

EXECUTIVE SUMMARY

INTRODUCTION

Overseas Filipino Bank, Inc. (OFB), A Savings Bank of LANDBANK, formerly known as Philippine Postal Savings Bank, Inc. (PPSBI) is a subsidiary of the Land Bank of the Philippines (LBP). On September 26, 2017, President Rodrigo Duterte issued Executive Order No. 44, which mandates the Philippine Postal Corporation and the Bureau of Treasury to transfer their PPSBI shares to Landbank at zero value. The EO further stated that PPSBI will be converted into the Overseas Filipino Bank.

On January 5, 2018, the PPSBI registered with the Securities and Exchange Commission the Amended Articles of Incorporation bearing the new corporate name. The Bangko Sentral ng Pilipinas through its Circular Letter No. CL-2018-007 dated January 18, 2018 approved the change of corporate name of the PPSBI to “Overseas Filipino Bank, Inc., a Savings Bank of LANDBANK”.

As stated in its Vision, OFB is a Digital Bank servicing Overseas Filipinos and their Beneficiaries through state-of-the-art Electronic Banking Channels such as Mobile Phone, ATM and Internet which are more convenient, faster (real-time), cheaper and secure, eliminating the need for over-the-counter services.

As of December 31, 2020, the Bank had 7 organic employees and 7 seconded employees from the parent bank. Its principal place of business is at Liwasang Bonifacio, Intramuros, Manila.

SCOPE AND OBJECTIVES OF AUDIT

The audit covered the examination, on a test basis, of transactions and accounts of OFB for the period January 1 to December 31, 2020 in accordance with the International Standards of Supreme Audit Institutions to enable us to express an opinion on the fairness of presentation of the financial statements for the years ended December 31, 2020 and 2019. Also, we conducted our audit to assess compliance with pertinent laws, rules and regulations, as well as adherence to prescribed policies and procedures.

FINANCIAL HIGHLIGHTS (In Philippine Peso)

I. Comparative Financial Position

Particulars	2020	2019 (As restated)	Decrease
Assets	3,670,802,627	5,326,100,538	(1,655,297,911)
Liabilities	2,784,460,921	4,316,549,046	(1,532,088,125)
Equity	886,341,706	1,009,551,492	(123,209,786)

II. Comparative Results of Operations

Particulars	2020	2019 (As restated)	Increase/ (Decrease)
Income	137,531,943	282,092,036	(144,560,093)
Personal services	9,365,840	90,982,140	(81,616,300)
Maintenance and other operating expenses	214,613,660	666,645,341	(452,031,681)
Financial expenses	39,978,801	131,107,126	(91,128,325)
Total expenses	263,958,301	888,734,607	(624,776,306)
Net income (loss)	(126,426,358)	(606,642,571)	480,216,213
Other comprehensive income(loss)	3,216,572	99,958,723	(96,742,151)
Total comprehensive income	(123,209,786)	(506,683,848)	383,474,062

III. Comparative Budget and Actual Expenditures

	2020		2019	
	Approved Budget	Expenditures	Approved Budget	Expenditures
Personal services	12,780,000	9,365,840	115,770,000	91,418,309
Maintenance & other operating expenses	224,270,000	214,613,660	994,390,000	661,131,687
Financial expenses	43,890,000	39,978,801	480,320,000	131,120,136
Capital outlay	20,000,000	145,960	3,523,500	3,277,263
Total	300,940,000	264,104,261	1,594,003,500	886,947,395

INDEPENDENT AUDITOR'S OPINION

The Auditor rendered a qualified opinion on the fairness of presentation of the financial statements because the balances of Accrued Expense Payable (AEP) and Accounts Payable (AP) amounting to P174.106 million and P41.983 million, respectively, or an aggregated of P216.089 million as at December 31, 2020, included payables to LBP of P193.172 million which did not reconcile with the corresponding amount of receivables recognized in LBP's books showing a total variance of P121.284 million. Further out of the total recognized payables to LBP of P193.172 million, the amount of P121.314 million payables were not supported with complete documents. Hence, the faithful representation of the balances of AEP and AP as at December 31, 2020, were not established.

SIGNIFICANT AUDIT OBSERVATIONS AND RECOMMENDATIONS

For the above audit observations which caused the issuance of a qualified opinion, we recommended that Management:

- a. Identify the nature of transactions composing the variance in the payable accounts in order to reconcile the discrepancy of P121.284 million between OFB and LBP books as at December 31, 2020;
- b. Support the recognized liabilities to LBP amounting to P121.314 million with complete documents to establish the validity of the recognized obligation; and
- c. Accordingly, prepare the necessary adjusting entries to faithfully represent balances of the AEP and AP accounts as at December 31, 2020.

The following are the other significant audit observations and recommendations:

1. The faithful representation of Furniture, Fixture and Equipment (FFE) account totaling P141.968 million with Accumulated Depreciation of P135.461 million as at December 31, 2020 was not ascertained due to: a) physical count or an alternative procedure to establish the existence of assets was not conducted; b) the impairment of properties was not supported by a formal estimate of recoverable amount; and c) incomplete supporting documents and erroneous accounting entries on derecognition of properties, contrary to the Bank's accounting policy, COA Circular No. 2020-06 dated January 31, 2020 and COA Circular No. 80-124 dated January 18, 1980.

We recommended and Management agreed to:

- a. Conduct physical count or perform an alternative procedure to establish the existence and full accountability of all FFE;
- b. Support the computed impairment of FFE with a formal estimate of their recoverable amounts;
- c. Support the derecognition of FFE totaling P12.249 million with complete documents to establish the propriety of recorded amounts;
- d. Identify FFEs that are already unserviceable or serviceable but no longer in use and accordingly dispose pursuant to Section 79 of PD 1445 and COA Circular No. 89-296; and
- e. Prepare the necessary adjusting entries to correct the balance of the FFE account in the financial statements as at December 31, 2020.

2. Balances of Deposit Liabilities and Other Credits-Unclaimed Balances accounts amounting to P2.557 billion and P3.369 million, respectively, as at December 31, 2020 were not established due to: (a) incomplete/incorrect information classifying dormant deposit accounts transferred to LBP deposit system; and (b) dormant deposits for the preceding 10 years which were not reclassified to Other Credits-Unclaimed Balances account, contrary to BSP Financial Reporting Package and paragraph 2.13 of the Conceptual Framework for Financial Reporting.

We recommended and Management agreed to:

- a. Determine the correct last activity dates of all deposit accounts transferred from OFB deposit system to LBP deposit system; and
- b. Reclassify all dormant deposit accounts, without activities for the preceding 10 years, to Other Credits-Unclaimed Balances.

SUMMARY OF AUDIT SUSPENSIONS, DISALLOWANCES AND CHARGES

Total disallowances amounted to P30.807 million as at December 31, 2020. There were no outstanding audit suspensions and charges as at year end.

STATUS OF IMPLEMENTATION OF PRIOR YEARS' AUDIT RECOMMENDATIONS

Out of the 16 audit recommendations embodied in the prior years' Annual Audit Reports, 10 were fully implemented, five were partially implemented and one was not implemented. Two out of the not implemented/partially implemented recommendations are reiterated in Part II of this Report.