Republic of the Philippines
**COMMISSION ON AUDIT**
**Commonwealth Avenue, Quezon City, Philippines**
**Corporate Government Audit Sector**
**Cluster 2 – Social Security**

June 29, 2022

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**The Board of Directors**
Small Business Guarantee and Finance Corporation
17th to 18th Floors, 139 Corporate Center Building
139 Valero St, Salcedo Village
Makati City

**Gentlemen:**

Pursuant to Section 2, Article IX-D of the Philippine Constitution and Section 43 of Presidential Decree (PD) No. 1445, otherwise known as the Government Auditing Code of the Philippines, we transmit herewith our report on the results of the audit of the accounts and transactions of the Small Business Guarantee and Finance Corporation (SB Corporation) for the years ended December 31, 2021 and 2020.

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

The Auditor rendered a modified opinion on the fairness of presentation of the financial statements of the SB Corporation for the years ended December 31, 2021 and 2020 due to amounts presented in the financial statements of Investment in Treasury Bills stated at P1.797 billion in CY 2021 and P550.0 million in CY 2020; Investment in Treasury Bonds stated at P1.496 billion in CY 2021 and P416.437 million in CY 2020; Capital Notes stated at P105.0 million in CYs 2021 and 2020; Accounts Receivable stated at P44.186 million in CY 2021 and P36.841 million in CY 2020; Notes Receivable stated at P11.262 billion in CY 2021 and P7.363 billion in CY 2020; and Other Receivables stated at P166.348 million in CY 2021 and P295.119 million in CY 2020 which are all overstated by undetermined amounts because of the non-provision of Allowance for Expected Credit Loss (ECL). PFRS 9 on *Financial Instruments* requires provision of impairment even before objective evidence of impairment becomes apparent.

For the above observation, we recommended that Management:

a. Formulate an accounting policy to be used and applied by the SB Corporation as basis in the estimation of ECL for its financial assets in accordance with PFRS 9; and

b. Strictly comply with the pertinent provisions and requirements of PFRS 9 in setting up Allowance for ECL.

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

1. The non-elimination of the intra-agency Receivables-Due from Other Funds and Payables-Due to Other Funds accounts in the financial statements as at year-end overstated the total assets and total liabilities by P83.470 million and P91.590 million, respectively, as at December 31, 2021.

We recommended that Management, through the Controllership Group (CG):

a. Prioritize the reconciliation of intra-agency accounts and set reasonable timelines for the reconciliation thereof. Subsequently, make the necessary adjustments to pave the way for the elimination of reciprocal accounts of the Corporate and P3 fund;

b. Closely monitor and periodically review transactions made between the Corporate and P3 funds;

c. Formulate policies and guidelines on the recording of intra-agency transactions including measures in eliminating the variances of the reciprocal accounts and the accumulation of the same; and

d. Disclose the accounting policy on the combination and elimination of the reciprocal accounts in the Notes to Financial Statements, as appropriate.

2. Undistributed Collections (UC) totaling P10.807 million as at December 31, 2021, posted a significant increase of P7.203 million or 199.88 per cent from that of the previous year's UC, thus, misstating the balances of the Notes Receivable (NR), Interest Income and other related income accounts all by undetermined amounts as at and for the year ended December 31, 2021, and Other Payables accounts by P10.807 million as at even date.

   We reiterated our prior years' audit recommendation that Management, through the concerned Groups/Units, prioritize the identification of loan accounts recorded under UC and immediately record payments and update the subsidiary ledger (SL) of identified borrowers to come up with the correct individual loan account balances.

   We further recommended that Management, through the concerned Group/Unit:

   a. Ensure the strict implementation of the established policies, guidelines and measures to eliminate UCs provided under Annex A of BR No. 2020-12-3024;

   b. Create a unique borrower's account code for each MSME borrower to be indicated in the PIS, and brief the concerned borrower/representative on the importance of the borrower's account code and strict usage of the PIS in making payment, to effectively implement the measures provided under Item III, Annex A of BR No. 2020-12-3024;

   c. Inform the Collecting Officers/Partner Agents not to accept payment without the unique borrower's account code in the PIS; and

   d. Effect the necessary adjustments from UC to NR, Interest Income and other related accounts to reflect the correct SL balances and ultimately the account's balances in the financial statements.

3. Deficiencies in the administration and accounting of Real and Other Properties Acquired (ROPAs)

   a. Non-appraisal of ROPAs under Investment Property (IP) and Non-Current Assets Held for Sale (NCAHFS) accounts for more than a year with aggregate carrying value of P26.489 million as at December 31, 2021 affects the valuation of ROPAs.

We recommended and Management agreed, through the concerned Group, to conduct the in-house appraisal of the properties at the frequency required by Philippine Accounting Standard (PAS) 36 and BSP Circular No. 520, series of 2006.

b. Acquired properties totaling P8.624 million are recorded under NCAHFS despite not having met the reporting requirements of PFRS 5, thus, overstating the NCAHFS account and understating the IP account both by the same amount as at December 31, 2021.

   We recommended that Management, through Credit Support and Asset Recovery Group, provide the updates on the disposition of NCAHFS in order for the CG to make the necessary adjustment on the NCAHFS and IP accounts in consonance with the provisions of PFRS 5, PAS 1 and Conceptual Framework.

c. The balance of Accumulated Impairment Losses (AIL) for IP-Land and NCAHFS amounting to P5.665 million and P306,148 as at December 31, 2021, respectively, were not fully adjusted for ROPAs with appraised value less than its carrying amount and non-reversal of the same for properties that increased in value.

   We recommended that Management, through the concerned Groups, recognize impairment loss for all properties with appraised value less than its carrying amount and/or reverse impairment loss for all properties that increased in value, if warranted.

d. Other deficiencies noted on the comparison between the Schedule of ROPA vis-à-vis the corresponding general ledgers (GLs) and SLs

   We recommended that Management, through the concerned Groups:

   a. Recognize improvements made to land properties as IP-Buildings or NCAHFS-Buildings, whichever is appropriate, with the corresponding depreciation. Relatedly, reclassify IP-Buildings and NCAHFS-Buildings accounts to IP-Land and NCAHFS-Land, respectively, for properties without improvements;

   b. Reconcile the Schedule of ROPA to the GL and SL balances of IP and NCAHFS accounts; and

   c. Submit to the Audit Team the detailed schedules of IP and NCAHFS for further verification.

The other audit observations together with the recommended courses of action, which were discussed by the Audit Team with concerned Management officials and staff during the exit conference conducted on May 11, 2022, are discussed in detail in Part II of the report.

In a letter of even date, we requested the President and Chief Executive Officer of SB Corporation to take appropriate actions on the recommendations contained in the report and to inform this Commission of the actions taken thereon within 60 days from the date of receipt.

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

Very truly yours,

**COMMISSION ON AUDIT**

**By:**

Ma. Lisa P. Inguillo COA Signed 2022-06-29 16:54:38

**MA. LISA P. INGUILLO**
Director IV

**Copy furnished:**

The President of the Republic of the Philippines
The Vice President
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 UP Law Center
The National Library

**Annex A**

**SMALL BUSINESS GUARANTEE AND FINANCE CORPORATION**
**139 Valero St, Salcedo Village, Makati City**

**AGENCY ACTION PLAN and STATUS OF IMPLEMENTATION**
**Audit Observations and Recommendations**
**For the Calendar Year 2021 and Prior Years**
**As of ____________________**

| Ref. | Audit Observations | Audit Recommendations | Agency Action Plan | | | | Status of Implementation | Reason for Partial/Delay/Non-Implementation, if applicable | Action Taken/ Action to be Taken |
|---|---|---|---|---|---|---|---|---|---|
| | | | Action Plan | Person/Dept. Responsible | Target Implementation Date | | | | |
| | | | | | From | To | | | |
| | | | | | | | | | |
| | | | | | | | | | |
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| | | | | | | | | | |
| | | | | | | | | | |

Agency sign-off:

______________________________ ____________________
Name and Position of Agency Officer Date

Note: Status of Implementation may either be (a) Fully Implemented (FI), (b) Partially Implemented (PI), (c) Not Implemented (NI), and (d) Reconsidered (R)

*Republic of the Philippines*

**COMMISSION ON AUDIT**

*Commonwealth Avenue, Quezon City*

# ANNUAL AUDIT REPORT

on the

# SMALL BUSINESS GUARANTEE AND FINANCE CORPORATION

(Small Business Corporation)

**For the Years Ended December 31, 2021 and 2020**

## EXECUTIVE SUMMARY

### INTRODUCTION

The Small Business Guarantee and Finance Corporation (SB Corporation), is a government corporation created on January 24, 1991 by virtue of Section 11 of Republic Act (RA) No. 6977, as amended on May 6, 1997 by RA No. 8289, otherwise known as “Magna Carta for Small and Medium Enterprises”. Further, on May 23, 2008, the President of the Philippines signed into law RA No. 9501, entitled “An Act to Promote Entrepreneurship by Strengthening Development and Assistance Programs to Micro, Small and Medium Scale Enterprises”. The law increased the Corporation’s authorized capital stock from P5 billion to P10 billion. As at December 31, 2020, the capital infusion of the National Government (NG) to SB Corporation amounting to P8.080 billion completed the equity requirement of the NG to the Corporation.

Section 13 of the said RA No. 9501, further amended Section 11 of RA No. 6977, quoted as follows:

> *SEC.13. Section 11 of the same Act, as amended, is hereby further amended to read as follows: “SEC. 11. Creation of Small Business Guarantee and Finance Corporation. - There is hereby created a body corporate to be known as the Small Business Guarantee and Finance Corporation, hereinafter referred to as the* ***Small Business Corporation (SB Corporation),*** *which shall be charged with the primary responsibility of implementing comprehensive policies and programs to assist MSMEs in all areas, including but not limited to finance and information services, training and marketing.”*

On July 23, 2018, Executive Order (EO) No. 58 was issued and transferred to Philippine Export-Import Credit Agency all the guarantee-related functions, programs, funds, assets and liabilities of SBC. Pursuant to Section 2 of EO No. 58, the Secretary of Finance declared August 31, 2019 as the effective date of the merger through the issuance of Memorandum Circular No. 001-2019 dated September 3, 2019.

The SB Corporation is under the policy program and administrative supervision of the Micro, Small and Medium Enterprises Development (MSMED) Council of the Department of Trade and Industry (DTI).

The mission of SB Corporation is to grow the Micro, Small and Medium Enterprises (MSME) sector by developing and implementing financing and capacity building support programs for underserved enterprises and for grassroots MSME organizations and advocating for measures and policies that will promote a stronger MSME finance industry.

The policy-making body of the Corporation is the Board of Directors composed of 11 members headed by a Chairman who is appointed by the President of the Philippines from among the members: the Secretary of the Department of Trade and Industry, the Secretary of the Department of Finance as Ex-officio members, a private sector representative and seven representatives of SB Corporation’s common stock shareholders, with one seat vacant.

All members of the Board except Ex-Officio members who are appointed by the President of the Philippines and are now called Appointive Directors, shall serve for a term of one year. The person so appointed to replace a member who has resigned, died, or been removed for a cause shall serve only for the unexpired portion of the term.

The policies are implemented into action by the President and Chief Executive Officer, appointed by the President of the Philippines for a term of one year. She is assisted by the Executive Vice President, two Senior Vice Presidents and 14 Vice Presidents including OIC designates. For the calendar year 2021, SB Corporation personnel complement totaled 349 consisting of 160 regular employees, three co-terminous, 150 contractual and 36 agency-hired personnel.

The Corporation's principal address is at the 17th and 18th Floors, 139 Corporate Center, Valero Street, Salcedo Village, Makati City. It has four regional lending offices, 12 desk offices and 59 field/provincial offices within the Philippines.

The proposed CY 2021 SB Corporation's Corporate Operating Budget (COB) submitted to the Department of Budget and Management (DBM) under Board Resolution No. 2021-05-3070 dated June 2, 2021 amounted to P11.436 billion of which only P11.373 billion was approved.

The actual utilization of the said budget amounted to P8.341 billion resulting in a total difference of P3.032 billion, summarized as follows:

| | Per DBM Approved COB | Actual Utilization | Difference |
|---|---|---|---|
| Personnel services | 257,512,000 | 240,205,873 | 17,306,127 |
| Maintenance and other operating expenses (MOOE) | 228,434,000 | 166,528,920 | 61,905,080 |
| Capital outlay | 10,887,115,000 | 7,934,440,834 | 2,952,674,166 |
| | **11,373,061,000** | **8,341,175,627** | **3,031,885,373** |

The significant variance between the budget per approved COB and the actual utilization in Capital Outlay in the above table is mainly attributed to the low uptake of the Bayanihan Travel Program which was brought about by the on and off opening of the tourism industry.

**FINANCIAL HIGHLIGHTS** (In Philippine Peso)

I. Comparative Financial Position

| | 2021 | 2020 | Increase (Decrease) |
|---|---|---|---|
| Assets | 15,489,743,220 | 16,038,589,019 | (548,845,799) |
| Liabilities | 307,420,996 | 1,449,213,426 | (1,141,792,430) |
| Equity | 15,182,322,224 | 14,589,375,593 | 592,946,631 |

II. Comparative Results of Operations

| | 2021 | 2020 | Increase (Decrease) |
|---|---|---|---|
| Income | 666,780,927 | 550,047,094 | 116,733,833 |

*(Forward)*

| | | | |
|---|---|---|---|
| Expenses | 1,144,741,647 | 695,204,470 | 449,537,177 |
| Net loss before tax | 477,960,720 | 145,157,376 | 332,803,344 |
| Income tax benefit | 78,801,733 | 29,172,346 | 49,629,387 |
| Net loss after tax | 399,158,987 | 115,985,030 | 283,173,957 |
| Subsidy from National Government | 1,000,000,000 | 1,500,000,000 | (500,000,000) |
| Comprehensive income | 600,841,013 | 1,384,014,970 | (783,173,957) |

**SCOPE OF AUDIT**

Our audits covered the examination, on a test basis, of the accounts and transactions of the SB Corporation for the period January 1 to December 31, 2021 in accordance with 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, 2021 and 2020. Also, we conducted our audit to assess compliance with pertinent laws, rules and regulations, as well as adherence to prescribed policies and procedures.

**AUDITOR'S OPINION**

We rendered a modified opinion on the fairness of presentation of the financial statements of SB Corporation as at and for the years ended December 31, 2021 and 2020 due to amounts presented in the financial statements of Investment in Treasury Bills stated at P1.797 billion in CY 2021 and P550.0 million in CY 2020; Investment in Treasury Bonds stated at P1.496 billion in CY 2021 and P416.437 million in CY 2020; Capital Notes stated at P105.0 million in CYs 2021 and 2020; Accounts Receivable stated at P44.186 million in CY 2021 and P36.841 million in CY 2020; Notes Receivable stated at P11.262 billion in CY 2021 and P7.363 billion in CY 2020; and Other Receivables stated at P166.348 million in CY 2021 and P295.119 million in CY 2020 which are all overstated by undetermined amounts because of the non-provision of Allowance for Expected Credit Loss (ECL). PFRS 9 on *Financial Instruments* requires provision of impairment even before objective evidence of impairment becomes apparent.

For the above observation, we recommended that Management:

a. Formulate an accounting policy to be used and applied by the SB Corporation as basis in the estimation of ECL for its financial assets in accordance with PFRS 9; and

b. Strictly comply with the pertinent provisions and requirements of PFRS 9 in setting up Allowance for ECL.

