transactions and compliance with pertinent laws, rules and regulations, as well as adherence to prescribed policies and procedures.

FINANCIAL HIGHLIGHTS

(In thousand pesos)

I. Financial Position

	Group			Parent		
	2015	2014	Increase	2015	2014	Increase
Assets	1,205,759,871	1,058,636,035	147,123,836	1,203,068,216	1,056,606,887	146,461,329
Liabilities	1,117,011,557	973,650,652	143,360,905	1,116,824,258	973,925,729	142,898,529
Capital Funds	88,748,314	84,985,383	3,762,931	86,243,958	82,681,158	3,562,800

II. Results of Operations

	Group			Parent		
	2015	2014	Increase	2015	2014	Increase
Income	44,300,358	39,216,231	5,084,127	43,861,859	38,810,830	5,051,029
Personal Services	8,304,826	7,586,397	718,429	8,250,566	7,538,571	711,995
MOOE	12,804,597	11,171,795	1,632,802	12,834,850	11,173,502	1,661,348
Financial Expenses	9,222,308	7,815,660	1,406,648	9,112,859	7,709,365	1,403,494
Net Income	13,968,627	12,642,379	1,326,248	13,663,584	12,389,392	1,274,192
Other Comprehensive Income	(2,553,800)	(2,832,655)	278,855	(2,553,204)	(2,832,200)	278,996
Total Comprehensive Income	11,414,827	9,809,724	1,605,103	11,110,380	9,557,192	1,553,188

III. Budget and Utilization

	Budget		Utilization	
	2015	2014	2015	2014
Personal Services	8,253,000	7,600,000	8,247,392	7,536,823
Maintenance and Other Operating Expenses	10,532,000	9,800,000	12,061,439	10,736,931
Financial Expenses	7,864,000	7,239,000	8,836,085	6,609,990
Capital Outlay	2,650,000	3,484,000	1,862,617	1,036,160
	29,299,000	28,123,000	31,007,533	25,919,904

AUDITOR'S OPINION

The Auditor rendered an unmodified opinion on the fairness of presentation of the financial statements of LBP for the years ended December 31, 2015 and 2014 in accordance with Philippine Financial Reporting Standards. However, attention was drawn to Note No. 10 which disclosed, among others, that the LBP's Available-for-sale-Domestic-Private investments account include unrestored 3,366,800 MERALCO shares with fair value of P1,077.376 million and P861.901 million in 2015 and 2014, respectively. Likewise, the corresponding cash and property dividends earned of P212.647 million and P169.448 million in 2015 and 2014, respectively, and 9,488,394 shares of stock in Rockwell Land Corporation, respectively, were still unpaid to LBP.

SIGNIFICANT AUDIT OBSERVATIONS AND RECOMMENDATIONS

The following are the significant observations and recommendations, among others, discussed with Management:

1. The adequacy and reasonableness of the impairment loss on loans and receivables amounting to P3,697.244 million for CY2015 was doubtful due to deficiencies noted in the computation, which if not addressed may accumulate in significant amount that may affect the fair presentation of the loans and receivables account in the financial statements.

1.1 We recommended that Management require Credit Policy Risk Management Department to review the computation of impairment loss and cause the preparation of the necessary adjustments so as to fairly present the balance of the Loans and Receivables in the financial statements.

2. Contributions to various Credit Surety Funds (CSFs) amounting to P3.0 million for CY2015 and P68.310 million for CY2010 to 2014 were recorded as an expense under Donations and Charitable Contributions account instead of an asset account pursuant to paragraphs 35 and 89 of the Framework for the Preparation and Presentation of Financial Statements, thus, both the asset and net income/retained earnings accounts were understated by P71.810 million as of December 31, 2015.

2.1 We reiterated our recommendation that Management require the Administrative Accounting Department (AAD) to record the contributions to various CSFs as an asset account and make necessary adjustments to correct the balances of the affected accounts in the financial statements.

3. LBP's annual contribution to its Liability Indemnity Fund (LIF) amounting to P5 million for CY2015 and P25 million for CYs 2011 to 2014 were recorded as expense under miscellaneous expense account, instead of an appropriate asset account that resulted in the understatements of both the asset and net income/retained earnings accounts by P32.910 million.

3.1 We recommended that Management require the AAD to make the necessary adjustment to record the payments for contributions to LIF as an asset account in accordance with Philippine Accounting Standards.

