### OBSERVATIONS AND RECOMMENDATIONS

1. **FINANCIAL ISSUES**
2. **The faithful representation of Property and Equipment account amounting to P283.004 million** **as at December 31, 2022, was not established due to:** **(a) unreconciled variance amounting to P42.020 million between the Report on the Physical Count of Plant, Property and Equipment (RPCPPE) and accounting records; and (b) derecognition of Furniture, Fixture and Equipment amounting to P9.334 million not supported with documents.** 
   1. Paragraphs 2.12 and 2.13 of the 2018 Conceptual Framework for Financial Reporting states that:

*2.12 Financial reports represent economic phenomena in words and numbers.* ***To be useful, financial information******must not only represent relevant phenomena, but it must also faithfully represent the substance of the phenomena*** *that it purports to represent. Xxx.*

*2.13* ***To be a perfectly faithful representation****,* ***a depiction would*** *have three characteristics. It would* ***be complete, neutral and free from error****. Of course, perfection is seldom, if ever, achievable. The Board’s objective is to maximise those qualities to the extent possible.*

* 1. On the other hand, COA Circular No. 80-124 dated January 18, 1980, on inventory of fixed assets of Government-Owned and/or Controlled Corporations and Subsidiaries, provides that: *(V.1) a representative of the Auditor shall witness the inventory-taking,* and that *(V.4) the reports shall be properly reconciled with accounting and inventory records.*
  2. Moreover, pertinent provisions of COA Circular No. 2020-006 re: Guidelines and Procedures in the Conduct of Physical Count of Property, Plant and Equipment (PPE), Recognition of PPE Items Found at Station, and Disposition for Non-existing/Missing PPE Items, for One-Time Cleansing of PPE Account Balances of Government Agencies are:

*Inventory taking*

*6.2.3 The physical count shall be recorded/documented daily in a standard Inventory Count Report, using the format in Annex A of this Circular, which shall be used as the basis in the preparation of the RPCPPE after the physical count.*

*6.2.10 Upon completion of the physical count, the Inventory Committee shall prepare the RPCPPE, using the prescribed format under the Accounting Manuals of the respective Sectors.*

*6.3 Reconciliation of inventory count per RPCPPE with property and accounting records*

*The Property and Accounting Units shall undertake collaborative procedures to ensure that all PPEs included in the RPCPPE are duly recorded in their respective records and that the Property Cards (PCs) maintained by the Property Unit and the PPELCs maintained by the Accounting Unit are reconciled. The reconciliation shall be completed within ten (10) days from rendition of the RPCPPE by the Inventory Committee.*

*Xxx*

*After completing the above reconciliation procedures, the total of the reconciled balances for each PPE account shall be established as the correct balance of PPE of the government agency as of December 31, \_\_\_.*

* 1. As at December 31, 2022, the Property and Equipment account amounting to P283.004 million with accumulated depreciation of P128.329 million consisting of the following:

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | **Land** | **Building** | **Furniture &**  **Fixtures** | **Motor Vehicles** | **Computer**  **& Peripherals** | **Total** |
| Cost | 131,008,000 | 48,199,841 | 7,761,859 | 4,298,798 | 91,735,959 | 283,004,457 |
| Accumulated Depreciation | 0 | 26,515,146 | 7,344,886 | 4,134,243 | 90,335,434 | 128,329,709 |
| **Carrying Amount** | **131,008,000** | **21,684,695** | **416,973** | **164,555** | **1,400,525** | **154,674,748** |

* 1. Review of the Property and Equipment account disclosed the following:
  2. *Variance amounting to P42.020 million between the accounting records and the RPCPPE*

Comparison of the balances of the RPCPPE and the accounting records showed the variance amounting to P42.020 million:

|  |  |  |  |
| --- | --- | --- | --- |
| **Property and Equipment Account** | **Accounting Records** | **RPCPPE** | **Variance** |
| Furniture and Fixtures | 7,761,857.44 | 7,633,859.44 | 127,998.00 |
| Computer & Peripherals | 91,735,959.00 | 50,603,676.72 | 41,132,282.28 |
| Motor Vehicles | 4,298,797.28 | 5,058,397.28 | 759,600.00 |
|  | 103,796,613.72 | 63,295,933.44 | 42,019,880.28 |

Verification disclosed that the variance pertains to the following:

| **Items** | **Furniture and Fixtures** | **Computer & Peripherals** | **Motor Vehicles** |
| --- | --- | --- | --- |
| 1. Items included in RPCPPE but not included in the accounting records | 788,000.00 | 43,786,649.69 | 100,400.00 |
| 1. Differences in cost/value of items between the RPCPPE and accounting records | 660,002.00 | 2,654,367.41 | 860,000.00 |
| Total Variance | 127,998.00 | 41,132,282.28 | 759,600.00 |

The current Administrative Head and Bank Officer – Financial Management Unit explained that the LBP seconded personnel previously assigned as Administrative Head and returned to LBP on February 16, 2023, had conducted the physical inventory on January 2023 and prepared the RPCPPE. The RPCPPE, however, was not reconciled with the accounting and inventory records contrary to Item 6.3 of COA Circular No. 2020-006. Also, a representative of the COA was not invited to witness the said physical inventory.