**SUMMARY OF SIGNIFICANT AUDIT OBSERVATIONS AND RECOMMENDATIONS**

1. The non-elimination of the intra-agency Receivables-Due from Other Funds and Payables-Due to Other Funds accounts in the financial statements as at year-end overstated the total assets and total liabilities by P83.470 million and P91.590 million, respectively, as at December 31, 2021.

We recommended that Management, through the Controllership Group (CG):

a. Prioritize the reconciliation of intra-agency accounts and set reasonable timelines for the reconciliation thereof. Subsequently, make the necessary adjustments to pave the way for the elimination of reciprocal accounts of the Corporate and P3 fund;

b. Closely monitor and periodically review transactions made between the Corporate and P3 funds;

c. Formulate policies and guidelines on the recording of intra-agency transactions including measures in eliminating the variances of the reciprocal accounts and the accumulation of the same; and

d. Disclose the accounting policy on the combination and elimination of the reciprocal accounts in the Notes to Financial Statements, as appropriate.

2. Undistributed Collections (UC) totaling P10.807 million as at December 31, 2021, posted a significant increase of P7.203 million or 199.88 per cent from that of the previous year's UC, thus, misstating the balances of the Notes Receivable (NR), Interest Income and other related income accounts all by undetermined amounts as at and for the year ended December 31, 2021, and Other Payables accounts by P10.807 million as at even date.

   We reiterated our prior years' audit recommendation that Management, through the concerned Groups/Units, prioritize the identification of loan accounts recorded under UC and immediately record payments and update the subsidiary ledger (SL) of identified borrowers to come up with the correct individual loan account balances.

   We further recommended that Management, through the concerned Group/Unit:

   a. Ensure the strict implementation of the established policies, guidelines and measures to eliminate UCs provided under Annex A of BR No. 2020-12-3024;

   b. Create a unique borrower's account code for each MSME borrower to be indicated in the PIS, and brief the concerned borrower/representative on the importance of the borrower's account code and strict usage of the PIS in making payment, to effectively implement the measures provided under Item III, Annex A of BR No. 2020-12-3024;

   c. Inform the Collecting Officers/Partner Agents not to accept payment without the unique borrower's account code in the PIS; and

   d. Effect the necessary adjustments from UC to NR, Interest Income and other related accounts to reflect the correct SL balances and ultimately the account's balances in the financial statements.

3. Deficiencies in the administration and accounting of Real and Other Properties Acquired (ROPAs)

a. Non-appraisal of ROPAs under Investment Property (IP) and Non-Current Assets Held for Sale (NCAHFS) accounts for more than a year with aggregate carrying value of P26.489 million as at December 31, 2021 affects the valuation of ROPAs.

   We recommended and Management agreed, through the concerned Group, to conduct the in-house appraisal of the properties at the frequency required by Philippine Accounting Standard (PAS) 36 and BSP Circular No. 520, series of 2006.

b. Acquired properties totaling P8.624 million are recorded under NCAHFS despite not having met the reporting requirements of PFRS 5, thus, overstating the NCAHFS account and understating the IP account both by the same amount as at December 31, 2021.

   We recommended that Management, through Credit Support and Asset Recovery Group, provide the updates on the disposition of NCAHFS in order for the CG to make the necessary adjustment on the NCAHFS and IP accounts in consonance with the provisions of PFRS 5, PAS 1 and Conceptual Framework.

c. The balance of Accumulated Impairment Losses (AIL) for IP-Land and NCAHFS amounting to P5.665 million and P306,148 as at December 31, 2021, respectively, were not fully adjusted for ROPAs with appraised value less than its carrying amount and non-reversal of the same for properties that increased in value.

   We recommended that Management, through the concerned Groups, recognize impairment loss for all properties with appraised value less than its carrying amount and/or reverse impairment loss for all properties that increased in value, if warranted.

d. Other deficiencies noted on the comparison between the Schedule of ROPA vis-à-vis the corresponding general ledgers (GLs) and SLs

   We recommended that Management, through the concerned Groups:

   a. Recognize improvements made to land properties as IP-Buildings or NCAHFS-Buildings, whichever is appropriate, with the corresponding depreciation. Relatedly, reclassify IP-Buildings and NCAHFS-Buildings accounts to IP-Land and NCAHFS-Land, respectively, for properties without improvements;

   b. Reconcile the Schedule of ROPA to the GL and SL balances of IP and NCAHFS accounts; and

   c. Submit to the Audit Team the detailed schedules of IP and NCAHFS for further verification.

The other audit observations together with the recommendations are discussed in Part II of this Report.

## STATUS OF AUDIT SUSPENSIONS, DISALLOWANCES AND CHARGES

As at December 31, 2021, the balance of audit disallowances amounted to P277.008 million, while no balances for audit suspensions and charges.

## STATUS OF IMPLEMENTATION OF PRIOR YEARS' AUDIT RECOMMENDATIONS

Out of the 28 audit recommendations embodied in the CY 2020 Annual Audit Report, nine were fully implemented, nine were partially implemented and nine were not implemented. Of the nine partially implemented, two were reiterated under Part II thereof. The details are presented in Part III of this Report.

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## LIST OF ACRONYMS USED

| Acronym | Definition |
|---|---|
| AAR | Annual Audit Report |
| AAMU | Acquired Assets Management Unit |
| ABC | Approved Budget of Contract |
| AC | Amortized Cost |
| ACPC | Agricultural Credit Policy Council |
| ADB | Asian Development Bank |
| AIL | Accumulated Impairment Losses |
| AISB | International Accounting Standards Board |
| AO | Account Officer |
| AO | Administrative Order |
| AR | Accomplishment Report |
| ARCCo | Asset Recovery and Collection Committee |
| ASU | Administrative Services Unit |
| BAC | Bids and Awards Committee |
| BAP | Bankers Association of the Philippines |
| BDU | Business Delivery Unit |
| BIR | Bureau of Internal Revenue |
| BOA | Board of Accountancy |
| BOD | Board of Directors |
| BSP | Bangko Sentral ng Pilipinas |
| BTr | Bureau of the Treasury |
| CALF | Comprehensive Agricultural Loan Fund |
| CARES | COVID-19 Assistance to Restart Enterprises Program |
| CASA | Codified Approving and Signing Authorities |
| CSARG | Credit Support and Asset Recovery Group |
| CEO | Chief Executive Officer |
| CG | Controllership Group |
| CHM | Chattel Mortgage |
| CMP | Cash Management Partner |
| COA | Commission of Audit |
| COB | Corporate Operating Budget |
| COL | Contract of Lease |
| COS | Contract of Service |
| CPSE | Commercial Public Sector Entity |
| CRB | Cash Receipts Book |
| CY | Calendar Year |
| DA | Department of Agriculture |
| DBM | Department of Budget and Management |
| DBP | Development Bank of the Philippines |
| DO | Desk Officers |
| DOA | Deed of Assignment |
| DOF | Department of Finance |
| DOJ | Department of Justice |
| DTA | Deferred Tax Asset |
| DTI | Department of Trade and Industry |
| DV | Disbursement Voucher |
| ECL | Expected Credit Loss |
| EIR | Effective Interest Rate |

| | |
|---|---|
| ECL | Expected Credit Loss |
| EME-EPE | Extraordinary and Miscellaneous Expenses-Entertainment and Promotion Expenses |
| EO | Executive Order |
| ERF | Enterprise Rehabilitation Facility |
| ERM | Enterprise Risk Management |
| ERMG | Enterprise Risk Management Group |
| FAN | Final Assessment Notice |
| FOREX | Foreign Exchange |
| FRIA | Financial Rehabilitation Insolvency Act |
| FRSC | Financial Reporting Standards Council |
| FS | Financial Statement |
| FVTOCI | Fair Value through Other Comprehensive Income |
| FVTPL | Fair Value through Profit or Loss |
| FXRC | Foreign Exchange Risk Cover |
| GAA | General Appropriations Act |
| GAD | Gender and Development |
| GAR | GAD Accomplishment Report |
| GC | Government Corporations |
| GCG | Governance Commission for GOCCs |
| GFI | Government Financial Institutions |
| GFSME | Guarantee Fund for Small and Medium Enterprises |
| GIF | General Insurance Fund |
| GMMS | Gender Mainstreaming Monitoring System |
| GOCC | Government-owned and Controlled Corporation |
| GPB | GAD Plan and Budget |
| GRT | Gross Receipt Tax |
| GSIS | Government Service Insurance System |
| HDMF | Home Development Mutual Fund |
| HGDG | Harmonized Gender and Development Guidelines |
| HoPE | Head of Procuring Entity |
| HYSA | High Yield Savings Account |
| IASB | International Accounting Standards Board |
| IFAD | International Fund for Agricultural Development |
| IIRNFA | Inventory and Inspection Report of NFAs |
| IP | Investment Property |
| ISSP | Information Systems Strategic Plan |
| ITB | Income Tax Benefit |
| JC | Joint Circular |
| JV | Journal Voucher |
| KfW | Kreditanstalt fur Wiederaufbau |
| KOT | Katibayan ng Orihinal na Titulo |
| LBP | Land Bank of the Philippines |
| LLP | Loan loss provisioning |
| LPR | Loan Portfolio Report |
| LSG | Legal Service Group |
| ManCom | Management Committee |
| MCIT | Minimum corporate income tax |
| MC | Memorandum Circular |
| MG | Mindanao Group |
| MOA | Memorandum of Agreement |

| | |
|---|---|
| MOOE | Maintenance and Other Operating Expenses |
| MSMED | Micro, Small and Medium Enterprise Development |
| MORNBFI | Manual of Regulations for Non-Bank Financial Institution |
| MSMEs | Micro-, Small-, and Medium-sized Enterprises |
| MVLPP | Motor Vehicle Lease-Purchase Plan |
| NC | Notice of Charge |
| NCAHFS | Non-current asset held for sale |
| ND | Notice of Disallowance |
| NEDA | National Economic and Development Authority |
| NG | National Government |
| NGA | National Government Agency |
| NIRC | National Internal Revenue Code |
| NLG | North Luzon Group |
| NOA | Notice of Award |
| NOLCO | Net Operating Loss Carry-over |
| NP-SVP | Negotiated Procurement-Small Value Procurement |
| NR | Notes Receivable |
| NS | Notice of Suspension |
| NSSDC | Notice of Settlement of Suspensions, Disallowances, and Charges |
| NTFS | Notes to the Financial Statement |
| NTP | Notice to Proceed |
| OB | Outstanding Balance |
| OCCO | Office of the Chief Compliance Officer |
| OCD | Office of the Cluster Director |
| ODA | Official Development Assistance |
| OFI | Originating Financial Institution |
| OGCC | Office of the Government Corporate Counsel |
| OP | Office of the President |
| OR | Official Receipt |
| P3 | Pondo sa Pagbabago at Pag-asenso |
| PAPs | Programs, Projects and Activities |
| PAS | Philippine Accounting Standard |
| PCEO | President and Chief Executive Officer |
| PCM | Payment Classification Module |
| PCW | Philippine Commission on Women |
| PD | Presidential Decree |
| PFRS | Philippine Financial Reporting Standards |
| PHIC | Philippine Health Insurance Corporation |
| PhilGEPS | Philippine Government Electronic Procurement System |
| PHILGUARANTEE | Philippine Guarantee Corporation |
| PIS | Payment Instruction Slip |
| PO | Purchase Order |
| PPE | Property, Plant and Equipment |
| PR | Purchase Request |
| PVB | Philippine Veterans Bank |
| QUEDANCOR | Quedan and Rural Credit Guarantee Corporation |
| RA | Republic Act |
| RAPID Growth | Rural Agro-Industrial Partnership for Inclusive Development and Growth |
| RCIT | Regular Corporate Income Tax |
| RCO | Remedial Collection Officers |

| | |
|---|---|
| RD | Registry of Deeds |
| RDO | Revenue District Office |
| RE | Retained Earnings |
| REM | Real Estate Mortgage |
| RFQ | Request For Quotation |
| RIRR | Revised Implementing Rules |
| RMC | Revenue Memorandum Circular |
| ROP | Republic of the Philippines |
| ROPA | Real and Other Properties Acquired |
| ROU | Right-of-Use |
| RR | Revenue Regulations |
| RRSA | Rules and Regulations on Settlement of Accounts |
| RuMEPP | Rural Micro-Enterprise Promotion Programme |
| SBC | Small Business Corporation |
| SCI | Statement of Comprehensive Income |
| SCR | Sales Contract Receivable |
| SDR | Special Drawing Rights |
| SFP | Statement of Financial Position |
| SICR | Significant Increase in Credit Risk |
| SL | Subsidiary Ledgers |
| SSS | Social Security System |
| SVP | Small Value Procurement |
| TCT | Transfer Certificate of Title |
| TOR | Terms of Reference |
| TWG | Technical Working Group |
| UC | Undistributed Collection |
| VAT | Value-added Tax |
| VG | Visayas Group |
| WAIR | Weighted Average Interest Rate |

# PART I

# AUDITED FINANCIAL STATEMENTS

REPUBLIC OF THE PHILIPPINES
COMMISSION ON AUDIT
*Commonwealth Avenue, Quezon City*
CORPORATE GOVERNMENT AUDIT SECTOR
CLUSTER 2 – SOCIAL SECURITY

# INDEPENDENT AUDITOR'S REPORT

**THE BOARD OF DIRECTORS**
Small Business Guarantee and Finance Corporation
17th and 18th Floors, 139 Corporate Center
139 Valero Street, Salcedo Village
Makati City

## Report on the Audit of the Financial Statements

*Qualified Opinion*

We have audited the financial statements of Small Business Guarantee and Finance Corporation (SB Corporation), which comprise the statements of financial position as at December 31, 2021 and 2020, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and notes to financial statements, including a summary of significant accounting policies.

In our opinion, except for the effects of the matters described in the *Basis for Qualified Opinion* section of our report, the financial statements present fairly, in all material respects, the financial position of SB Corporation as at December 31, 2021 and 2020, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards (PFRSs).

*Basis for Qualified Opinion*

The amounts presented in the financial statements of Investment in Treasury Bills stated at P1.797 billion in CY 2021 and P550.0 million in CY 2020; Investment in Treasury Bonds stated at P1.496 billion in CY 2021 and P416.437 million in CY 2020; Capital Notes stated at P105.0 million in CYs 2021 and 2020; Accounts Receivable stated at P44.186 million in CY 2021 and P36.841 million in CY 2020; Notes Receivable stated at P11.262 billion in CY 2021 and P7.363 billion in CY 2020; and Other Receivables stated at P166.348 million in CY 2021 and P295.119 million in CY 2020 are all overstated by undetermined amounts because of the non-provision of Allowance for Expected Credit Loss (ECL). PFRS 9 on *Financial Instruments* requires provision of impairment even before objective evidence of impairment becomes apparent.

We conducted our audits in accordance with International Standards of Supreme Audit Institutions (ISSAIs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the SB Corporation in accordance with the Code of Conduct and Ethical Standards for Commission on Audit Officials and Employees (Code of Ethics) together with the ethical requirements that are relevant to our audit of the financial statements in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

*Responsibilities of Management and Those Charged with Governance for the Financial Statements*

Management is responsible for the preparation and fair presentation of the financial statements in accordance with PFRSs, 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.

In preparing the financial statements, management is responsible for assessing the SB Corporation's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the SB Corporation or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the SB Corporation's financial reporting process.

