

ERRATA

Particulars	Date Published	Location/ Page	As Published in the COA Website	Correction
Annual Audit Report (AAR) on the Land Bank of the Philippines	July 1, 2017	Transmittal Letter	Without date received by the Offices of the President and the Board of Directors	With date received from the Office of the President and Board of Directors
	July 1, 2017	Executive Summary	Pages iii to vi	Replaced Pages iii to vi
	July 1, 2017	Independent Auditor's Report	Without signature of the Supervising Auditor	With signature of the Supervising Auditor
	July 1, 2017	Observations and Recommendations	12.17 b. Remind the BUs and the ISO	12.17 b. Remind the BUs and the Information Security Officer (ISO)

Authorized by:


ADELA L. DONDONILLA

Director IV
Cluster Director

Date: July 3, 2017



Republic of the Philippines
COMMISSION ON AUDIT
Commonwealth Avenue, Quezon City, Philippines
CORPORATE GOVERNMENT SECTOR
CLUSTER 1 - BANKING AND CREDIT



June 30, 2017

Mr. ALEX V. BUENAVENTURA
President and CEO
Land Bank of the Philippines
1598 M.H. del Pilar corner Dr. J. Quintos Sts.
Malate, Manila

Sir:

Pursuant to Section 2, Article IX-D of the Philippine Constitution and Section 43 of Presidential Decree No. 1445, otherwise known as the Government Auditing Code of the Philippines, we transmit herewith the Auditor's report on the results of audit of the accounts and transactions of **Land Bank of the Philippines (LBP)** for the years ended December 31, 2016 and 2015.

The report consists of the Independent Auditor's Report, Audited Financial Statements, Observations and Recommendations, and Status of Implementation of Prior Years' Audit Recommendations.

The Auditor rendered an unmodified opinion on the fairness of presentation of the financial statements of LBP for the years ended December 31, 2016 and 2015 in accordance with Philippine Financial Reporting Standards. However, attention was drawn to Note 10 which disclosed, among others, that the LBP's Available-for-sale-Domestic-Private investments account includes undelivered 3,366,800 MERALCO shares. Likewise, the corresponding cash dividends earned amounting to P297.086 million and P212.647 million as at December 31, 2016 and 2015, respectively, and property dividends of 9,488,394 shares of stock in Rockwell Land Corporation, were still unpaid to LBP.

The significant observations and recommendations that need immediate action are as follows:

1. The acquired properties of a real estate corporation was recorded as ROPA/Investment Property at P16.855 million instead of P176.893 million pursuant to PAS 40 that understated both the Real and Other Properties Acquired/Investment Property and Miscellaneous Income accounts by P160.038 million.

We recommended that Management require the Loans Implementation Department to make the necessary adjusting entry to record the above properties in accordance with paragraphs 5 and 20 of PAS 40.

2. The CCT service fees receivable from the Department of Social Welfare and Development aggregating P213.570 million were not recognized in the books resulting in the understatement of Accounts Receivable-Government Entities and Fees and Commission Income accounts by the same amount and contributed to the total variance of P220.199 million between the General Ledger and Subsidiary Ledger balances of the A/R-GE account.



We recommended that Management require:

a. LBP Batasan Branch and CCT-PMO to:

a.1 regularly reconcile the AR/GE account balance as provided in the Manual of Regulations for Banks on independent balancing, as well as to intensify the reconciliation, verification and analysis of the causes of the noted variance between the GL and SL of the said account to avoid occurrence of the same deficiencies in the future, and

a.2 ensure that their records are reconciled before a request for booking/recording of the Accounts Receivable and Fees & Commission Income from DSWD is made to avoid the double recording as well as the over/understatement of the account; and

b. CCT-PMO to prepare and send billing statement to DSWD on a timely manner and enforce collection with reference to the cited provisions in the IRR that DSWD shall reimburse the advances paid by LBP within five (5) working days upon receipt of LBP's weekly billing with attached supporting documents, and that DSWD shall remit payment to LBP within one (1) month from receipt of Billing Statement for Cash Cards.

3. The outsourced ATM Cash Loading and First Level Maintenance Services did not meet the expected ATM availability and efficiency of the ATM cash loading and FLM operations of the Bank.