4. The noted deficiencies in the “Funding and Liquidation of Conditional Cash Transfer (CCT) Conduits” Monitoring Reports (MR) rendered the CCT fund balance in the Bank records unreliable. Moreover, the “Service Fees payable to the CCT Conduits” MR did not contain adequate and necessary information to substantiate the Conduits service fees being claimed from DSWD at any given point of time, thus, the petition for money claim aggregating to P277.933 million was not fully validated.

4.1 We recommended that Management require the CCT Project Monitoring Office (PMO) to:

a. Develop an automated monitoring system for the CCT Program Fund and the CCT Conduits service fees receivable from DSWD, that is extracted or linked to the Bank Current and Savings Account (CASA) system to generate accurate and complete report as at a given date or period;

b. Maintain proper documentation and monitoring of the CCT Program fund/Conduit's Service Fee Receivable from Department of Social Welfare and Development (DSWD) by preparing a consolidated monitoring report on the status of the fund/Conduit's Service Fee at a given period/time using the data submitted/gathered from LBP Electronic Banking Support Unit (EBSU), LBP Batasan Branch, the Conduits' designated LBP Servicing Branches and DSWD communications for the information as to payout extension;

c. Closely coordinate with LBP Servicing Branches and put in place the periodic reconciliation of the CCT transactions with their records to ensure the accuracy and completeness of the reported fund balance and service fee payable to Conduits in LBP's books;

d. Coordinate with LBP Servicing Branches and DSWD to verify and reconcile the noted variances in the petition for money claim from DSWD for unpaid service fees of the Conduits to update the Bank records;

e. Determine the total interest earned from the GXI and PHILPOST Funding accounts for CY 2015 and coordinate with the concerned Conduits for the authority to transfer funds from their accounts to the DSWD funding account. Also, the same should be coordinated with DSWD for the issuance of check and remittance to Bureau of Treasury including the interest earned for Account Name “DSWD-PANTAWID PAMILYANG PILIPINO PROGRAM with Account No. 3122102113 maintained at LBP; and

f. Monitor the non-interest bearing funding accounts of other Conduits so that balance from the fund is immediately returned to the DSWD's account to be utilized in the payment of cash grants to other qualified beneficiaries.

5. Parcels of land where the office buildings and warehouses were erected were not yet transferred/registered in the name of the bank, thus no conveyance of ownership, which puts the interest of LBP at risk.

5.1 We recommended that Management exert effort to secure titles for the above-mentioned parcels of land in the name of LBP to acquire legal ownership.

6. The lapses in monitoring the Regular Demand Deposit Account (RDDA) caused LBP to pay P13.958 million to Bangko Sentral ng Pilipinas (BSP) as penalty for failed transaction in Special Deposit Account (SDA) placement, hence LBP incurred a loss of P4.323 million instead of earning P9.635 million from its SDA placement.

6.1 We recommended that Management:

a. Require the Liquidity and Reserve Management Department (LRMD) and Treasury Operations Department (TOD) to closely coordinate and implement appropriate cut off time for settlement of transactions affecting the RDDA account through clearing systems other than those placements of the excess funds for the proper and timely determination of the Bank's excess funds for investment, and

b. Ensure that the officers and employees concerned are mindful of their responsibility and accountability over the LBP's asset.

7. There was no end-user verification conducted to evaluate the status of Agricultural Credit and Support Program (ACSP) projects amounting to P3.698 billion, thus reports submitted to National Economic and Development Authority (NEDA) might convey misleading information that could affect the monitoring and assessment of the overall performance of the development programs of the government.

7.1 We recommended that Management require the Lending Units:

a. In coordination with Project Monitoring Department (PMD) I to closely monitor the condition and progress of the projects indicated in the Credit Facility Proposal of the Sub-borrowers to assess whether the same are operational; and

b. Submit a report on the status of ACSP-funded accounts in accordance with the Guidelines on the Implementation of the Agricultural and Credit Support Program (ACSP) contained in E.O No. 030, series of 2012, in order to maintain timely and reliable information which can aid the decision makers to perform appropriate actions.