*Auditor's Responsibilities for the Audit of the Financial Statements*

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISSAIs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;

- Obtain an understanding of internal control relevant to the audit 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 SB Corporation's internal control;

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the SB Corporation's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the SB Corporation to cease to continue as a going concern; and

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

**Report on Other Legal and Regulatory Requirements**

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information in *Note 30* to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such supplementary information is the responsibility of the Management of SB Corporation. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements. In our opinion, except for the effects of the matters described in the *Basis for Qualified Opinion* section of our report, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements taken as whole.

**COMMISSION ON AUDIT**

**TERESITA B. TITULAR**
Acting Supervising Auditor

May 11, 2022

**SMALL BUSINESS CORPORATION**
WHERE MSMEs GO TO GROW

## STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of **Small Business Guarantee and Finance Corporation** is responsible for the preparation and fair presentation of the financial statements, including the schedules attached therein, for the years ended December 31, 2021 and 2020 in accordance with the prescribed financial reporting framework indicated therein, 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.

In preparing the financial statements, management is responsible for assessing the Corporation's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Corporation or to cease operations, or has no realistic alternative to do so.

The Board of Directors is responsible for overseeing the Corporation's financial reporting process.

The Board of Directors reviews and approves the financial statements, including the schedules attached therein, and submits the same to the stakeholders.

The Commission on Audit, through its authorized representatives, has audited the financial statements of the Corporation pursuant to Section 2, Article IX-D of the Philippine Constitution and Section 28 of the Presidential Decree No. 1445, otherwise known as the Government Auditing Code of the Philippines. The audit was conducted in accordance with International Standards of Supreme Audit Institutions, and the auditor, in its report to the Board of Directors, has expressed its opinion upon completion of such audit.

**USEC. BLESILA A. LANTAYONA**
Acting Chairman of the Board

**MA. LUNA E. CACANANDO**
President/CEO

**CORAZON A. DIMAYUGA**
Head, Controllership Group

Signed this 11th day of MAY 2022.

**SMALL BUSINESS GUARANTEE AND FINANCE CORPORATION**
**(SMALL BUSINESS CORPORATION)**
**STATEMENTS OF FINANCIAL POSITION**
December 31, 2021 and 2020
*(In Philippine Peso)*

| | Note | 2021 | 2020 |
|---|---|---|---|
| **ASSETS** | | | |
| **Current assets** | | | |
| Cash and cash equivalents | 4 | **1,649,847,951** | 7,555,580,765 |
| Investments | 5 | **1,802,284,054** | 569,584,074 |
| Receivables, net | 6 | **4,288,973,173** | 2,239,646,332 |
| Inventories | 7 | **391,964** | 325,803 |
| Non-current asset held for sale | 8 | **10,791,773** | 37,204,960 |
| Other current assets | 9 | **11,169,796** | 5,324,903 |
| | | **7,763,458,711** | 10,407,666,837 |
| **Non-current assets** | | | |
| Investments | 5 | **1,614,540,997** | 772,747,580 |
| Receivables, net | 6 | **5,700,367,820** | 4,584,289,945 |
| Property and equipment, net | 10 | **73,834,276** | 63,211,663 |
| Investment property | 11 | **44,014,872** | 19,880,368 |
| Deferred tax assets | 12 | **287,853,207** | 185,535,253 |
| Other non-current assets | 9 | **5,673,337** | 5,257,373 |
| | | **7,726,284,509** | 5,630,922,182 |
| **TOTAL ASSETS** | | **15,489,743,220** | 16,038,589,019 |
| **LIABILITIES AND EQUITY** | | | |
| **Current liabilities** | | | |
| Financial liabilities | 13 | **62,730,850** | 191,326,131 |
| Inter-agency payables | 14 | **11,415,168** | 8,369,681 |
| Intra-agency payables | 15 | **91,590,083** | 236,169,676 |
| Trust liabilities | 16 | **1,371,166** | 1,767,220 |
| Deferred credits/Unearned income | 17 | **24,334,085** | 23,952,288 |
| Other payables | 18 | **58,076,190** | 63,536,450 |
| | | **249,517,542** | 525,121,446 |
| **Non-current liabilities** | | | |
| Financial liabilities | 13 | **17,896,316** | 879,990,255 |
| Inter-agency payables | 14 | **40,000,000** | 40,000,000 |
| Deferred tax liabilities | 24.5 | **7,138** | 4,101,725 |
| | | **57,903,454** | 924,091,980 |
| **TOTAL LIABILITIES** | | **307,420,996** | 1,449,213,426 |
| **Equity** | | | |
| Share capital | 19 | **9,962,506,400** | 9,962,506,400 |
| Treasury shares | 19 | **(40,000,000)** | (40,000,000) |
| Share premium | 20 | **79,510,460** | 79,510,460 |
| Retained earnings | 21 | **5,180,305,364** | 4,587,358,733 |
| **TOTAL EQUITY** | | **15,182,322,224** | 14,589,375,593 |
| **TOTAL LIABILITIES AND EQUITY** | | **15,489,743,220** | 16,038,589,019 |

The Notes on pages 9 to 50 form part of these financial statements.

**SMALL BUSINESS GUARANTEE AND FINANCE CORPORATION**
**(SMALL BUSINESS CORPORATION)**
**STATEMENTS OF COMPREHENSIVE INCOME**
For the Years Ended December 31, 2021 and 2020
*(In Philippine Peso)*

| | Note | 2021 | 2020 |
|---|---|---|---|
| **INCOME** | | | |
| Service and business income | 22.1 | **654,809,959** | 387,969,251 |
| Gains | 22.2 | **10,534,489** | 155,934,951 |
| | | **665,344,448** | 543,904,202 |
| **EXPENSES** | | | |
| Personnel services | 23.1 | **240,205,873** | 224,471,931 |
| Maintenance and other operating expenses | 23.2 | **166,528,920** | 119,572,101 |
| Financial expenses | 23.3 | **11,750,195** | 15,243,591 |
| Non-cash expenses | 23.4 | **726,256,659** | 335,916,847 |
| | | **1,144,741,647** | 695,204,470 |
| **LOSS FROM OPERATIONS** | | **(479,397,199)** | (151,300,268) |
| Other non-operating income | 22.3 | **1,436,479** | 6,142,892 |
| **LOSS BEFORE TAX** | | **(477,960,720)** | **(145,157,376)** |
| **INCOME TAX BENEFIT** | | | |
| Current | | **33,772,039** | 0 |
| Deferred | | **(112,573,772)** | (29,172,346) |
| | 24 | **(78,801,733)** | **(29,172,346)** |
| **LOSS AFTER TAX** | | **(399,158,987)** | (115,985,030) |
| **Subsidy from National Government** | 25 | **1,000,000,000** | 1,500,000,000 |
| **NET INCOME/COMPREHENSIVE INCOME** | | **600,841,013** | 1,384,014,970 |

The Notes on pages 9 to 50 form part of these financial statements.

**SMALL BUSINESS GUARANTEE AND FINANCE CORPORATION**
**(SMALL BUSINESS CORPORATION)**
**STATEMENTS OF CHANGES IN EQUITY**
For the Years Ended December 31, 2021 and 2020
*(In Philippine Peso)*

| | Share Capital | Treasury Shares | Share Premium | Retained Earnings | Total Equity |
|---|---|---|---|---|---|
| | Note 19 | Note 19 | Note 20 | Note 21 | |
| Balance as at January 1, 2021 | 9,962,506,400 | (40,000,000) | 79,510,460 | 4,587,358,733 | 14,589,375,593 |
| Prior period adjustments | | | | 1,455,100 | 0 |
| Restated balance as at January 1, 2021 | 9,962,506,400 | (40,000,000) | 79,510,460 | 4,588,813,833 | 14,590,830,693 |
| Net income for the year | 0 | 0 | 0 | 600,841,013 | 600,841,013 |
| Dividends | 0 | 0 | 0 | (9,349,482) | (9,349,482) |
| **Balance as at December 31, 2021** | **9,962,506,400** | **(40,000,000)** | **79,510,460** | **5,180,305,364** | **15,182,322,224** |
| | | | | | |
| Balance as at January 1, 2020 | 1,882,408,400 | 0 | 79,510,460 | 3,143,304,539 | 5,105,223,399 |
| Prior period adjustments | | | | 115,563,448 | 115,563,448 |
| Restated balance as at January 1, 2020 | 1,882,408,400 | 0 | 79,510,460 | 3,258,867,987 | 5,220,786,847 |
| Issuance of share capital | 8,080,098,000 | 0 | 0 | 0 | 8,080,098,000 |
| Net income for the year | 0 | 0 | 0 | 1,384,014,970 | 1,384,014,970 |
| Dividends | 0 | 0 | 0 | (55,524,224) | (55,524,224) |
| Reacquisition of common shares | 0 | (40,000,000) | 0 | 0 | (40,000,000) |
| **Balance as at December 31, 2020** | **9,962,506,400** | **(40,000,000)** | **79,510,460** | **4,587,358,733** | **14,589,375,593** |

The Notes on pages 9 to 50 form part of these financial statements.

**SMALL BUSINESS GUARANTEE AND FINANCE CORPORATION**
**(SMALL BUSINESS CORPORATION)**
**STATEMENTS OF CASH FLOWS**
For the Years Ended December 31, 2021 and 2020
*(In Philippine Peso)*

| | **2021** | 2020 |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| **Cash inflows** | | |
| Collection of receivables | **3,965,262,204** | 3,461,416,395 |
| Receipt of subidy from National Government | **1,000,000,000** | 1,500,000,000 |
| Collection of income/revenue | **560,520,765** | 361,367,499 |
| Other receipts | **17,296,872** | 408,602,191 |
| | **5,543,079,841** | 5,731,386,085 |
| **Cash outflows** | | |
| Release of loans to financial institutions and MSMEs | **7,913,392,500** | 5,067,900,906 |
| Payment of expenses | **370,030,431** | 252,053,056 |
| Remittance of personnel benefit contributions and mandatory deductions | **17,530,522** | 17,940,115 |
| Prepayments | **5,844,892** | 5,063,220 |
| Grant of cash advance | **0** | 439,236,616 |
| Purchase of inventories | **270,730** | 192,827 |
| Other disbursement | **6,028,540** | 192,382 |
| | **8,313,097,615** | 5,782,579,122 |
| **Net cash used in operating activities** | **(2,770,017,774)** | (51,193,037) |
| | | |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| **Cash inflows** | | |
| Proceeds from: | | |
| Maturity/redemption of long-term investments/return on investments | **20,279,243,985** | 5,577,164,218 |
| Sale/disposal of investment property | **9,137,692** | 10,757,955 |
| Other disbursements | **235,950** | 0 |
| | **20,288,617,627** | 5,587,922,173 |
| **Cash outflows** | | |
| Purchase of investments | **22,606,273,241** | 5,978,323,836 |
| Purchase/construction of property and equipment | **5,310,849** | 2,199,676 |
| Purchase/construction of investment property | **0** | 628,407 |
| | **22,611,584,090** | 5,981,151,919 |
| **Net cash used in investing activities** | **(2,322,966,463)** | (393,229,746) |
| | | |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | |
| **Cash inflows** | | |
| Receipt from the issuance of share capital to the National Government | **0** | 8,080,098,000 |
| Proceeds from penalty on unpaid capital subscription | **0** | 4,889,398 |
| | **0** | 8,084,987,398 |
| **Cash outflows** | | |
| Payment of long-term liabilities | **760,185,629** | 221,048,221 |
| Payment of deposits from trust liability | **396,054** | 0 |
| Payment for reacquisition of capital stock and other equity securities | **0** | 40,000,000 |
| Payment of interest on loans and other financial charges | **20,210,030** | 17,258,337 |
| Payment of cash dividends | **32,008,205** | 32,865,501 |
| | **812,799,918** | 311,172,059 |
| **Net cash provided by (used in) financing activities** | **(812,799,918)** | 7,773,815,339 |
| | | |
| **NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS** | **(5,905,784,155)** | 7,329,392,556 |
| **Effects of foreign exchange rate changes on cash and cash equivalents** | **51,341** | (32,946) |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR | **7,555,580,765** | 226,221,155 |
| **CASH AND CASH EQUIVALENTS AT END OF YEAR (NOTE 4)** | **1,649,847,951** | 7,555,580,765 |

The Notes on pages 9 to 50 form part of these financial statements.

**SMALL BUSINESS GUARANTEE AND FINANCE CORPORATION**
**(SMALL BUSINESS CORPORATION)**
**NOTES TO FINANCIAL STATEMENTS**
***(In Philippine Peso)***

## 1. GENERAL INFORMATION

The Small Business Guarantee and Finance Corporation, commonly known as Small Business Corporation (SB Corporation), is a government corporation created on January 24, 1991 by virtue of Section 11 of Republic Act (RA) No. 6977, amended on May 6, 1997 by RA No. 8289, otherwise known as the Magna Carta for Small and Medium Enterprises (SMEs). SB Corporation is under the policy program and administrative supervision of the Micro, Small and Medium Enterprise Development (MSMED) Council of the Department of Trade and Industry (DTI), the primary agency responsible for the promotion and development of Micro, Small and Medium Enterprises (MSMEs) in the country.

On May 23, 2008, the President of the Philippines signed into law RA No. 9501, entitled *"An Act to Promote Entrepreneurship by Strengthening Development and Assistance Programs to Micro, Small and Medium Scale Enterprises Amending for the Purpose Republic Act No. 6977, as amended, otherwise known as the 'Magna Carta for Small and Medium Enterprises' and for other purposes".* The law, among others, increased SB Corporation's authorized capital stock from P5 billion to P10 billion. Section 13 thereof, amending Section 11 of RA No. 6977, states that:

> "*Creation of Small Business Guarantee and Finance Corporation* – There is hereby created a body corporate to be known as the Small Business Guarantee and Finance Corporation, hereinafter referred to as the Small Business Corporation (SB Corporation), which shall be charged with the primary responsibility of implementing comprehensive policies and programs to assist MSMEs in all areas, including but not limited to, finance and information services, training and marketing."

SB Corporation's mandate is to provide access to finance, financial management and capacity building to MSMEs. It has several programs for the MSME market – wholesale lending to smaller financial institutions, cooperatives and foundations; retail or direct lending to MSMEs; and guarantee programs for larger banks to cover MSME loans without collateral or with insufficient collateral. SB Corporation, also, provides financial management and capacity building for rural banks with its Borrower Risk Rating System program.

However, on July 23, 2018, Executive Order (EO) No. 58 was issued mandating the creation of a single entity handling the government guarantee system. Under the said EO, within one year from the effectivity thereof, the guarantee-related functions, programs, funds, assets and liabilities of the SB Corporation, among others, shall be transferred to the Trade and Investment Development Corporation of the Philippines, now known as the Philippine Guarantee Corporation (PHILGUARANTEE). On August 31, 2019, all assets, liabilities, funds and guarantee function of SB Corporation was transferred to PHILGUARANTEE in compliance with EO No. 58.

In November 2020, the National Government (NG) provided additional capital infusion of P8.080 billion to SB Corporation in compliance to the provisions of RA No. 11494, *"An Act Providing for COVID-19 Response and Recovery Interventions and Providing Mechanisms* *to Accelerate the Recovery and Bolster the Resiliency of the Philippine Economy, Providing Funds Therefor, and For Other Purposes".* The capital infusion aims to provide additional funds for the COVID-19 Assistance to Restart Enterprises (CARES) Program and other lending programs of the Corporation to assist in the restart of the MSME industry during the pandemic.