* 1. *Incomplete supporting documents on derecognition of Furniture, Fixture and Equipment (FFE) items amounting P9.334 million*

In CY 2020 audit, it was noted that only the List of Transferred or Sold Properties was attached the journal tickets on the derecognition of FFE totaling P12.249 million. Other documents required under COA Circular No. 89-296 such as Invoice, Receipt of Property, Deed of Sale or Transfer or other negotiation agreements were not presented. Of the P12.249 million, properties valued at P9.334 million remained unsupported with relevant documents as at December 31, 2022, to wit:

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Entry date** | **Disposition** | **No. of Items** | | **Cost** | |  | | **Net Book Value** | | **Reference** | |
| 01/31/20 | Impaired | 3 | | 1,679,964 | |  | | 3 | | **a** | |
| Impaired | 3 | | 2,144,335 | |  | | 3 | | **b** | |
| Impaired | 17 | | 1,367,670 | |  | | 13,259 | | **c** | |
| Transfer/sold | 54 | | 72,787 | |  | | 54 | |
| 02/14/20 | Transfer/sold | 2 | | 381,000 | |  | | 54,480 | | **d** | |
| Transfer/sold | 3 | | 396,231 | |  | | 167,597 | | **e** | |
| Transfer/sold | 122 | | 3,291,533 | |  | | 308,341 | | **f** | |
| **TOTAL** | | | **204** | | **9,333,520** | |  | | **543,737** | |  | |

Relative to the derecognition of properties with incomplete documentation, Management provided the following information:

* 1. Three units of ATMs found in the premises of OFB Center.
  2. Three units of ATMs reported as missing/non-existing as of February 15, 2023.
  3. Various properties from provincial branches approved for disposal by Board Resolution 2019-138 dated November 27, 2019. However, the derecognition of said properties was not supported with relevant documents.
  4. Two units of furniture and fixture are found in the premises of OFB Center.
  5. Three units of motor vehicles for disposal and safekept in LBP Branches.
  6. Various properties reported as missing/non-Existing as of February 15, 2023.

Management further informed that a physical inventory will be conducted anew. They are considering the one-time cleansing of properties pursuant to COA Circular No. 2020-006.

1.6 In view of the foregoing, the faithful representation of the balance of the Bank’s Property and Equipment accounts amounting to P283.004 million as at December 31, 2022 was not established.

**1.7 We recommended and Management agreed to:**

1. **Reconcile the variance in balances between the RPCPPE and the accounting books to establish the existence of properties and propriety of recorded amounts;**
2. **Support the derecognition of FFE amounting to P9.333 million with complete documents to establish the propriety of recorded amounts;**
3. **Prepare the necessary adjusting entries to correct the balance of the Property and Equipment account in the financial statements as at December 31, 2022; and**
4. **Consider one-time cleansing of fixed assets and perform the necessary procedures, including, among others, the disposition of non-existing/ missing properties, pursuant to COA Circular No. 2020-006 dated January 31, 2020.**
5. **Incorrect tax rate of five per cent instead of seven per cent was used in the computation of the Bank’s gross receipts tax (GRT) for calendar years 2022 and 2021, contrary to Section 121 of the National Internal Revenue Code (NIRC) of 1997, as amended by RA No. 9337, resulting in under remittance of GRT amounting to P0.684 million.**

2.1 Section 121 of the NIRC of 1997, as amended, provide:

*Tax on Banks and Non-bank Financial Intermediaries. - There shall be collected a tax on gross receipts derived from sources within the Philippines by all banks and non-bank financial intermediaries in accordance with the following schedule:*

1. *Xxx*
2. *Xxx*
3. *Royalties, rentals of property, real or personal, profits from exchange and all other items treated as gross income under Sec. 32 of the Tax Code, as amended - 7%*
4. *Xxx*

2.2 Gross Income as defined and enumerated under Sec. 32 of the NIRC of 1997: *“SEC. 32. Gross Income: (A) General Definition. - Except when otherwise provided in this Title, gross income means all income derived from whatever source, including (but not limited to) the following items: (1) Compensation for services in whatever form paid, including, but not limited to fees, salaries, wages, commissions, and similar items;(2) X x x; (3) Gains derived from dealings in property;(4) Xxx, (5) Rents; X x x”*