8. The deferred negotiation of Post Dated Checks (PDCs) for payment of loan amortization and the accumulation of unfunded checks in the custody of the Bank amounting to P3.003 billion or 86.22 per cent of the total consolidated outstanding Agricultural Credit Enhancement Fund (ACEF) loan balance had contributed to the significant amount of Non-Performing Loans (NPLs) which undermined the objectives of the program. The interest and collateral free loans of ACEF also provided the borrowers the leniency in the payment of loan amortization that caused low rate of repayment of only 21.01 per cent. Moreover, the funds received from Department of Agriculture (DA) totaling P4.888 billion for ACEF projects were not fully expended as of December 31, 2015 leaving an unutilized/unavailed amount of P340.685 million that could result in the delayed delivery of programmed benefits to intended beneficiaries. Unavailed funds also create doubt on the successful implementation of the projects funded by the loans.

8.1 We recommended that LBP coordinate with the DA:

a. For the agency's appropriate action as provided in the Implementing Rules and Regulations of the ACEF, and the Memorandum of Agreement (MOA) between the DA and LBP on the following:

a.1 Requests of the borrowers for loan restructuring in connection with the deferred negotiation of the PDCs;

a.2 The replacement of unfunded/stale checks to be delivered/returned by the Bank; and

a.3 The monitoring/ conduct of inspection of ACEF-funded projects to assess the status of implementation and perform remedial measures for the collection of past due accounts, and determine the appropriate disposition of the unavailed balance of approved loans.

b. For the Executive Committee of the ACEF to reconsider the interest and collateral free loan package of program with its adverse implication in the repayment of loans; and revisit the MOA between the DA and LBP and the Implementing Rules and Regulations (IRR) of ACEF particularly on the limited role of the Bank regarding the review of loan restructuring, credit monitoring and collection, despite its mandate and functions as a universal and government banking institution.

9. Actual Maintenance and Other Operating Expenses (MOOE) exceeded the budget for CY 2015 by P2,466.902 million, which could be due to lapses in the determination of estimated expenditures for some expense items in the LBP's budget; hence, the disbursement of excess amounts did not conform to the fundamental principles on the utilization of government funds.

9.1 We recommended that Management require the AAD to verify the cause(s) of the significant excess amounts of the actual expenses over the budget to identify the important considerations in the determination of reasonable amounts of MOOE in the COB, and ensure that expenses are incurred and paid in accordance with the approved amounts.

10. The computation of the Collective Negotiation Agreement (CNA) Incentive for FY2015 of P142.141 million which was distributed to LBP officers and employees in February 2016 was not in accordance with Department of Budget and Management (DBM) Circular No. 2015-2 dated November 23, 2015, thus resulting in the overpayment of incentives to officers and employees by P35.908 million.

10.1 We recommended that Management require the Administrative Accounting Department and Personnel Administration Department to revisit the DBM Guidelines on the Grant of CNA Incentive and cause the necessary adjustment of accrual and payment of CNA Incentive.

11. The utilization of the Extraordinary and Miscellaneous Expense Fund (EMEF) was not in conformity with COA Circular No. 2012-003 since: (a) disbursements in the

total amount of P1.439 million did not conform to the nature or purpose prescribed under COA Circular No. 2006-001; and (b) amounts paid to two officers exceeded the allowable amount fixed by the Board of Directors for the corresponding position by P1.162 million.

11.1 We recommended that Management:

- a. Strengthen control on the disbursement of EMEF to ensure strict observance of the limitations imposed under COA Circular No. 2006-001;
- b. Refrain from paying expenses that are not in accordance with the nature and purpose of the fund. Confine the payment of EME to the allowed and approved rates; and
- c. In view of the resignation of the aforementioned Bank officials, cause the recovery of the excess payments of EME as of their resignation dates.

SUMMARY OF TOTAL SUSPENSIONS, DISALLOWANCES AND CHARGES

The total unsettled audit suspensions and disallowances as of December 31, 2015 is P104,179,537.55, broken down as follows:

	Suspended	Amount Disallowed (In Philippine Peso)	Total
Head Office	6,007,911.58	8,688,073.77	14,695,985.35
Regional Offices/Branches	85,778,242.09	3,705,310.11	89,483,552.20
	91,786,153.67	12,393,383.88	104,179,537.55

Management has already filed appeals on the Notices of Disallowances in accordance with the Revised Rules and Procedures of the Commission on Audit (RRPC).

STATUS OF IMPLEMENTATION OF PRIOR YEARS' AUDIT RECOMMENDATIONS

Out of the 124 audit recommendations embodied in the prior years' Annual Audit Reports, 32 were implemented, 88 were partially implemented, and four were not implemented. The details of the partially implemented and unimplemented audit recommendations are presented in Part III of this Report.