**Coping up with the operational effects of the CoVID-19 Pandemic**

The pandemic required that SB Corporation responds in ways which may even be considered inconceivable pre-pandemic, given its developmental mandate and crucial countercyclical role in times of crisis. More importantly, the Corporation's pandemic response is fully aligned and adapted to address the unique challenges presented by restricted mobility and following strict health and safety protocols.

The foregoing demanded a dramatic acceleration towards operating norms that allow for enhanced alignment, pace and performance. Outcomes that would have normally taken years to achieve took place within months, sometimes even within weeks. Traditional constructs were dismantled in favor of agility to tackle the unprecedented and unforeseen marketplace disruptions. Towards this end, SB Corporation implemented the following initiatives and early policy actions:

- Developed and implemented a Pandemic Business Continuity Plan (BCP) to protect its employees and keep its core and mission-essential business operations functioning during the pandemic;
- Ensured that its workplace policies during the pandemic are responsive, equitable, adaptable, and compliant to national and local public health recommendations;
- Implemented alternative work arrangements (e.g., work from home, skeleton workforce, etc.) and provided adequate support mechanisms to SB Corporation personnel;
- Identified key business processes and resources required for it to adequately perform its mandate during the pandemic, particularly the immediate processing and disbursement of stimulus financing to pandemic-stricken MSMEs under the COVID19 Assistance to Restart Enterprises otherwise known as the CARES Program;
- Created functional Ad Hoc Teams (e.g., Document Verification Team, Business Verification Team, Loan Releasing Team, and Credit Review Team) specifically designed to allow for remote work and adapted to respond to the recovery and rehabilitation needs of the MSME sector; and
- Leveraged on the momentum of the new operating environment to accelerate the organization's platformification plan, including the launch of a fully online loan application system and deliberate shift to digital loan disbursements.

The principal office of SB Corporation is at 17$^{th}$ and 18$^{th}$ Floors, 139 Corporate Center, 139 Valero St., Salcedo Village, Makati City. It has four regional lending offices; 12 desk offices and 59 field/provincial offices within the Philippines. Manpower complement is composed of 160 regular employees, three co-terminous, 150 contractual/contract of services and 36 agency-hired personnel for CY 2021.

The financial statements of the SB Corporation as at, and for the year ended December 31, 2021 (including the comparative financial statements as at and for the year ended December 31, 2020) were approved and authorized for issue by SB Corporation's Board of Directors

(BOD).

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies that are used in the preparation of the financial statements are summarized below. The policies are consistently applied to all the years presented, unless otherwise stated.

### 2.1 Basis of financial statements preparation

*(a) Statement of Compliance with Philippine Financial Reporting Standards*

The accompanying financial statements of SB Corporation for the years ended December 31, 2021 and 2020 have been prepared by applying accounting policies in accordance with the Philippine Financial Reporting Standards (PFRS). PFRS are issued by the Financial Reporting Standards Council (FRSC) and approved by the Philippine Board of Accountancy (BOA) based on International Financial Reporting Standards issued by the International Accounting Standards Board (IASB).

The financial statements have been prepared using the measurement bases specified by PFRS for each type of asset, liability, income and expense. The measurement bases are more fully described in the accounting policies that follow.

*(b) Presentation of Financial Statements*

The financial statements are presented in accordance with Philippine Accounting Standard (PAS) 1, *Presentation of Financial Statements*. SB Corporation presents all items of income and expenses in a single Statement of Comprehensive Income (SCI).

Starting January 1, 2019, SB Corporation adopted the guidelines laid down under COA Circular No. 2017-004 dated December 13, 2017 on the preparation of financial statements and other financial reports and implementation of the PFRS by government corporations classified as Commercial Public Sector Entities (CPSEs). Under COA Resolution No. 2020-013 dated January 31, 2020, SB Corporation is classified as a CPSE. Accordingly, the SB Corporation modified the presentation of the prior years' amounts to conform to current year's presentation.

For the succeeding year and part of the continuing education of finance staff, SB Corporation will commission the services of a consultant to provide guidance for its Controllership Group in the formulation of policies/guidelines for the assessment, classification, measurement, and recognition of financial instruments, to include impairment losses, and appropriateness of its tax compliance activities. While this was initially scheduled for the year, the COVID-19 pandemic restricted certain activities to be undertaken during the year.

In CY 2021 and 2020, SB Corporation did not adopt the PFRS 16, Leases, due to the short-term nature of the contracts.

(c) *Adoption of the Commission on Audit Revised Chart of Accounts*

In compliance with COA Circular No. 2021-005 dated July 22, 2021, SB Corporation adopted the RCA in its trial balance for CY 2021 and 2020. General Ledger and Subsidiary ledger accounts were analyzed and mapped to the RCA. SB Corporation's accounting framework is designed to provide clear and reliable information regarding the achievement of its operational objectives, compliant with the applicable PFRSs.

(d) *Functional and Presentation Currency*

These financial statements are presented in Philippine Peso, SB Corporation's functional and presentation currency, and all values represent absolute amounts except when otherwise indicated.

Items included in the financial statements of SB Corporation are measured using its functional currency. Functional currency is the currency of the primary economic environment in which the Corporation operates.

### 2.2 Adoption of new and amended PFRSs

Discussed below are the relevant information about these amendments and improvements.

(a) Effective in 2021 that are relevant to SB Corporation

(i) PFRS 16, COVID-19-related Rent Concessions. The amendment exempts lessees from having to consider individual lease contracts to determine whether rent concessions occurring as a direct consequence of the COVID-19 pandemic are lease modifications and allows lessees to account for such rent concessions as if they were not lease modifications. It applies to COVID-19-related rent concessions that reduce lease payments due on or before June 30, 2021.

(ii) Amendment to PFRS 16, COVID-19 Rent-related Concessions beyond June 30, 2021. The amendment provides a one-year extension beyond June 30, 2021 in response to the on-going economic challenges resulting from the COVID-19 pandemic.

(iii) Amendment to PAS 1 and PFRS Practice Statement 2, Disclosure Initiative – Accounting Policies. The key amendments to PAS 1 include: (a) to disclose material accounting policies rather than significant accounting policies; (b) clarify that accounting policies related to immaterial transactions, other events or conditions are themselves immaterial and need not be disclosed; and (c) clarify that not all accounting policies that relate to material transactions, other events or conditions are themselves material to the financial statements.

(iv) Amendments to PAS 8, Definition of Accounting Estimates. The amendments clarify what changes in accounting estimates are and how these differ from changes in accounting policies and corrections of errors. Under the new definition, accounting estimates are "monetary amounts in financial statements that are subject to measurement uncertainty". Entities develop accounting estimates if accounting policies require items in financial statements to be measures in a way that involves measurement uncertainty. The amendments clarify that a change in accounting estimate that results from new information or new developments is not a correction of an error.

(b) Effective in 2021 that is not relevant to SB Corporation

The SB Corporation noted the following amendment to PFRS, which is effective for annual periods beginning on or after January 1, 2021:

(v) Amendments to PFRS 3, Business Combinations – Definition of a Business. The amendments clarify the minimum requirements to be a business, remove the assessment of a market participant's ability to replace missing elements, and narrow the definition of outputs. The amendments also add guidance to assess whether an acquired process is substantive and add illustrative examples. An optional fair value concentration test is introduced which permits a simplified assessment of whether an acquired set of activities and assets is not a business.

(c) Effective for reporting periods on or after January 1, 2022

The SB Corporation noted the following amendments to PFRS, which are effective for annual periods beginning on or after January 1, 2022, application of which to the Corporation will be determined before implementation:

(vi) Amendments to PFRS 3, Reference to Conceptual Framework. The amendments are intended to replace a reference to the *Framework for the Preparation and Presentation of Financial Statements*, issued in 1989 with a reference to the *Conceptual Framework for Financial Reporting*, which was issued in March 2018, without significantly changing its requirements.

(vii) Amendments to PAS 16, Property, Plant and Equipment – Proceeds before Intended Use. The amendment would prohibit an entity from deducting from the cost of an item of plant, property and equipment (PPE) any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by Management.

(viii) Amendment to PAS 37, Onerous Contracts – Cost of Fulfilling a Contract. The amendment clarifies the standard regarding costs that a company should include as the cost of fulfilling a contract when assessing whether a contract is onerous.

(ix) Amendment to PAS 1, Classification of Liabilities as Current or Non-Current. The amendment intends to clarify that the classification of a liability as either current or non-current is based on the entity's rights at the end of the reporting period; and make clear the link between the settlement of the liability and the outflow of resources from the entity.

(x) Amendment to PAS 12, Deferred Tax related to Assets and Liabilities arising from a Single Transaction. The amendment clarifies that the initial recognition exemption does not apply to transactions in which equal amounts of deductible and taxable temporary differences arise on initial recognition.

(d) Effectivity Deferred Indefinitely

(xi) Amendments to PFRS 10, Consolidated Financial Statements, and to PAS 28, Investment in Associates and Joint Ventures – Sales or Contribution of Assets between an Investor and its Associates or Joint Venture. The amendments to PFRS 10 require full recognition in the investor's financial statements of gains or losses arising on the sale or contribution of assets that constitute a business as defined in PFRS 3, between an investor and its associate or joint venture. Accordingly, the partial recognition of gains or losses (i.e., to the extent of the unrelated investor's interests in an associate or joint venture) only applies to sale or contribution of assets that do not constitute a business. Corresponding amendments have been made to PAS 28 to reflect these changes. In addition, PAS 28 has been amended to clarify that when determining whether assets that are sold or contributed constitute a business, an entity shall consider whether the sale or contribution of those assets is part of multiple arrangements that should be accounted for as a single transaction.

On January 13, 2016, the FRSC postponed the original effective date of January 1, 2016 of the said amendments until the IASB has completed its broader review of the research project on equity accounting that may result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures.

## 2.3 Current and Non-Current Classification

The Corporation presents assets and liabilities in SFP based on current and non-current classification.

An asset is current when it is: (i) expected to be realized or intended to be sold or consumed in normal operating cycle; (ii) held primarily for the purpose of trading; (iii) expected to be realized within twelve months after reporting date; or (iv) cash or cash equivalents, unless restricted from being exchanged or used to settle a liability for at least 12 months after reporting date. All other assets are classified as non-current.

A liability is current when: (i) it is expected to be settled in the normal operating cycle; (ii) it is held primarily for the purpose of trading; (iii) it is due to be settled within 12 months after reporting date; or (iv) there is no unconditional right to defer the settlement of the liability for at least 12 months after reporting date. All other liabilities are classified as non-current.

Deferred tax assets and liabilities are classified as non-current assets and liabilities, respectively.

## 2.4 Cash and cash equivalents

Cash and cash equivalents comprise of cash on hand and in banks, working funds, demand deposits, with short-term, highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value, having been within three (3) months of maturity when placed or acquired.

## 2.5 Financial assets

a. Classification and initial measurement

Financial assets are classified, at initial recognition, as either subsequently measured at amortized cost, at Fair Value through Other Comprehensive Income (FVTOCI), or at Fair Value through Profit or Loss (FVTPL). The classification of financial assets at initial recognition depends on the business model for managing financial assets and their contractual cash flow characteristics. If certain conditions are met, the classification of an asset may subsequently need to be reclassified.

It is initially measured at its fair value plus, in the case of a financial asset not at FVTPL, transaction costs. Where assets are measured at fair value, gains and losses are either recognized entirely in profit or loss (FVTPL) or recognized in other comprehensive income (FVTOCI).

b. Subsequent measurement

Financial assets are measured at amortized cost if both of the following conditions are met: (i) the asset is held to collect contractual cash flows; and (ii) the contractual terms of the instrument give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortized cost are subsequently measured using the effective interest rate (EIR) method and are subject to impairment. Gains and losses are recognized in profit or loss when the asset is derecognized, modified or impaired.

SB Corporation classified cash and cash equivalents, receivables and investments in treasury bills and treasury bonds as financial assets at amortized cost.

Financial assets are measured at FVTOCI if both of the following conditions are met: (i) the asset is held, the objective of which is achieved by both collecting contractual cash flows and selling financial assets; and (ii) the contractual terms of the instrument give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at FVTOCI are subsequently measured at fair value. Interest income are calculated using the EIR method, and foreign exchange gains and losses and impairment are recognized in profit or loss. Changes in fair value of such assets as at reporting period are recognized as either unrealized gains and losses in OCI and accumulated in fair value reserves under equity. On de-recognition, cumulative gains and losses are directly reclassified to retained earnings.

SB Corporation has no financial assets at FVTOCI as of December 31, 2021 and 2020.

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term.

Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortized cost or at fair value through OCI, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at fair value through profit or loss are carried in the statements of financial position at fair value as at reporting period with net changes in fair value recognized in the profit or loss.

SB Corporation classified its Foreign Exchange Risk Cover, a derivative financial instrument as financial assets at FVTPL.

c. Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of financial assets) is derecognized when: (i) the right to receive cash flows from the asset has expired; or (ii) the Corporation has transferred its right to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a pass-through arrangement; and either SB Corporation has transferred substantially all the risks and rewards of the asset, or has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

## 2.6 Receivables

SB Corporation's receivables are non-derivative assets with fixed or determinable payments that are not quoted in an active market. These are initially recognized at fair value when cash is advanced for direct loans to participating financial institutions (conduits) and individual borrowers. After initial measurement, these are subsequently measured at amortized cost using the effective interest method less provision for impairment. The amortization is included under interest income from loans and receivables in the SCI. The losses arising from impairment/allowance for doubtful accounts are recognized in the SCI.

### 2.7 Inventories

Inventories are tangible items with cost below the capitalization threshold for property and equipment and are initially recorded at cost. These items are recognized as expense in full upon issuance to end users. Unissued inventories are regularly presented in the Monthly Inventory report for monitoring purposes.

### 2.8 Non-Current Assets Held for Sale (NCAHFS)

NCAHFS are booked initially at the outstanding balance of the loan less allowance for impairment plus transaction costs incurred upon acquisition. After classification as Non-current assets held for sale, they are measured at the lower of carrying amount and fair value less costs to sell and shall be tested for impairment.

### 2.9 Investment Properties

Investment properties are acquired assets or real and other properties acquired (ROPA) by the SB Corporation through dacion en pago or foreclosure in settlement of loans under the various lending facilities of the Corporation.

Investment properties are initially recorded at cost, which includes directly attributable costs incurred. Subsequent to initial recognition, investment properties except land are stated at cost less accumulated depreciation and accumulated impairment losses, if any. The depreciable amount is allocated using a straight-line method over the remaining useful life. Land is subsequently measured at cost less accumulated impairment, if any.

Investment properties are appraised every two years to determine whether impairment exists. Immediate reappraisal may be undertaken if there is evidence of material decline in value. If the recoverable amount/appraised value is less than it's carrying amount, the difference is recognized in the SCI as impairment loss.

An investment property is derecognized upon disposal or when no future economic benefits are expected from its disposal. Any gains or losses from the retirement or disposal of an investment are recognized in profit or loss in the period of retirement or disposal.

### 2.10 Investments in Joint Ventures

Investments in joint ventures are investments through direct ownership of equity instruments of investees and are recorded at cost as at date when the investor entity becomes a party to the contractual provisions of the instrument. SB Corporation does not take operational, controlling, or strategic positions with its investees.