We recommended that Management revisit the Contract Agreement and the corresponding TOR to consider the following:

a. Allow emergency replenishment of ATMs that are not included in the replenishment plan upon directive of the Bank;

b. Impose stringent sanctions and study the possibility and viability that onsite ATMs currently outsourced to the SP be turned over and be managed by the Bank; and

c. Set a threshold or limit to the amount of retrieved and unutilized cash that can be used for onward replenishment to determine the reasonableness of the amount of cash in the custody of the Service Provider at the end of the day.

The other audit observations, together with the recommended courses of action, which were discussed by the Audit Group with concerned Management officials and staff during the exit conference conducted on June 20, 2017 are discussed in detail in Part II of the report.


We respectfully request that the recommendations contained in Parts II and III of the report be implemented and that this Commission be informed of the actions taken thereon by accomplishing the Agency Action Plan and Status of Implementation Form and returning the same to us within 60 days from the date of receipt.

We acknowledge the support and cooperation that Management extended to the Audit Group, thus, facilitating the completion of the report.

Very truly yours,

COMMISSION ON AUDIT

By:


ADELA L. DONDONILLA
Director IV
Cluster Director

Copy furnished:

The President of the Republic of the Philippines
The Vice President
The President of the Senate
The Speaker of the House of Representatives
The Chairperson – Senate Finance Committee
The Chairperson – Appropriations Committee
The Secretary of the Department of Budget and Management
The Governance Commission for Government – Owned or Controlled Corporations
The Presidential Management Staff, Office of the President
The National Library
The UP Law Center
The COA Commission Central Library



Republic of the Philippines
COMMISSION ON AUDIT
Commonwealth Avenue, Quezon City, Philippines
CORPORATE GOVERNMENT SECTOR
CLUSTER 1 - BANKING AND CREDIT

June 30, 2017

The Board of Directors
Land Bank of the Philippines
1598 M.H. del Pilar corner Dr. J. Quintos Sts.
Malate, Manila

Gentlemen:

Pursuant to Section 2, Article IX-D of the Philippine Constitution and Section 43 of Presidential Decree No. 1445, otherwise known as the Government Auditing Code of the Philippines, we transmit herewith the Auditor's report on the results of audit of the accounts and transactions of **Land Bank of the Philippines (LBP)** for the years ended December 31, 2016 and 2015.

The report consists of the Independent Auditor's Report, Audited Financial Statements, Observations and Recommendations, and Status of Implementation of Prior Years' Audit Recommendations.

The Auditor rendered an unmodified opinion on the fairness of presentation of the financial statements of LBP for the years ended December 31, 2016 and 2015 in accordance with Philippine Financial Reporting Standards. However, attention was drawn to Note 10 which disclosed, among others, that the LBP's Available-for-sale-Domestic-Private investments account includes undelivered 3,366,800 MERALCO shares. Likewise, the corresponding cash dividends earned amounting to P297.086 million and P212.647 million as at December 31, 2016 and 2015, respectively, and property dividends of 9,488,394 shares of stock in Rockwell Land Corporation, were still unpaid to LBP.

The significant observations and recommendations that need immediate action are as follows:

1. The acquired properties of a real estate corporation was recorded as ROPA/Investment Property at P16.855 million instead of P176.893 million pursuant to PAS 40 that understated both the Real and Other Properties Acquired/Investment Property and Miscellaneous Income accounts by P160.038 million.

We recommended that Management require the Loans Implementation Department to make the necessary adjusting entry to record the above properties in accordance with paragraphs 5 and 20 of PAS 40.

2. The CCT service fees receivable from the Department of Social Welfare and Development aggregating P213.570 million were not recognized in the books resulting in the understatement of Accounts Receivable-Government Entities and Fees and Commission Income accounts by the same amount and contributed to the total variance of P220.199 million between the General Ledger and Subsidiary Ledger balances of the A/R-GE account.

For 06/30/17 5:29 pm

We recommended that Management require:

- a. LBP Batasan Branch and CCT-PMO to:
 - a.1 regularly reconcile the AR/GE account balance as provided in the Manual of Regulations for Banks on independent balancing, as well as to intensify the reconciliation, verification and analysis of the causes of the noted variance between the GL and SL of the said account to avoid occurrence of the same deficiencies in the future, and
 - a.2 ensure that their records are reconciled before a request for booking/recording of the Accounts Receivable and Fees & Commission Income from DSWD is made to avoid the double recording as well as the over/understatement of the account; and
 - b. CCT-PMO to prepare and send billing statement to DSWD on a timely manner and enforce collection with reference to the cited provisions in the IRR that DSWD shall reimburse the advances paid by LBP within five (5) working days upon receipt of LBP's weekly billing with attached supporting documents, and that DSWD shall remit payment to LBP within one (1) month from receipt of Billing Statement for Cash Cards.
3. The outsourced ATM Cash Loading and First Level Maintenance Services did not meet the expected ATM availability and efficiency of the ATM cash loading and FLM operations of the Bank.