2.3 For CYs 2022 and 2021, OFB’s GRT remittances amounted to P6.538 million and P467,984, respectively.

2,4 Verification of the Schedule of GRT Remittances for CY 2022 disclosed that the Bank used the five per cent tax rate. In the filing and payment of GRT in eFPS, OFB erroneously used the Alphanumeric Tax Code (ATC) of PT 115 with tax rate of five per cent instead of PT103 with tax rate of seven per cent for all items treated as gross income including rent income, miscellaneous income, fees and commissions, and gain on sale of property, contrary to Sections 32 and 121 NIRC of 1997, as amended. According to the Financial Management Unit (FMU), the ATC for PT103, of seven per cent, was previously not available in their eFPS, thus, the use of five per cent.

2.5 The use of five per cent instead of seven per cent tax rate resulted to under remittance of GRT of P496,818 and P187,627 for CYs 2022 and 2021, respectively, or a total of P0.684 million. The details as follows:

|  |  |  |  |
| --- | --- | --- | --- |
| **Year/Quarter** | **Remittance of OFBI** | **COA Audit** | **Under Remittance** |
| **2022** |  |  |  |
| Quarter 1 | 267,483.50 | 374,370.36 | (P106,886.86) |
| Quarter 2 | 1,026,318.00 | 1,189,822.96 | (163,504.96) |
| Quarter 3 | 2,275,048.17 | 2,465,489.03 | (190,440.86) |
| Quarter 4 | 2,969,266.37 | 3,005,251.45 | (35,985.08) |
| Sub-total | 6,538,116.04 | 7,034,933.80 | (496,817.76) |
| **2021** |  |  |  |
| Quarter 1 | 12,160.56 | 15,803.50 | (3,642.94) |
| Quarter 2 | 12,024.93 | 16,834.90 | (4,809.97) |
| Quarter 3 | 213,014.78 | 298,220.69 | (85,205.91) |
| Quarter 4 | 230,783.44 | 324,751.89 | (93,968.45) |
| Sub-total | 467,983.71 | 655,610.98 | (187,627.27) |
| Grand Total | |  | (P684,445.04) |

2.6 For non-compliance to Section 121 of NIRC of 1997, the OFB may be subjected to 25 per cent surcharge on the amended returns for the deficiency taxes pursuant to the provisions of Revenue Memorandum Circular 43 – 2022 on payment of penalty.

**2.7 We recommended and Management agreed to remit in CY 2023 additional GRT to complete tax payments for CYs 2022 and 2021 gross receipts using the seven per cent tax rate prescribed under Section 121 of NIRC of 1997.**

1. NON- FINANCIAL ISSUES
2. **GAD Plan and Budget (GPB) for calendar year 2022 was not submitted to PCW for endorsement, and GAD Accomplishment Report prepared was not based on a PCW-endorsed GPB, hence** **the implementation of GAD Plans, Programs and Activities (PAPs) on the said year cannot be established**.
   1. Pertinent paragraphs of PCW MC 2021-04 dated August 24, 2021, on the Preparation and Online Submission of Fiscal Year (FY) 2022 GPB and Accomplishment Report are as follows:

*1.1. In accordance with Section 36 of Republic Act No. 9710 or the Magna Carta of Women (MCW), the Philippine Commission on Women (PCW) calls on all national government agencies and instrumentalities to* ***prepare and submit their FY 2022 GAD Plan and Budget (GPB)*** *to the Philippine Commission on Women (PCW).*

*X x x*

*10.1 X x x. The agency GFPS shall* ***prepare the annual GAD AR based on the PCW-endorsed GPB*** *xxx.*

* 1. The GPB for CY 2022 submitted to the audit team has the heading of “Annual GAD Plan and Budget CY 2022”, however the template accomplished is GAD Accomplishment Report (AR).

* 1. Management explained that the GBP for CY 2022 was prepared but not submitted to PCW on or before the deadline of 15 November 2021 hence was not able to obtain a PCW-endorsed GPB. The Bank was able to submit the GAD AR for CY 2022 with an attached GPB of the same year through the GMMS (PCW Portal) within the deadline of March 17, 2023.
  2. The audit team noted that the GAR AR reported an allocated budget amounting to P6.270 million representing 4.22 per cent of the Corporate Operating Budget (COB) for CY 2022 which did not meet the minimum five per cent of the COB requirement in PCW Memorandum Circular No. 2021-04. Also, the GAD expenditures of the same year and its supporting documents were not submitted in audit.
  3. The audit team was not able to evaluate the accomplishments on the implementation of GAD Plans, Programs and Activities (PAPs) reflected in the GAR AR since it can be properly performed based on a PCW-endorsed GPB. According to PCW, agencies without an endorsed GPB are still bound to implement GAD PAPs and report its implementation to PCW as long as it is aligned to the agencies mandate, adheres with the PCW-NEDA-DBM Joint Circular 2012-01 on the preparation of annual GPB and GAD AR.