If there is objective evidence that an impairment loss has been incurred on the equity instrument, the amount of impairment is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

### 2.11 Other Investments

SB Corporation's other investments are similarly recognized initially at cost when investment is made. Periodic assessment is made to determine if impairment losses are incurred. The process in determining impairment losses in joint ventures is applied. Losses arising from impairments/allowance for impairment are recognized in the SCI.

### 2.12 Property and Equipment

SB Corporation's depreciable properties are stated at cost less accumulated depreciation and any impairment in value. Pursuant to COA Circular Nos. 2017-004 and 2016-006 dated December 13, 2017 and December 29, 2016, respectively, a capitalization threshold of P15,000 is applied as the minimum cost of an individual asset to be recognized as property and equipment. Tangible items below the capitalization threshold are accounted for as inventories.

The initial cost of property and equipment consists of its purchase price, including taxes and any directly attributable costs of bringing the asset to its working condition and intended use. Expenditures incurred after items of property and equipment have been put into operation, such as repairs and maintenance, are charged against operations in the year in which the costs are incurred. When property and equipment are retired or otherwise disposed of, the cost and the related accumulated depreciation and amortization are removed from the accounts, and any resulting gain or loss is reflected as income or loss in the SCI.

Depreciation is computed using the straight-line method over the estimated useful lives of the respective assets (cost less residual value over useful life). Leasehold improvements are amortized over the shorter of the terms of the covering leases and the estimated useful lives of the improvements

The estimated useful lives of depreciable assets follow:

| Item of property and equipment | Estimated useful life |
|---|---|
| Condominium unit and leasehold improvements | 10 to 30 years |
| Office furniture and fixtures | 10 years |
| Business machines and equipment | 5 years |
| Transportation equipment | 7 years |

The carrying values of the property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. If any of such indication exists and where the carrying values exceed the estimated recoverable amount, an impairment loss is recognized in the SCI.

### 2.13 Financial Liabilities

a. Initial recognition and measurement

Financial liabilities are classified, at initial recognition, either as: (i) financial liabilities at FVTPL; (ii) loans and borrowings; (iii) payables; or (iv) derivatives designated as hedging instruments in an effective hedge, as appropriate. All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

b. Subsequent measurement

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the EIR method. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the EIR amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included as finance costs in the statement of comprehensive income.

This category generally applies to interest-bearing loans and borrowings, accounts payable and accrued expenses.

On the other hand, after initial recognition, financial guarantee contracts are subsequently measured at the higher of: (i) the amount of the loss allowance determined in accordance with PFRS 9; and (ii) the amount initially recognized less, when appropriate, the cumulative amount of income recognized in accordance with the principles of PFRS 15.

c. De-recognition

A financial liability is removed when it is extinguished, that is, when the obligation specified in the contract is either discharged or cancelled or expires. [PFRS 9] Where there has been an exchange between parties of debt instruments with substantially different terms, or there has been a substantial modification of the terms of an existing financial liability, this transaction is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. A gain or loss from extinguishment of the original financial liability is recognized in profit or loss. [PFRS 9].

## 2.14 Impairment of Assets

Assets are impaired if carrying amount exceeds the amount to be recovered through use or sale of the asset. An assessment is made at each Statement of Financial Position (SFP) date whether there is objective evidence that a specific financial or non-financial asset maybe impaired. If such evidence exists, any impairment loss is recognized in the SCI.

*(a) Impairment of financial assets*

If there is evidence that an impairment loss on assets not held at FVTPL (loans and receivables carried at amortized cost) has been incurred, the amount of loss is measured as the difference between the carrying amount and the present value of estimated cash flows discounted at the original EIR. The carrying amount of the asset shall be reduced either directly or through the use of allowance account. The allowance recognized for expected credit losses (ECL) are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that SB Corporation expects to receive, discounted at an approximation of the original EIR. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms. The amount of loss, on the other hand, is charged to the SCI.

If in subsequent year, the amount of impairment loss decreases because of the event occurring after the impairment is recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of the impairment loss is recognized in the SCI.

SB Corporation implemented beginning 1 January 2020 simple loan loss methodologies fundamentally anchored on the principle of recognizing ECL. As such, SB Corporation adopted the ECL model in measuring credit impairment/allowance for credit losses even before objective evidence of impairment becomes apparent. Further, in compliance with the requirements of PFRS 9, SB Corporation considered past events, current conditions and forecasts of future economic conditions in assessing impairment.

Revision to this policy in Loan-Loss Estimation Methodology was proposed in December 2020. The revision, among others, take into consideration the applicable loan loss provisioning guidelines considering the pandemic related regulatory issuances of the BSP, its supervisory expectations per BSP Memorandum No. 2020-061 and the "Bayanihan Act".

*(b) Impairment of non-financial assets*

Where an indicator of impairment exists, SB Corporation makes a formal estimate of recoverable amount. An asset's recoverable amount is the higher of an asset's cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or group of assets. Impairment losses are recognized in the SCI in those expense categories consistent with the function of the impaired assets.

If in subsequent year there is an indication that previously recognized impairment losses may no longer exist or may have decreased, a previously recognized impairment loss is reversed if there has been a change in estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the SCI.

### 2.15 De-recognition of Financial Instruments

*(a) Financial assets*

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized when:

- The rights to receive cash flows from the asset have expired;

- SB Corporation retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a “pass-through” arrangement; or

- SB Corporation has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When SB Corporation has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the SB Corporation’s continuing involvement in the asset.

*(b) Financial liabilities*

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or had expired.

### 2.16 Fair Value Measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either (a) in the principal market for the asset or liability, or (b) in the absence of a principal market, in the most advantageous market for the asset or liability.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that the market participants act in their best economic interest.

Assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

a. Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities;

b. Level 2 – valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable; and,

c. Level 3 – valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognized in the financial statements on a recurring basis, SB Corporation determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

### 2.17 Revenue and Expense Recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognized:

*(a) Interest on loans*

Interest and similar income derived from financial instruments measured at amortized cost and interest-bearing financial instruments is recorded at the EIR method. EIR is a measurement technique whose purpose is to calculate amortised cost and allocate interest revenue over the relevant time period. SB Corporation uses the expected credit loss impairment model based on the Bangko Sentral ng Pilipinas (BSP) Circular No. 1011 on loan classification.

Interest income, processing fees and penalties due on delayed payment are recognized upon collection.

*(b) Investment income*

Interest on interest-bearing placements and securities are recognized as the interest accrues, taking into account the effective yield on such assets. This includes gains and losses from fair value measurements.

*(c) Service Fees*

SB Corporation adopted a different income stream in the form of service fees for CY 2020. As part of the Corporation's response to assist the MSMEs during the pandemic, loan facilities aimed to restart businesses were provided with zero-interest rate with minimum service fee which are recognized as an upfront charge. This income stream was carried on for CY 2021.

### 2.18 Employee Benefits

SB Corporation has a Provident Fund consisting of contributions made both by its officers and employees. Corporate contribution is vested to the employee after completing five years of service in SB Corporation. Details of the employee benefits are discussed in *Note 25.2*.

### 2.19 Leases

The new accounting model under PFRS 16 requires a lessee to recognize a 'right-of-use asset' and a lease liability. The right of use asset is treated similarly to other non-financial assets and depreciated accordingly and the liability accrues interest. The new standard brings most leases on-balance sheet for lessees under a single model, eliminating distinction between operating and finance leases. Lessor accounting however remains unchanged and the distinction between operating and finance lease is retained.

### 2.20 Provisions and contingencies

Provisions are recognized when: (a) SB Corporation has a present obligation (legal or constructive) as a result of a past event; (b) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and (c) a reliable estimate can be made of the amount of the obligation.

Contingent liabilities are not recognized but are disclosed in the financial statements unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized but are disclosed in the financial statements when an inflow of economic benefits is probable.

### 2.21 Income taxes

Tax expense recognized in profit or loss comprises the sum of deferred tax and current tax not recognized in other comprehensive income or directly in equity, if any.

Current tax assets or liabilities comprise those claims from, or obligations to, fiscal authorities relating to the current or prior reporting period, that are uncollected or unpaid at the reporting date. They are calculated according to the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the year. All changes to current tax assets or liabilities are recognized as a component of tax expense in the SCI.

Deferred tax is provided, using the balance sheet method on temporary differences at the balance sheet date between the tax base of assets and liabilities and their carrying amounts for financial reporting purposes. Under the balance sheet method, with certain exceptions, deferred tax liabilities are recognized for all taxable temporary differences and deferred tax assets which are recognized for all deductible temporary differences and the carry-forward of unused tax losses and unused tax credits to the extent that it is probable that taxable profit will be available against which the deferred income tax asset can be utilized.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period.

Most changes in deferred tax assets or liabilities are recognized as a component of tax expense in the SCI. Only changes in deferred tax assets or liabilities that relate to a change in value of assets or liabilities are charged or credited directly to equity.

### 2.22 Foreign currency transactions

SB Corporation's accounting records are maintained in Philippine Peso. Foreign currency transactions during the year are translated into the functional currency at exchange rates (BSP rate) which approximate those prevailing on transaction dates. Foreign currency gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the SCI.

### 2.23 Events after the Reporting Period

Subsequent events that provide additional information about SB Corporation's financial position at the end of the reporting date (adjusting events) are reflected in the financial statements. Subsequent events that are non-adjusting events, if any, are disclosed when material to the financial statements.

## 3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

The preparation of the financial statements in accordance with PFRSs requires SB Corporation to make estimates and assumptions that affect the reported amounts of resources, liabilities, income and expenses and disclosure of contingent resources and contingent liabilities. Future events may occur which will cause the assumptions used in arriving at the estimates to change.

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. While the estimates are based on the most reliable data available, actual results, in the near term, could differ significantly from those estimates depending upon certain events and uncertainties including:

- The extent to which SB Corporation can maximize the sale and recoveries from the assets it acquires as foreclosed from borrowers; and

- The probability of recovery through successful lawsuits as appropriate against relevant parties.

### 3.1 Contingencies

SB Corporation is currently involved in various legal proceedings. The estimate of the probable costs for the resolution of these claims has been developed in consultation with counsel handling and monitoring the defense in these matters and is based upon an analysis of potential results.

SB Corporation is a party to various legal cases and except for the BIR Final Assessment Notice (FAN) for taxable year 2016, it does not believe that these proceedings will have a material adverse effect on its financial position. It is possible, however, that future results of operations could be materially affected by the changes in the estimates.

On December 20, 2018, the BIR issued a FAN to SB Corporation for deficiency tax amounting to P124 million. On June 4, 2019, SB Corporation counter filed a Manifestation with Motion to Suspend Proceedings before the Department of Justice (DOJ). After almost two years with no resolution from the DOJ, the Corporations' Board of Directors decided to withdraw the petition and resume the reinvestigation with the BIR. The petition for withdrawal was sent on March 19, 2021. As of year-end 2021, The request for reinvestigation was granted by BIR and the discussion resumed on the 1st quarter of CY 2022. As a result of the reconciliation and agreement, payments were made on the 2nd quarter of 2022.

On the other hand, there are Criminal Complaints for Violation of Batas Pambansa Blg. 22 involving three borrowers, that if resolved positively in favor of the SB Corporation will result in the possible collection of P53 million.

### 3.2 Financial asset at amortized cost

SB Corporation classifies non-derivative financial assets with fixed or determinable payments and fixed maturity as financial asset at amortized cost. This financial asset is initially measured at fair value plus transaction cost. Contractual cash flows are solely payment of principals and interest and held under a hold to collect model. Subsequent measurement is carried at amortized cost. Classification of financial assets requires significant judgment. In making this judgment, SB Corporation evaluates its intention and ability to hold such investments to maturity. If the Corporation fails to keep these investments to maturity other than in certain specific circumstances, it will be required to reclassify the entire portfolio to available-for-sale investments. The investments would, therefore, be measured at fair value and not at amortized cost

### 3.3 Allowance for loan impairment/doubtful accounts

SB Corporation reviews its loans and receivables to assess potentially uncollectible receivables annually. In determining the level of allowance, it makes judgments as to whether there are observable development and information indicating a measurable decrease in the estimated future cash flows from the loans and receivables. SB Corporation observes BSP criteria and guidelines on the classification of receivables in establishing specific loan loss reserves/provisioning.

### 3.4 Impairment loss on property and equipment

SB Corporation assesses impairment on assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. It recognizes an impairment loss/provision for probable loss whenever the carrying amount of an asset exceeds the recoverable amount.

## 4. CASH AND CASH EQUIVALENTS

The account consists of the following:

| | **2021** | 2020 |
|---|---|---|
| Cash on hand | **62,205** | 4,491 |
| Cash in bank-Local Currency | **649,176,887** | 7,554,996,124 |
| Cash in bank-Foreign Currency | **608,859** | 580,150 |
| Cash equivalents | **1,000,000,000** | 0 |
| | **1,649,847,951** | 7,555,580,765 |

*Cash on hand* represents collections by the Cash collecting officers on the last working day of the year that are for deposit on the first working day of the succeeding year.

*Cash in bank* pertain to deposits with government banks for payroll and corporate operating fund which earn interest at rates based on average monthly deposit balances. It also includes high yield savings account maturing within 90 days from transaction date with interest ranging from 1.45 to 1.50 per cent per annum for 2021 and 1.20 to 1.75 percent per annum for 2020 *(Note 2.4).*

Decrease in the cash in bank-local currency is due to the loan releases made and available funds not yet earmarked for specific purpose are temporarily invested in short-term treasury bills and other investments.

*Cash equivalents* include short-term time deposits maturing within 90 days from the time of purchase with interest rates of 1.45 to 1.50 per cent per annum.

## 5. INVESTMENTS

This account consists of the following:

| | **2021** | 2020 |
|---|---|---|
| Financial Assets at FVTPL | **0** | 252,535,859 |
| Financial Assets at amortized cost | **3,398,466,051** | 1,071,436,795 |
| Investments in Joint Ventures | **18,212,500** | 18,212,500 |
| Other investments | **146,500** | 146,500 |
| | **3,416,825,051** | 1,342,331,654 |
| Current | **1,802,284,054** | 569,584,074 |
| Non-current | **1,614,540,997** | 772,747,580 |

*Financial Assets at FVTPL*

| | **2021** | 2020 |
|---|---|---|
| Asian Development Bank (ADB) | **0** | 21,287,560 |
| Kreditanstalt fur Wiederaufbau (KfW) | **0** | 231,248,299 |
| | **0** | 252,535,859 |
| Current | **0** | 14,583,986 |
| Non-current | **0** | 237,951,873 |

*Financial asset at FVTPL* represents the fair value of the Foreign Exchange Risk Cover (FXRC) of SB Corporation's borrowings from multilateral agencies amounting to P754.44 million in CY 2020 which is treated as a derivative financial instrument.

Under the Memorandum of Agreement (MOA) dated January 12 and 17, 2006 between SB Corporation and the NG through the DOF, the latter guarantees and assumes the foreign exchange risk relating to SB Corporation's foreign currency denominated borrowings from the ADB and KfW. In consideration thereof, SB Corporation shall pay the NG a guarantee fee of one per cent per annum and an FXRC fee of three per cent per annum.

No amount of FVTPL for CY 2021 as the Official Development Assistance (ODA) loans from both the ADB and KfW were fully paid in September 2021 ahead of its maturity.