We recommended that Management revisit the Contract Agreement and the corresponding TOR to consider the following:

- a. Allow emergency replenishment of ATMs that are not included in the replenishment plan upon directive of the Bank;
- b. Impose stringent sanctions and study the possibility and viability that onsite ATMs currently outsourced to the SP be turned over and be managed by the Bank; and
- c. Set a threshold or limit to the amount of retrieved and unutilized cash that can be used for onward replenishment to determine the reasonableness of the amount of cash in the custody of the Service Provider at the end of the day.

The other audit observations, together with the recommended courses of action, which were discussed by the Audit Group with concerned Management officials and staff during the exit conference conducted on June 20, 2017 are discussed in detail in Part II of the report.

In a letter of even date, we requested the President and CEO of LBP that the recommendations contained in Parts II and III of the report be implemented and that this Commission be informed of the actions taken thereon by accomplishing the Agency Action Plan and Status of Implementation Form and returning the same to us within 60 days from the date of receipt.

We acknowledge the support and cooperation that Management extended to the Audit Group, thus, facilitating the completion of the report.

Very truly yours,

COMMISSION ON AUDIT

By:


ADELA L. DONDONILLA
Director IV
Cluster Director

Copy furnished:

The President of the Republic of the Philippines
The Vice President
The President of the Senate
The Speaker of the House of Representatives
The Chairperson – Senate Finance Committee
The Chairperson – Appropriations Committee
The Secretary of the Department of Budget and Management
The Governance Commission for Government – Owned or Controlled Corporations
The Presidential Management Staff, Office of the President
The National Library
The UP Law Center
The COA Commission Central Library

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, 2016 and 2015 in accordance with Philippine Financial Reporting Standards. However, attention was drawn to Note 10 which disclosed, among others, that the LBP's Available-for-sale-Domestic-Private investments account includes undelivered 3,366,800 MERALCO shares. Likewise, the corresponding cash dividends earned amounting to P297.086 million and P212.647 million as at December 31, 2016 and 2015, respectively, and property dividends of 9,488,394 shares of stock in Rockwell Land Corporation, were still unpaid to LBP.

SUMMARY OF AUDIT OBSERVATIONS AND RECOMMENDATIONS

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

1. The equity investment in Small Business Corporation (SBC) amounting to P360 million was classified as Investment in Non-Marketable Equity Securities (INMES) instead of Investment in Associate as required in Philippine Accounting Standard (PAS) 28 that overstated the INMES account and understated the Investment in Associates by P360 million.

1.1 We recommended that Management require the Treasury Operations Department to record the equity investment in SBC amounting to P360 million, as Investment in Associate and measure it at equity method to correct the classification and presentation of the said accounts in the financial statements as at December 31, 2016.

2. The acquired properties of a real estate corporation was recorded as Real and Other Properties Acquired/Investment Property at P16.855 million instead of P176.893 million pursuant to PAS 40 that understated both the Real and Other Properties Acquired/Investment Property and Miscellaneous Income accounts by P160.038 million.

2.1 We recommended that Management require the Loans Implementation Department (LID) to make the necessary adjusting entry to record the above properties in accordance with paragraphs 5 and 20 of PAS 40.

3. The properties of a resort hotel amounting to P117.730 million were not derecognized as asset despite receipt of the down payment of P50 million for the settlement of outstanding obligation of P332.372 million contrary to PAS 40 and PAS 18, resulting in the overstatement of the Non-current Assets Held for Sale account by P117.730 million and understatement of the Sales Contract Receivable and Net Income by P282.371 million and P164.641 million, respectively.

3.1 We recommended that Management require the LID to make the necessary adjusting entry to derecognize the properties of the hotel as asset for the fair presentation of affected accounts in the financial statements as at December 31, 2016.

4. The Conditional Cash Transfer (CCT) service fees receivable from the Department of Social Welfare and Development (DSWD) aggregating P213.570 million were not recognized in the books resulting in the understatement of Accounts Receivable-Government Entities (AR-GE) and Fees and Commission Income accounts by the same amount and contributed to the total variance of P220.199 million between the General Ledger (GL) and Subsidiary Ledger (SL) balances of the A/R-GE account.

