



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.

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.

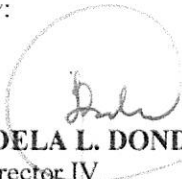
In a letter of even date, we requested the President and CEO of LBP that the recommendations contained in Parts II and III of the report be implemented and that this Commission be informed of the actions taken thereon by accomplishing the Agency Action Plan and Status of Implementation Form and returning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