*Financial Assets at amortized cost*

Funds which are not yet earmarked for loan releases, operating and other administrative expenses are temporarily invested in government securities consisting of short-term Treasury Bills and High Yield Savings Account (HYSA), Fixed Rate Treasury Notes and Retail Treasury Bonds, and Tier 2 Capital Notes with the Land Bank of the Philippines (LBP), Bureau of the Treasury (BTr) and Development Bank of the Philippines (DBP), respectively. These investments, which have various maturity dates over three months from transaction date at interest rates ranging from 1.315 to 6.25 per cent per annum for CY2021, consist of the following:

| | **2021** | 2020 |
|---|---:|---:|
| Investments in treasury bills | **1,797,283,966** | 550,000,000 |
| Investments in treasury bonds | **1,496,182,085** | 416,436,795 |
| Capital Notes | **105,000,000** | 105,000,000 |
| | **3,398,466,051** | 1,071,436,795 |
| Current | **1,802,284,054** | 555,000,088 |
| Non-current | **1,596,181,997** | 516,436,707 |

*Investments in Joint Ventures*

*Investments in Joint Ventures* represent the Corporation's Joint Ventures Program, an equity financing program for SMEs which calls for the participation of a private sector venture or an equity capital company which will match the investment of SB Corporation in selected SME corporations. The amount is presented net of its allowance amounting to P10.485 million for both CYs 2021 and 2020.

SB Corporation, in cooperation with various SME corporations invested P8.760 million in preferred shares and P19.938 million in common shares holding 11.25 to 43.75 per cent ownership with minor controlling interest and returns to investments through dividends. The nature of businesses under the investment account were engaged in the manufacture of acoustic and padded fabric wall and ceiling system; Citronella Home Essences and Insect Repellant organic fertilizer manufacturing; fabrication, rental and trading of generator sets, catering and lodging house services; seaweeds production; micro propagation of planting materials; and commercial production of ACTIcon.

SB Corporation invested in the following companies:

*CY 2021*

| Venture Partners | Amount | Allowance for impairment | Carrying Amount |
|---|---|---|---|
| Agricultural Inoculants Phils. | 2,000,000 | 2,000,000 | 0 |
| Greentop Seaweeds Production Co., Inc. | 725,120 | 725,120 | 0 |
| Starlight Homessences Inc. | 3,176,757 | 3,176,757 | 0 |
| Walls In Motion, Inc. | 3,712,500 | 0 | 3,712,500 |
| REG Supreme Power Trading, Inc. | 2,651,600 | 2,651,600 | 0 |
| Epifanie Ventures, Inc. | 5,000,000 | 500,000 | 4,500,000 |
| Elbitech, Inc. | 5,000,000 | 0 | 5,000,000 |
| Binhi, Inc. | 5,000,000 | 0 | 5,000,000 |
| **Balance as at December 31, 2021** | **27,265,977** | **9,053,477** | **18,212,500** |

*CY 2020*

| Venture Partners | Amount | Allowance for impairment | Carrying Amount |
|---|---|---|---|
| Agricultural Inoculants Phils. | 2,000,000 | 2,000,000 | 0 |
| Greentop Seaweeds Production Co.,Inc. | 725,120 | 725,120 | 0 |
| Starlight Homessences Inc. | 3,500,000 | 3,500,000 | 0 |
| Walls In Motion, Inc. | 3,712,500 | 0 | 3,712,500 |
| REG Supreme Power Trading, Inc. | 3,760,000 | 3,760,000 | 0 |
| Epifanie Ventures, Inc. | 5,000,000 | 500,000 | 4,500,000 |
| Elbitech, Inc. | 5,000,000 | 0 | 5,000,000 |
| Binhi, Inc. | 5,000,000 | 0 | 5,000,000 |
| **Balance as at December 31, 2020** | **28,697,620** | **10,485,120** | **18,212,500** |

*Other investments* pertain to PLDT stocks received upon application of telephone lines amounting to P0.147 million as at December 31, 2021 (See *Note 2.11).*

## 6. RECEIVABLES – NET

This account consists of the following:

| | 2021 | 2020 |
|---|---|---|
| Accounts receivable | **44,185,538** | 36,841,442 |
| Notes receivable | **11,262,338,701** | 7,363,316,815 |
| Interest receivable | **63,513,313** | 53,855,812 |
| Intra-agency receivable | **83,469,904** | 223,314,105 |
| Dividends receivable | **850,000** | 850,000 |
| Sales contract receivable | **17,504,556** | 14,838,195 |
| Other receivables | **1,010,056** | 2,260,803 |
| | **11,472,872,068** | 7,695,277,172 |
| Allowance for impairment – Accounts receivable | **(1,864,527)** | (1,864,527) |
| Allowance for impairment – Notes receivable | **(1,481,666,548)** | (869,476,368) |
| | **1,483,531,075** | 871,340,895 |
| Total carrying amount | **9,989,340,993** | 6,823,936,277 |
| Current | **4,288,973,173** | 2,239,646,332 |
| Non-current | **5,700,367,820** | 4,584,289,945 |

*Accounts Receivable (net of allowance)* consists of the following:

| | **2021** | 2020 |
|---|---|---|
| Agricultural Credit Policy Council (ACPC) re: | | |
| Administrative fee for the Comprehensive Agricultural Loan Fund (CALF) | **8,930,000** | 8,930,000 |
| Participating financial institution's share in expenses relative to foreclosure in the management of acquired assets | **6,304,940** | 5,554,820 |
| ForEx claims and refund of Guarantee and ForEx fee from BTr/DOF | **5,581,045** | 0 |
| Lease purchase for officers | **18,545,630** | 16,004,595 |
| Lease purchase - resigned officers | **0** | 1,500,000 |
| Foreclosure-related expenses | **1,323,712** | 1,282,710 |
| Advances made for contract-of-service employees | **146,157** | 160,607 |
| Calamity Loan granted to employees | **189,527** | 244,183 |
| Travel Fund as required by the DBM-PhilGEPS | **1,300,000** | 1,300,000 |
| | **42,321,011** | 34,976,915 |

*ACPC re: CALF* represents unclaimed administrative fees as at June 1, 2001 from ACPC for the CALF which was transferred to Quedan and Rural Credit Guarantee Corporation (QUEDANCOR) on June 18, 2001. Pursuant to Section 5 of Department of Agriculture (DA) Administrative Order No. 10, series of 2001, the transfer of said CALF carries an obligation for QUEDANCOR, attached as a colatilla, to answer for the liability of such fund in accordance with MOA dated March 1, 1999 between DA - ACPC and the Guarantee Fund for Small and Medium Enterprises (GFSME), now SB Corporation), that is the payment of administrative fees. However, when Quedancor was closed, their assets were put under the receivership of the PDIC. To date, the Corporation is still awaiting PDIC's resolution of the payment of Quedancor's creditors.

For the *ForEx claims*, in September 2021, two ODA loans (ADB and KfW) were paid by the Corporation ahead of its maturity. Payment of the relative FXRC and Guarantee Fee to the National Government were paid six months upfront, thus the claim for refund for the unexpended portion of the payment.

SB Corporation has a car plan program for officers under a lease purchase arrangement. The amortization is periodically deducted from the payroll based on the preferred amortization period but not to exceed 10 years. Once an officer resigns before the maturity of the lease purchase arrangement, the balance is to be deducted from all payables to the officer. In the event that such payables are not sufficient to fully pay the car plan, the balance may be amortized for a maximum period of five years under the prevailing market interest rate.

*Notes receivable* refers to loans extended by SB Corporation to banks, other financing institutions and MSME direct borrowers at an interest rate ranging from zero-interest rate to 30 per cent per annum for relending under its special lending programs for MSMEs. It consists of the following loans, net of allowance:

| | **2021** | **2020** |
|---|---|---|
| Regular Wholesale-SME and MICRO | **804,176,373** | 644,660,362 |
| Regular Retail | **225,751,222** | 629,509,959 |
| Enterprise Rehabilitation Facility (ERF) | **8,679,857** | 25,039,604 |

*(Forward)*

| | 2021 | 2020 |
|---|---|---|
| Bayanihan 2 | **4,944,391,397** | 581,900,286 |
| P3 Wholesale | **3,229,088,700** | 3,545,878,059 |
| P3 Retail | **0** | 94,118,264 |
| P3 CARES | **372,743,730** | 972,683,213 |
| P3 13th month | **38,805,840** | 0 |
| P3 ASCENT | **138,963,930** | 0 |
| P3 STAPLES | **487,786** | 0 |
| Others | **17,583,318** | 50,700 |
| | **9,780,672,153** | 6,493,840,447 |

While SB Corporation reviews its notes receivables to assess potentially uncollectible receivables annually, a monthly accrual of allowance for impairment accounts is recognized in the financial statements to cushion the one-time lump sum effect of the yearly provisioning requirement. The said monthly accruals of allowance for impairment has been budgeted and reflected in Department of Budget and Management (DBM) Form No. 3 under the Non-Cash items of the 2021 approved COB of SB Corporation.

The periodic impairment complies with the general provisioning requirement of the BSP and PFRS 9. Upon review of the annual provisioning requirement, the booked provisioning is adjusted to the required provisioning for the year whereby either additional allowances are recognized or reversed in the event a decrease in provisioning requirement is encountered.

*Interest receivable* represents accrued interest receivable from the following investments in government-issued debt instruments and notes receivable that are still to be collected at the end of the year.

| | 2021 | 2020 |
|---|---|---|
| Short-term investments | **11,020,820** | 6,614,353 |
| Financial assets at amortized cost | **8,913,603** | 4,041,900 |
| Notes receivable – loans | **43,578,890** | 43,199,559 |
| | **63,513,313** | 53,855,812 |

*Intra-agency receivable*

| | 2021 | 2020 |
|---|---|---|
| Due from P3 | **24,120,663** | 19,993,490 |
| Due from SB | **59,349,241** | 203,320,615 |
| | **83,469,904** | 223,314,105 |

The account pertains to intra-fund receivables/payables between funds representing advances regularly monitored on a periodic basis.

*Dividends receivable* represents cash dividends due from investments on *Epifanie Ventures*, Inc (*See Note 5*) amounting to P850,000 as of December 31, 2021 and 2020.

*Sales contract receivable* are receivables from disposal of NCAHFS through term amortizations amounting to P17,504,556 and P14,838,195 as of December 31, 2021 and 2020, respectively.

*Other receivables* include the following:

| | **2021** | 2020 |
|---|---|---|
| Disallowances/Charges | **595,204** | 1,018,690 |
| Due from officers and employees | **414,852** | 1,242,113 |
| | **1,010,056** | 2,260,803 |

*Disallowances* pertain to COA disallowances which are already final and executory, booked as receivables and being collected from responsible officers and employees thru salary deductions.

## 7. INVENTORIES

This account pertains to office supplies inventory held for consumption awaiting issuance to end-users amounting to P391,964 and P325,803 as at December 31, 2021 and 2020, respectively.

## 8. NON-CURRENT ASSETS HELD FOR SALE

This account consists of ROPA through foreclosure of mortgaged properties, dacion en pago arrangements, or SCR rescissions, where the foremost objective is immediate disposal generally under cash or term sale transactions, amounting to P10,791,773 and P37,204,960 as at December 31, 2021 and 2020, respectively.

## 9. OTHER ASSETS

This account consists of the following:

| | **2021** | 2020 |
|---|---|---|
| Prepayments | **11,169,796** | 5,324,903 |
| Deposits | **2,065,080** | 1,487,188 |
| Others | **14,359,839** | 5,632,462 |
| | **27,594,715** | 12,444,553 |
| Accumulated impairment losses | **(10,751,582)** | (1,862,277) |
| Carrying amount | **16,843,133** | 10,582,276 |
| Current | **11,169,796** | 5,324,903 |
| Non-current | **5,673,337** | 5,257,373 |

*Prepayments* significant increase pertains to the excess tax payments made during the year.

*Deposits* pertain to security and guarantee deposit for rental and other contractual obligations.

*Others* consist of unserviceable properties with an ongoing implementation of disposal plan which were provided with allowance for impairment loss amounting to P10.752 million and P1.862 million for CY 2021 and 2020, respectively.

## 10. PROPERTY AND EQUIPMENT – NET

This account consists of the following:

| | Buildings/ Structures/ Lease Asset Improvement | Furniture and Other Equipment | Transport Equipment | Total |
|---|---|---|---|---|
| **Cost** | | | | |
| January 1, 2021 | **156,643,997** | **34,157,201** | **15,108,741** | **205,909,939** |
| Additions | **4,456,859** | **12,242,445** | **4,349,030** | **21,048,334** |
| Reclassification | **(3,312,199)** | **(23,900)** | **0** | **(3,336,099)** |
| Disposals | **(1,452,254)** | **(352,550)** | **(868,470)** | **(2,673,274)** |
| **December 31, 2021** | **156,336,403** | **46,023,196** | **18,589,301** | **220,948,900** |
| **Accumulated depreciation** | | | | |
| January 1, 2021 | **106,401,659** | **24,755,720** | **11,540,897** | **142,698,276** |
| Additions | **5,433,554** | **2,478,139** | **1,059,101** | **8,970,794** |
| Reclassification | **(2,235,404)** | **(1,434)** | **0** | **(2,236,838)** |
| Disposals | **(1,218,690)** | **(317,295)** | **(781,623)** | **(2,317,608)** |
| **December 31, 2021** | **108,381,119** | **26,915,130** | **11,818,375** | **147,114,624** |
| **Net book value, December 31, 2021** | **47,955,284** | **19,108,066** | **6,770,926** | **73,834,276** |

| | Buildings/ Structures Lease Asset Improvement | Furniture and Other Equipment | Transport Equipment | Total |
|---|---|---|---|---|
| Cost | | | | |
| January 1, 2020 | 153,699,156 | 32,848,550 | 15,108,741 | 201,656,447 |
| Additions | 989,717 | 1,308,651 | 0 | 2,298,368 |
| Adjustments | (77,273) | 0 | 0 | (77,273) |
| Reclassification | 2,032,397 | 0 | 0 | 2,032,397 |
| December 31, 2020 | 156,643,997 | 34,157,201 | 15,108,741 | 205,909,939 |
| Accumulated depreciation | | | | |
| January 1, 2020 | 100,615,441 | 22,163,977 | 10,648,354 | 133,427,772 |
| Additions | 5,207,406 | 2,645,578 | 892,543 | 8,745,527 |
| Adjustments | (15,647) | (53,835) | 0 | (69,482) |
| Reclassification | 594,459 | 0 | 0 | 594,459 |
| December 31, 2020 | 106,401,659 | 24,755,720 | 11,540,897 | 142,698,276 |
| Carrying amount, December 31, 2020 | 50,242,338 | 9,401,481 | 3,567,844 | 63,211,663 |

## 11. INVESTMENT PROPERTY

| | **2021** | 2020 |
|---|---|---|
| Land | **46,744,070** | 18,240,723 |
| Accumulated impairment loss | **(5,665,251)** | (941,019) |
| Net book value | **41,078,819** | 17,299,704 |
| | | |
| Buildings | **10,894,235** | 14,084,099 |
| Accumulated depreciation | **(7,958,182)** | (11,503,435) |
| Net book value | **2,936,053** | 2,580,664 |
| | **44,014,872** | 19,880,368 |

The Corporation's investment properties arise from acquired assets from defaulted accounts. These are assets that are not available for immediate sale as the same include assets under litigation making its sale highly improbable.