4.1 We recommended that Management require:

a. LBP Batasan Branch and CCT-PMO to:

a.1 regularly reconcile the AR/GE (DSWD) account balance as provided in the Manual of Regulations for Banks (MORB) on independent balancing, as well as to intensify the reconciliation, verification and analysis of the causes of the noted variance between the GL and SL of the said account to avoid occurrence of the same deficiencies in the future, and

a.2 ensure that their records are reconciled before a request for booking/recording of the Accounts Receivable and Fees & Commission Income from DSWD is made to avoid the double recording as well as the over/understatement of the account; and

b. CCT-PMO to prepare and send billing statement to DSWD on a timely manner and enforce collection with reference to the cited provisions in the IRR that DSWD shall reimburse the advances paid by LBP within five (5) working days upon receipt of LBP's weekly billing with attached supporting documents, and that DSWD shall remit payment to LBP within one (1) month from receipt of Billing Statement for Cash Cards.

5. The outsourced Automated Teller Machine (ATM) Cash Loading and First Level Maintenance (FLM) Services did not meet the expected ATM availability and efficiency of the ATM cash loading and FLM operations of the Bank.

5.1 We recommended that Management revisit the Contract Agreement and the corresponding Terms of Reference to consider the following:

a. Allow emergency replenishment of ATMs that are not included in the replenishment plan upon directive of the Bank;

b. Impose stringent sanctions and study the possibility and viability that onsite ATMs currently outsourced to the SP be turned over and be managed by the Bank; and

c. Set a threshold or limit to the amount of retrieved and unutilized cash that can be used for onward replenishment to determine the reasonableness of the amount of cash in the custody of the Service Provider at the end of the day.

6. The increasing incidence of electronic fraudulent schemes, such as ATM skimming and unauthorized online purchases, and its impact to the general public were not captured for risk mitigation in the Risk Treatment Register, which can result in the

accumulation of material financial losses, deterioration of Bank's reputation, and loss of public confidence.

6.1 We recommended that Management:

- a. Revisit the risk assessment for electronic fraudulent schemes and its potential impact so as to make the necessary actions for risk mitigation;
- b. Remind the Business Units and the Information Security Officer (ISO) to consider historical occurrences and potential threats that may put the bank at risk. Being the key personnel in maintaining information security of the Bank, the ISO along with Technology Management Group (TMG) and Card and eBanking Group (CeBG) are recommended to work on solutions to effectively manage the risks and prevent them from occurring; and
- c. Continuously evaluate and enhance the consumer awareness program. Adopt strategies in disseminating easy to understand advices and security precautions for e-services so that the Bank clients will pay special attention in protecting their valuable and sensitive information encrypted in the cards.

7. Delayed compliance with the BSP directives to migrate from magnetic stripe technology to Europay, Mastercard & VISA (EMV) technology for ATMs, Point of Sale (POS) terminals and payment cards increases vulnerabilities of skimming attacks that might result in potential losses.

7.1 We recommended that Management prioritize the implementation of the EMV technology for the entire payment card network for better customer satisfaction and reduction of potential financial losses.

8. The LBP has no automated monitoring system linked to the other systems of the Bank, for the Funding, liquidation and related Service Fee of cash grants distribution through CCT Conduits despite being the depository and disbursing bank of the CCT Program for more than five years. Thus, monitoring of said transactions was prepared manually which entails tedious processes that are prone to human error.

8.1 We recommended that Management consider:

- a. Developing 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 CASA system to generate accurate and complete report as at a given date or period;
- b. For the meantime, to continue maintaining proper documentation and monitoring of the CCT Program fund and Conduit's Service Fee Receivable from DSWD, using the data submitted/gathered from LBP EBSU, LBP Batasan Branch, the Conduits' designated LBP Servicing Branches and DSWD communications for the information as to payout extension; and
- c. Distributing cash grants thru LBP Cash Cards except in remote places with no access to ATMs.

9. The enhancements under LBP Executive Order (EO) No. 050, series of 2012, as amended by LBP EO No. 056, series of 2014, providing the increase ranging from 92 to 133 per cent of the maximum entitlement of Bank officers and members of the BOD, and the granting of Motor Vehicle Lease Purchase Plan (MVLPP) to officers with Pay Grades 9 and 10 were inconsistent with the conditions approved by the Office of the President of the Philippines in 1992.