3.6 In view of the foregoing, the implementation of the GAD Plans, Programs and Activities in the GPB and reported in the GAD ARCY 2022 was not established.

* 1. **We recommended and Management agreed to, henceforth:**
  2. **Prepare and submit annual GAD Plan and Budget that is compliant with the guidelines on GAD planning and budgeting, to obtain a PCW-endorsed GPB as basis for the proper implementation of GAD plans, programs and activities; and**
  3. **Prepare the GAD AR based on the PCW-endorsed GPB and reflect the accomplishments of GAD plans, programs and activities in the GAD AR.**

**Compliance with Tax Laws**

1. Taxes withheld for the month were remitted on or before the tenth day of the following month, except those withheld for the month of December which were remitted on or before the 15th day of January of the following year.

Information on taxes and licenses paid or accrued during the taxable year 2022 was disclosed in Note 24 to the Financial Statements. The taxes withheld from compensation, benefits and other sources amounting to P2.638 million were remitted to the Bureau of Internal Revenue in accordance with the deadlines on payment/remittance of taxes prescribed under the National Internal Revenue Code.

**SSS Contributions and Remittances**

1. In 2022, the Bank complied with Republic Act (RA) No. 8282 on the collection and remittance of contributions to SSS as follows:
   * 1. Mandatory monthly contribution of covered employees and employer in accordance with Section 18; and
     2. Remittance of employee’s and employer’s contributions and employees’ compensation premium within the due date pursuant to Section 19.

**Philhealth and Pag-IBIG Premiums**

1. In 2022, the Bank complied with Section 18, Rule III, Title III, of the implementing Rules and Regulations of RA No. 7875, as amended, in the payment of national health insurance premium contributions to the Philhealth.

The Bank also complied with Sections 2 and 3, Rule VII, of the Implementing Rules and Regulations of RA No. 9679 in the collection and remittance of contributions to the Pag-IBIG Fund.

**Status of Disallowances, Suspensions and Charges**

1. The total disallowances as of December 31, 2022 amounted to P26.790 million, details as follows:

| **Particulars** | **Amount** | **Status** |
| --- | --- | --- |
| 1. Payment of per diems to former board members of the Bank for FY 2010 in violation of Memorandum Order No. 20 dated June 25, 2001 and Administrative Order No. 103 dated August 31, 2004 | 3,770,587.83 | COA Order of Execution was issued to principal persons liable on June 17, 2014. A supplemental Notice of Disallowance was issued on March 11, 2016 to former members of the Board of Directors pursuant to COA Decision No. 2016-01 dated January 22, 2016.  A Notice of Finality of Decision No. 2019-190 dated May 21, 2019 was issued approving the COA Decision No. 2018-417 dated December 21, 2018 and COA CGS Cluster 1 Decision No. 2015-02 dated March 25, 2015 excluding Mr. Victor A. Tantoco as person liable under ND. Nos. 13-01(2010) to 13-05(2010).  Also, Notice of Finality of COA Decision No. 2019-021 dated January 18, 2019 approving COA Decision No. 2017-314 dated September 22, 2017 and COA CGS Cluster 1 Decision No. 2014-07 dated October 13, 2014 excluding Ms. Alda R. Bañez as person liable under ND. Nos. 13-01(2010) to 13-05(2010), was issued.  No collection received as at year end. |
| 1. Payment of basic pay/salary, RATA and other benefits to paid to Officers who are 65 years of age or above under Officers’ Employment Contract exercising direct supervision and control over regular employee’s contrary to Bank’s policy and existing laws, rules and regulations, particularly to Memorandum Circular No. 134 dated October 31, 1995, issued by the Office of the President and COA Circular No. 2012-003 on Irregular Expenditures. | 13,608,309.47 | With CGS Cluster 1 decision for automatic review by the Commission Proper. |
| 1. Payment of Health Maintenance Program contrary to COA Circular No. 2012-003 dated October 29, 2012 and COA Resolution No. 2005-001 which prohibits the grant of health care allowance and securing of health care insurance from private insurance agencies, respectively. | 8,150,784.50 | With CGS Cluster 1 decision for automatic review by the Commission Proper. |
| 1. Payment of Representation Allowance for the period covered January 2016 to February 2017 | 1,260,000.00 | CGS Cluster 1 issued Decision No. 2018-16 denying the appeal of Mr. Cesar N. Sarino. For issuance of Notice of Finality of Decision. |
| **Total** | **26,789,681.80** |  |

There are no balances of suspensions and charges as at December 31, 2022.