## 12. DEFERRED TAX ASSETS

This account consists of the following:

| | 2021 | 2020 |
|---|---|---|
| Excess minimum corporate income tax | **0** | 10,262,956 |
| Net operating loss carryover | **0** | 3,606,314 |
| Provision for impairment losses | **287,853,207** | 131,506,701 |
| Unrealized losses on Foreign Exchange (ForEx) | **0** | 40,159,282 |
| | **287,853,207** | 185,535,253 |

## 13. FINANCIAL LIABILITIES

This account consists of the following:

| | 2021 | 2020 |
|---|---|---|
| Payables | **60,847,027** | 57,595,203 |
| Bills/Bonds/Loans payable | **19,780,139** | 776,100,688 |
| Financial liabilities designated at Fair Value through Surplus/Profit or Deficit/Loss | **0** | 237,620,495 |
| | **80,627,166** | 1,071,316,386 |
| Current | **62,730,850** | 191,326,131 |
| Non-current | **17,896,316** | 879,990,255 |

*Payables* consist of the following:

| | 2021 | 2020 |
|---|---|---|
| Accounts payable | **43,222,436** | 39,240,866 |
| Notes payable | **17,200,000** | 17,789,448 |
| Interest payable | **424,591** | 564,889 |
| | **60,847,027** | 57,595,203 |

*Accounts payable* is used to recognize acquisition of goods or services in the normal course of trade and business operation that remains unpaid as at end of year.

| | 2021 | 2020 |
|---|---|---|
| SB Regular | **39,765,239** | 35,463,804 |
| P3 | **3,457,197** | 3,777,062 |
| | **43,222,436** | 39,240,866 |

*Notes payable* represents the obligations of SB Corporation to one remaining financial institution arising from its issuance of MSME Notes in the nature of promissory notes deemed as alternative compliance to the mandatory allocation provision under Section 13 of RA No. 6977, as amended by RA Nos. 8289 and 9501. In 2018, the provision of the law on the alternative compliance to the mandatory allocation expired. To date, only one PN remains outstanding which will mature by the 3rd quarter of CY 2022. The promissory note carries interest rate of 1.59 per cent per annum.

Details of the account as follows:

| | **2021** | 2020 |
|---|---|---|
| Current | **17,200,000** | 589,448 |
| Non-current | **0** | 17,200,000 |
| | **17,200,000** | 17,789,448 |

*Interest Payable* represents accrued interest expense on domestic and foreign borrowings as follows:

| | **2021** | 2020 |
|---|---|---|
| Asian Development Bank (ADB) | **0** | 117,085 |
| International Fund for Agricultural Development (IFAD) | **331,152** | 362,691 |
| Notes payable - MSME Notes | **93,439** | 85,113 |
| | **424,591** | 564,889 |

*Bills/Bonds/Loans Payable* consists of SB Corporation's borrowings as follows:

| | **2021** | 2020 |
|---|---|---|
| Loans payable – Domestic –IFAD | **19,780,139** | 21,663,961 |
| Loans payable – Foreign | | |
| ADB | **0** | 181,307,352 |
| KfW | **0** | 573,129,375 |
| | **19,780,139** | 776,100,688 |
| Current | **1,883,823** | 133,307,647 |
| Non-current | **17,896,316** | 642,793,041 |

Significant decrease in the Bills/Bonds/Loans Payable is a result of fully paying ODA loans ahead of its loan maturity date from the ADB and KfW due to the huge savings from guarantee and interest cost. To date, the balance pertains to the remaining ODA loan under the IFAD.

Net realized loss on ForEx translation amounting P7.816 for CY 2021 and net realized gain of P2.820 million for CY 2020 were recognized in statement of comprehensive income.

Net unrealized loss due to valuation of derivatives and deferred option amounting to P0 and P41.386 million for CY 2021 and CY 2020, respectively, were recognized in statement of comprehensive income.

The loan from the International Fund for Agricultural Development (IFAD) is a subsidiary loan from the Republic of the Philippines (ROP) in peso amount equivalent to 10 million Special Drawing Rights (SDR) to finance the implementation of the Rural Micro-Enterprise Promotion Programme (RuMEPP). The loan is a 25-year term inclusive of eight years grace period on principal repayment and carries an interest rate of 4.75 per cent per annum payable on a semi-annual basis. The RuMEPP was completed in December 31, 2014.

The loan from ADB is a US$25 million (JPY2.746 billion) denominated loan for SME Development Support Project guaranteed by the ROP. The loan is on a 15-year term payable with a grace period of 36 months and carries an interest rate of JPY LIBOR plus 0.60 per cent per annum and a commitment fee of 0.75 per cent per annum on the unutilized portion of the loan. The conversion rate of JPY to Peso as at December 31, 2020 was at P0.4658. The loan was fully availed of in 2009.

The loan from the KfW is a €11.7 million denominated loan for the purpose of financing loan for micro, small and medium-sized private enterprises located mainly in Mindanao and Visayas. The loan is guaranteed by the ROP and bears an interest rate of 0.75 per cent per annum plus a commitment fee of 0.25 per cent per annum based on the undisbursed loan amount. The loan is being amortized on a semi-annual basis for 40 years with a principal grace period of 10 years. The conversion rate of Euro to Peso as at December 31, 2020 is P58.7825. The loan was fully availed of in 2010.

In consideration of the government guarantee and assumption of the foreign exchange risk for both loans, SB Corporation in addition to the guarantee fee of one per cent, shall pay the NG an FXRC fee of three per cent or the difference between the weighted average interest rate (WAIR) and total cost of funds (which includes ADB cost, guarantee fee and SB Corporation's operational expense/spread), whichever is higher based on the outstanding principal balance of the loan.

As at December 31, 2021, the outstanding balance of ADB and KfW loans is nil. Both loans were fully paid ahead of its loan maturity in September 2021.

*Financial Liabilities Designated at Fair Value through Surplus/Profit or Deficit/Loss*

| | **2021** | 2020 |
|---|---|---|
| Asian Development Bank (ADB) | **0** | 7,394,298 |
| Kreditanstalt fur Wiederaufbau (KfW) | **0** | 230,226,197 |
| | **0** | 237,620,495 |
| Current | **0** | 17,623,281 |
| Non-current | **0** | 219,997,214 |

*Financial liabilities designated at FVTPL* represents the fair value of the FXRC of SB Corporation's borrowings from multilateral agencies amounting to P754.44 million in 2020 is treated as derivative financial instrument.

The fair value changes on the FXRC are reported in the SCI. As at December 31, 2020, the outstanding notional amount of FXRC amounted to JPY389.239 million and €9.750 million.

As at December 31, 2020, the carrying value of SB Corporation's financial assets and liabilities as reflected in the SFP and related notes approximate its respective fair value as at reporting date. Specifically, the financial liability at FVTPL is carried at its Level 1 fair value of P237.620 million as at December 31, 2020.

## 14. INTER-AGENCY PAYABLES

This account comprises obligations or liabilities due to government agencies/institutions relating to current or prior period that are unpaid as at reporting date, such as payments for statutory and regulatory obligations. It also includes payable to other National Government Agencies (NGA) or to other funds as follows:

| | **2021** | 2020 |
|---|---|---|
| Due to BIR | **9,600,101** | 7,201,218 |
| Due to GSIS | **1,656,452** | 999,259 |
| Due to Pag-IBIG | **36,101** | 46,848 |
| Due to PhilHealth | **122,514** | 122,356 |
| Due to NGAs | **40,000,000** | 40,000,000 |
| | **51,415,168** | 48,369,681 |
| Current | **11,415,168** | 8,369,681 |
| Non-current | **40,000,000** | 40,000,000 |

The *Due to NGAs* account pertains to the Innovation Fund, a component of the IFAD-funded Rural Agro-Industrial Partnership for Inclusive Development and Growth (RAPID Growth) Project transferred by the Department of Trade and Industry, being the Executing Agency. RAPID is a five-year project which aims to provide strategic enabling conditions for the sustained growth of agriculture-based MSMEs in agricultural commodity value chains with backward linkages to small farmers and job creation effects. The transferred fund to SB Corporation represents the first-year allocation for the Project to be implemented for equity financing in qualified investee SMEs operating in Mindanao.

## 15. INTRA-AGENCY PAYABLES

This account pertains to intra-fund payables between funds representing advances monitored on a periodic basis

| | **2021** | 2020 |
|---|---|---|
| Due to P3 | **38,246,627** | 203,238,247 |
| Due to SB | **53,343,456** | 32,931,429 |
| | **91,590,083** | 236,169,676 |

## 16. TRUST LIABILITIES

This account pertains to security deposits in the form of performance bonds or cash for guaranty in the amount of P1,371,166 and P1,767,220 for CY 2021 and CY 2020, respectively. Said security deposit is issued to SB Corporation by the winning bidder as a guarantee against its failure to meet the obligations in the contract.

## 17. DEFERRED CREDITS/UNEARNED INCOME

This account refers to unearned income from capitalized interest and charges of a restructured loan. When an account becomes past due and is granted with approved restructuring agreement, accrued interest is recorded with a corresponding set up of the liability account.

| | 2021 | 2020 |
|---|---|---|
| Regular loan agreement | **21,706,292** | 21,325,847 |
| Compromise agreement | **2,627,793** | 2,626,441 |
| | **24,334,085** | 23,952,288 |

## 18. OTHER PAYABLES

This account consists of the following:

| | 2021 | 2020 |
|---|---|---|
| Undistributed collections | **10,807,259** | 3,603,884 |
| Dividends payable | **0** | 22,658,723 |
| Other payables | **47,268,931** | 37,273,843 |
| | **58,076,190** | 63,536,450 |

*Undistributed collections* account represents the accumulated unidentified inter-branch deposits made to the SB Corporation bank account which remains unidentified. Proper applications of deposits are subsequently taken up in the books when identification and verification processes are duly satisfied.

*Dividends payable* represents deficiency dividends for dividend years 2014 and 2015 were paid in the first quarter of 2021.

*Other payables* account consists of amount payable to the Originating Financial Institution (OFI) for their share in the proceeds from sale/disposal of foreclosed/acquired properties of SB Corporation wherein OFI has equity. It also includes amount payable for terminated cases wherein the judgment was rendered against the SB Corporation.

## 19. SHARE CAPITAL

SB Corporation has an authorized capital stock of P10 billion divided into 80 million common shares and 20 million preferred shares both with a par value of P100 per share.

Details of this account are as follows:

| | **2021** | | 2020 | |
|---|---|---|---|---|
| | **No. of Shares** | **Amount** | No. of Shares | Amount |
| **Share Capital** | | | | |
| ***Common shares*** | | | | |
| National Government | **7,254,369,200** | **7,254,369,200** | 72,543,692 | 7,254,369,200 |
| *(Forward)* | | | | |

| | 2021 | | 2020 | |
|---|---|---|---|---|
| | **No. of Shares** | **Amount** | No. of Shares | Amount |
| LBP | **393,611,500** | **393,611,500** | 3,936,115 | 393,611,500 |
| DBP | **218,673,100** | **218,673,100** | 2,186,731 | 218,673,100 |
| GSIS | **46,673,100** | **46,673,100** | 466,731 | 46,673,100 |
| Social Security System (SSS) | **16,000,000** | **16,000,000** | 160,000 | 16,000,000 |
| Acquired (Treasury) | **40,000,000** | **40,000,000** | 400,000 | 40,000,000 |
| | **7,969,326,900** | **7,969,326,900** | 79,693,269 | 7,969,326,900 |
| ***Preferred shares*** | | | | |
| SSS | **2,000,000** | **200,000,000** | 2,000,000 | 200,000,000 |
| GSIS | **2,000,000** | **200,000,000** | 2,000,000 | 200,000,000 |
| National Government | **15,931,795** | **1,593,179,500** | 15,931,795 | 1,593,179,500 |
| | **19,931,795** | **1,993,179,500** | 19,931,795 | 1,993,179,500 |
| | **99,625,064** | **9,962,506,400** | 99,625,064 | 9,962,506,400 |
| **Less: Treasury Stocks** | **400,000** | **40,000,000** | 400,000 | 40,000,000 |
| **Total Outstanding Share Capital** | **99,225,064** | **9,922,506,400** | 99,225,064 | 9,922,506,400 |

On December 13, 1993, the BOD passed Board Resolution (BR) No. 102 which provided the terms and conditions of the preferred stock, to wit: (a) with a fixed annual dividend of eight per cent; (b) with participating rights as to dividends; (c) with voting rights; (d) convertible into common stocks within ten years from date of issue at the option of the holder; and (e) with redemption rights after the lapse of the ten (10) year period from date of issue at the option of the holder. The redemption price shall be based on the adjusted book value of the stock at the time of redemption.

On September 26, 2003, the BOD passed and approved BR No. 1074 which superseded BR No. 102, series of 1993, and ratified during the 10th Annual Stockholders Meeting on January 29, 2005. The approved new features of the preferred stocks are as follows:

a. Preference in the payment of dividends in accordance with the principle of equity with common stockholders in the declaration and distribution of corporate dividends;

b. Preference in the claim against corporate asset in the event of dissolution or bankruptcy;

c. Each share of its outstanding preferred stocks is entitled to a vote during stockholders meeting;

d. Entitled to exercise its preemptive right to increase shareholdings through the equivalent unissued common shares;

e. Entitled to a Board seat in accordance with Section 11 and 3 of RA No. 6977, as amended by RA No. 8289; and

f. The appropriated portion of the retained earnings in the amount of P61.346 million represents unissued shares corresponding to the cumulative dividends of the preferred shareholders (GSIS and SSS) representing its cumulative dividends from January 2002 to December 31, 2007. In 2013, the amounts of

P30.673 million in previously appropriated retained earnings were released to GSIS upon presentation of its certificate of acceptance.

On August 5, 2019, BR No. 2019-08-2803 approved the transfer of all guarantee-related functions, programs, funds, assets and liabilities of SB Corporation to the PHILGUARANTEE pursuant to EO 58, series of 2018. Total assets transferred amounted to P37.49 million taken from the equity of the NG.

On November 10, 2020, the NG in compliance with the provisions of RA No. 11494, otherwise known as the Bayanihan Act 2, infused capital in SB Corporation amounting to P8.080 billion aimed as additional funding for its CARES program and other lending facilities of the Corporation.

Treasury stocks were acquired from the redemption of the 400,000 common shares of PNB paid at its par value of P100 per share, excluding penalty for unpaid subscriptions. Payment was made on December 29, 2020.

## 20. SHARE PREMIUM

The share premium pertains to the additional paid in capital representing ten per cent excess of par for shares issued by SB Corporation to the NG for the GFSME assets turned over to SB Corporation pursuant to EO No. 28 dated July 30, 2001 which mandated the consolidation of GFSME and Small Business Guarantee Finance Corporation with the latter as the surviving entity.

## 21. RETAINED EARNINGS

| | **2021** | 2020 |
|---|---|---|
| Beginning balance | **4,587,358,733** | 3,143,304,539 |
| Comprehensive income for the year | **600,841,013** | 1,384,014,970 |
| Dividends | **(9,349,482)** | (55,524,224) |
| Other adjustments | **1,455,100** | 115,563,448 |
| Ending balance | **5,180,305,364** | 4,587,358,733 |

The ending balance of Retained Earnings (RE) is composed of Appropriated and Unappropriated RE. Appropriated RE balance for CY 2021 is P5.133 billion. This is the continuing lending fund balance of the P3 fund amounting to P5.102 billion and a P30.673 million appropriated fund for the stock dividends declared in 2005, still for issuance.