9.1 We recommended that Management:

- a. Seek approval from the Office of the President of the Philippines for the grant of the increased maximum amounts of entitlement of MVLPP to LBP officers/directors and the inclusion of Bank officers with Pay Grades 9 and 10 in the coverage of the LBP MVLPP, and
- b. In the meantime, limit the granting of the said benefit to what was provided in the Guidelines approved by the Office of the President of the Philippines.

10. The transfer of funds in the aggregate amount of P76.505 million for the CYs 2016 and 2017 uniform allowance of middle management officers and rank-and-file employees to the LBP Middle Management Officers Association, Inc. (LBPMMAOI) and LBP Employees Association (LBPEA) is not in accordance with the handling and safekeeping of public funds.

10.1 We recommended that Management discontinue the practice of channelling the funds for the employees' uniform allowance to LBPMMAOI and LBPEA and allowing them to administer said funds.

SUMMARY OF TOTAL SUSPENSIONS, DISALLOWANCES AND CHARGES

The total unsettled audit suspensions and disallowances as of December 31, 2016 is P62,802,303.44, broken down as follows:

	Suspended	Amount Disallowed (In Philippine Peso)	Total
Head Office	6,007,911.58	8,615,894.47	14,623,806.05
Regional Offices/Branches	39,334,964.46	8,843,532.93	48,178,497.39
	45,342,876.04	17,459,427.40	62,802,303.44

STATUS OF IMPLEMENTATION OF PRIOR YEARS' AUDIT RECOMMENDATIONS

Out of the 139 audit recommendations embodied in the prior years' Annual Audit Reports, 72 were implemented, 24 were partially implemented, and 43 were not implemented, 39 of which are reiterated in Part II of this Report. The details of the partially implemented and unimplemented audit recommendations are presented in Part III of this Report.



Republic of the Philippines
COMMISSION ON AUDIT
Commonwealth Ave., Quezon City
CORPORATE GOVERNMENT SECTOR
CLUSTER 1 – BANKING AND CREDIT

INDEPENDENT AUDITOR'S REPORT

The Board of Directors

Land Bank of the Philippines
Manila

We have audited the accompanying financial statements of **Land Bank of the Philippines (LBP), and its subsidiaries (referred to as the "Group")** which comprise the statements of financial position as at December 31, 2016 and 2015, and the statements of comprehensive income, statements of changes in capital funds and statements of cash flows for the years 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 audits. We conducted our audit in accordance with *Philippine Public Sector 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.

Opinion

In our opinion the financial statements present fairly, in all material respects, the financial position of the **Group** as at December 31, 2016 and 2015, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards.

Emphasis of Matter

We draw attention to Note 10 to the Financial Statements which disclosed, among others, that the LBP's Available-for-sale -Domestic-Private investments account includes the undelivered 3,366,800 MERALCO shares. Likewise, the corresponding cash dividends earned amounting to P297.086 million and P212.647 million as at December, 31 2016 and 2015, respectively, and property dividends of 9,488,394 shares of stock in Rockwell Land Corporation, were still unpaid to LBP.

To compel MERALCO to comply with the Supreme Court decision, LBP filed the Petition to cite MERALCO and other Respondents in Indirect Contempt before the Supreme Court on April 14, 2015. The Supreme Court has not yet directed the parties to file their respective Memoranda nor submitted the case for Decision as to date.

Our opinion is not modified in respect of the above matter.

COMMISSION ON AUDIT


CORA D. MARQUEZ
Supervising Auditor

20 June 2017

OBSERVATIONS AND RECOMMENDATIONS

12.17 We recommended and Management agreed to:

- a. Revisit the risk assessment for electronic fraudulent schemes and its potential impact so as to make the necessary actions for risk mitigation;**
- b. Remind the BUs and the Information Security Officer (ISO) to consider historical occurrences and potential threats that may put the bank at risk. Being the key personnel in maintaining information security of the Bank, the ISO along with Technology Management Group (TMG) and Card and eBanking Group (CeBG) are recommended to work on solutions to effectively manage the risks and prevent them from occurring;**
- c. Continuously evaluate and enhance the consumer awareness program. Adopt strategies in disseminating easy to understand advices and security precautions for e-services so that the Bank clients will pay special attention in protecting their valuable and sensitive information encrypted in the cards; and**
- d. Perform sufficient investigation procedures to determine the cause and origin of electronic fraudulent schemes so as to aid in strengthening the existing IT security.**