On the other hand, Unappropriated Retained Earnings is composed of accumulated net operating income before extra-ordinary losses amounting to P347.875 million for CY 2021, and extra-ordinary losses amounting to P300.610 million due to translation adjustments of foreign loans and derivative valuation.

| | **2021** | 2020 |
|---|---|---|
| ***Appropriated Retained Earnings*** | | |
| Pondo sa Pagbabago at Pag-Asenso (P3) | **5,102,367,342** | 4,612,680,084 |
| Appropriated for dividend | **30,673,100** | 30,673,100 |
| | **5,133,040,442** | 4,643,353,184 |

*(Forward)*

| | | |
|---|---|---|
| ***Unappropriated Retained Earnings/(Deficit)*** | | |
| Accumulated Net income, before extra-ordinary gains/(losses) | **347,875,151** | 239,685,124 |
| Pondo sa Pagbabago at Pag-Asenso (P3) | **0** | 4,959,207 |
| | **347,875,151** | 244,644,331 |
| Extra-Ordinary Gains/(Losses) | | |
| Net Unrealized Gain/(Loss) from Changes in Fair Value of Financial Instruments | **(107,079,760)** | (107,079,760) |
| Net Unrealized Gain/(Loss) on Foreign Exchange (FOREX) Translation | **(193,530,469)** | (193,559,022) |
| | **(300,610,229)** | (300,638,782) |
| | **47,264,922** | (55,994,451) |
| | **5,180,305,364** | 4,587,358,733 |

## 22. INCOME

### 22.1 Service and Business Income

Being a government-owned and controlled corporation primarily mandated to provide, among others, financing to the MSME sector, income generation is mostly derived from its lending operation, which includes both service and business income.

#### *a. Service Income*

| | 2021 | 2020 |
|---|---|---|
| Processing fees | **18,647,798** | 19,807,952 |
| Fees and commission income | **391,361,789** | 139,381,825 |
| | **410,009,587** | 159,189,777 |

Significant increase in Fees and commission income is attributable to the increased lending portfolio for the year by 55 per cent.

#### *b. Business Income*

| | 2021 | 2020 |
|---|---|---|
| Interest income | **232,980,502** | 219,371,406 |
| Fines and penalties | **9,338,962** | 6,934,605 |
| Dividend income | **211,765** | 150,000 |
| Rent/Lease income | **0** | 24,000 |
| Other business income | **2,269,143** | 2,299,463 |
| | **244,800,372** | 228,779,474 |

### 22.2 Gains

This account consists of the following:

| | 2021 | 2020 |
|---|---|---|
| Realized gain on foreign exchange (ForEx) | **2,000,888** | 3,404,412 |
| Gain on sale of investment property | **7,248,985** | 9,717,017 |

*(Forward)*

| | 2021 | 2020 |
|---|---|---|
| Gain on sale of property and equipment | **113,849** | 0 |
| Realized gain from changes in fair value of financial instruments | **1,119,426** | 0 |
| Total realized gain | **10,483,148** | 13,121,429 |
| Unrealized gain on ForEx | **51,341** | 43,616,786 |
| Unrealized gain from changes in fair value of financial instruments | **0** | 99,196,736 |
| Total unrealized gain | **51,341** | 142,813,522 |
| | **10,534,489** | 155,934,951 |

*Gain on ForEx* account includes realized gains amounting to P2.001 million and P3.404 million for CY 2021 and CY 2020, respectively. It also includes unrealized gains due to ForEx translation of underlying foreign loans amounting to P0.051 million and P43.617 million for CY 2021 and CY 2020, respectively.

*Gain from changes in fair value of financial instruments* includes realized gains upon payment of ForEx risk cover amounting to P1.119 million for CY 2021 and none for CY 2020. It also includes unrealized gains due to valuation of derivatives and deferred option premium amounting to P99.197 million for CY 2020 and none for CY 2021.

### 22.3 Other Non-Operating Income

*Miscellaneous income* includes income from Baguio Revitalization Actions for a Vibrant Economy – Economic Stimulus Package (BRAVE-ESP) facility and other miscellaneous income totaling P1,436,479 and P6,142,892 for CY 2021 and CY 2020, respectively.

## 23. EXPENSES

### 23.1 Personnel Services

| | 2021 | 2020 |
|---|---|---|
| Salaries and wages | **145,959,965** | 133,905,345 |
| Other compensation | **44,609,230** | 43,830,135 |
| Personnel benefit contributions | **36,241,415** | 36,992,112 |
| Other personnel benefits | **13,395,263** | 9,744,339 |
| | **240,205,873** | 224,471,931 |

### 23.2 Maintenance and Other Operating Expenses

| | 2021 | 2020 |
|---|---|---|
| Professional services | **73,520,555** | 59,494,211 |
| Taxes, duties, and licenses | **30,140,983** | 10,067,837 |
| Communication expenses | **8,549,717** | 5,244,112 |
| Confidential, intelligence and extraordinary expenses | **5,420,816** | 4,864,498 |

*(Forward)*

| | 2021 | 2020 |
|---|---|---|
| Repairs and maintenance | **4,283,606** | 4,142,271 |
| Supplies and materials expenses | **4,131,488** | 3,859,957 |
| Utility expenses | **3,295,011** | 2,680,507 |
| General services | **3,160,780** | 2,882,432 |
| Traveling expenses | **1,237,508** | 2,355,644 |
| Training and scholarship expenses | **538,098** | 71,047 |
| Other maintenance and operating expenses | **32,250,358** | 23,909,585 |
| | **166,528,920** | 119,572,101 |

Significant increase in the *Maintenance and other operating expenses* pertains to salaries of additional hired contract-of-service employees for the current year to carry out the Corporation's lending operations, payment of gross receipts tax as a result of service fees charged to loan releases, incurrence of additional utilities and training fees due to more relaxed community quarantine guidelines.

### 23.3 Financial Expenses

| | 2021 | 2020 |
|---|---|---|
| Interest | **4,484,597** | 6,551,980 |
| Guarantee fees | **4,734,729** | 8,054,869 |
| Bank charges | **2,317,846** | 442,198 |
| Trusteeship fees | **213,023** | 68,044 |
| Other financial charges | **0** | 126,500 |
| | **11,750,195** | 15,243,591 |

Significant decrease in the interest expense and guarantee fees pertains to the full payment of ODA loans (ADB and KfW) in September 2021

### 23.4 Non-Cash Expenses

| | 2021 | 2020 |
|---|---|---|
| Impairment loss | **705,414,825** | 124,661,104 |
| Losses | **11,484,129** | 202,114,483 |
| Depreciation | **9,357,705** | 9,141,260 |
| | **726,256,659** | 335,916,847 |

Losses are further broken down as follows:

| | 2021 | 2020 |
|---|---|---|
| Realized loss on ForEx translation | **9,817,214** | 584,357 |
| Realized loss on derivatives | **1,666,915** | 662,497 |
| Loss on sale/redemption/transfer of investments | **0** | 28,978 |
| Total realized loss | **11,484,129** | 1,275,832 |
| Unrealized loss due to ForEx translation | **0** | 60,256,348 |
| Unrealized loss due to valuation of derivatives and deferred option | **0** | 140,582,303 |
| Total unrealized loss | **0** | 200,838,651 |
| | **11,484,129** | 202,114,483 |

## 24. INCOME TAX

This account is determined as follows:

| | 2021 | 2020 (As restated) |
|---|---|---|
| Current income tax expense | **33,772,039** | 0 |
| Deferred income tax benefit | **(112,573,772)** | (29,172,346) |
| | **(78,801,733)** | (29,172,346) |

### 24.1 Regular Corporate Income Tax (RCIT)

| Particulars | 2021 | 2020 |
|---|---|---|
| Net income before income tax | **522,039,280** | 1,354,842,624 |
| *Permanent differences* | | |
| Non-deductible expenses: | | |
| Maintenance and other operating expenses-P3 | **79,959,207** | 70,040,793 |
| Interest expense | **4,484,597** | 6,551,980 |
| Non-taxable income: | | |
| Subsidy from NG – P3 | **(1,000,000,000)** | (1,500,000,000) |
| Interest income on government securities | **(94,391,903)** | (39,279,441) |
| Interest income on bank deposits | **(517,967)** | (849,455) |
| **Accounting income subject to tax** | **(488,426,786)** | (108,693,499) |
| *Temporary differences* | | |
| Provision for impairment loss | **705,414,826** | 124,661,104 |
| Accounts written off | **(80,028,802)** | (77,599,047) |
| Net Operating Loss Carry Over | **(3,606,314)** | 0 |
| Unrealized net gain on ForEx Translation | **(28,552)** | 16,639,561 |
| Accrued Salaries and Wages | **1,763,785** | 0 |
| Unrealized net loss on Derivative Valuation | **0** | 41,385,567 |
| **Taxable income** | **135,088,157** | (3,606,314) |
| Tax rate | **25%** | 27.5% |
| **RCIT due** | **33,772,039** | 0 |

### 24.2 Minimum Corporate Income Tax (MCIT)

| Particulars | 2021 | 2020 |
|---|---|---|
| Gross revenue | **558,048,024** | 350,273,722 |
| Less: Cost of Sales-Finance charges | **7,263,948** | 8,652,996 |
| **Gross income** | **550,784,076** | 341,620,726 |
| Other taxable income not subjected to final tax | **11,011,122** | 15,555,122 |
| **Taxable gross income** | **561,795,198** | 357,175,848 |
| MCIT rate | **1%** | 1.5% |
| **MCIT due** | **5,617,952** | 5,357,638 |
| | | |
| Tax Due | **33,772,039** | 5,357,637 |
| *Available tax credits:* | | |
| Creditable withholding tax | **(844,476)** | (142,326) |

*(Forward)*

| Particulars | 2021 | 2020 |
|---|---|---|
| Prior year's income tax payments | **(3,667,186)** | (8,882,497) |
| Excess MCIT | **(10,262,956)** | 0 |
| Quarterly income tax payments | **(28,179,773)** | 0 |
| **Tax due (overpayment)** | **(9,182,353)** | (3,667,186) |

### 24.3 Income Tax Benefit Computation

| Particulars | Amount |
|---|---|
| **Deferred tax asset – allowance for impairment accounts (AIA)** | |
| 2021 provision | 705,414,826 |
| Less: Accounts written off | 80,028,802 |
| Provision net of accounts written off | 625,386,024 |
| Tax rate | 25% |
| **Income tax benefit– AIA for 2021** | **156,346,506** |
| Deferred tax asset – AIA, January 1, 2021 | 131,506,701 |
| **Deferred tax asset – AIA, December 31, 2021** | **287,853,207** |
| | |
| Financial asset at FVTPL | 28,552 |
| Tax rate | 25% |
| **Deferred tax liability – FA at FVTPL, December 31, 2021** | **7,138** |

### 24.4 MCIT and NOLCO Schedule

| Minimum corporate income tax | | | | | | |
|---|---|---|---|---|---|---|
| **Year Occurred** | **Available until** | **Excess MCIT Prior Years** | **Excess MCIT Current Year** | **Excess MCIT over Normal Income Tax** | **Expired /Used portion of excess MCIT** | **Balance MCIT still allowable tax credit** |
| 2021 | N/A | 0 | 0 | 0 | (10,262,956) | (10,262,956) |
| 2020 | 2023 | 5,357,637 | 0 | 0 | 0 | 5,357,637 |
| 2019 | 2022 | 101,588 | 0 | 0 | 0 | 101,588 |
| 2018 | 2021 | 4,803,731 | 0 | 0 | 0 | 4,803,731 |
| **Total** | | **10,262,956** | 0 | 0 | (10,262,956) | **0** |

| Net Operating Loss Carry Over | | | | | | |
|---|---|---|---|---|---|---|
| **Year Occurred** | **Available until** | **NOLCO Prior Years** | **NOLCO Current Year** | **Applied** | **Expired** | **Balance** |
| 2021 | 2026 | 0 | 0 | 3,606,314 | 0 | (3,606,314) |
| 2020 | 2025 | 3,606,314 | 0 | 0 | 0 | 3,606,314 |
| **Total** | | **3,606,314** | 0 | 0 | 0 | **0** |

### 24.5 Deferred Tax Assets and Liabilities

The deferred tax assets and liabilities relate to the following as at year-end:

| | Statement of Financial Position | | Statement of Comprehensive Income | |
|---|---|---|---|---|
| | **2021** | 2020 | **2021** | 2020 |
| **Deferred tax assets** | | | | |
| MCIT | **0** | 10,262,956 | **0** | 0 |
| NOLCO | **0** | 3,606,314 | **3,606,314** | (3,606,314) |
| Provision for impairment | **287,853,207** | 131,506,701 | **(156,346,506)** | (12,942,066) |
| Unrealized losses on forex | **0** | 40,159,282 | **40,159,282** | (4,575,878) |
| | **287,853,207** | 185,535,253 | **(112,580,910)** | (21,124,258) |
| **Deferred tax liabilities** | | | | |
| Financial asset at FVTPL | **7,138** | 4,101,725 | **7,138** | (8,048,088) |
| **Net deferred tax assets** | **287,846,069** | 181,433,528 | | |
| **Net income tax benefit-deferred** | | | **(112,573,772)** | (29,172,346) |

## 25. SUBSIDY FROM NATIONAL GOVERNMENT

Pondo sa Pagbabago at Pag-Asenso (P3)

P3 is the Duterte Administration's flagship program aimed at providing economic and employment opportunities through the encouragement of entrepreneurship. The program aims to provide microenterprises with an alternative source of financing that is easy to access and at a reasonable cost to boost the development of entrepreneurship in the MSME sector.

CY 2021 is P3's fifth year of operation. P3 funding is included as a Tier 1 funding of P1.0 billion with a Tier 2 funding of P500 million. The mobilization fund for the year was at 7.5 per cent of the subsidy.

Presented below is the two-year comparative fund balance with breakdown of expenses incurred for the program implementation:

| | **2021** | 2020 |
|---|---|---|
| **Receipts** | **1,000,000,000** | 1,500,000,000 |
| **Expenses** | | |
| *Maintenance and other operating expenses* | | |
| Other professional services | **46,800,501** | 43,764,868 |
| Documentary stamp expenses | **7,302,737** | 4,492,568 |
| Rent/Lease expenses | **6,060,977** | 5,934,405 |
| Taxes, duties and licenses | **4,602,790** | 0 |
| Telephone expenses | **2,402,487** | 1,662,788 |
| Internet subscription expenses | **2,277,489** | 1,474,154 |
| Electricity expenses | **1,731,823** | 1,372,350 |
| Repairs and maintenance-machinery and equipment | **1,423,290** | 1,798,246 |
| Office supplies expenses | **1,317,404** | 1,577,354 |
| Janitorial services | **1,076,925** | 944,200 |
| Fuel, oil and lubricants expenses | **810,517** | 485,455 |
| Repairs and maintenance-transportation equipment | **574,883** | 472,565 |
| Security services | **452,868** | 451,524 |
| Traveling expenses-local | **393,180** | 1,181,432 |
| Printing and publication expenses | **369,600** | 1,076 |
| *(Forward)* | | |

| | 2021 | 2020 |
|---|---|---|
| Postage and courier services | **365,706** | 311,599 |
| Training expenses | **263,267** | 24,604 |
| Water expenses | **61,542** | 53,705 |
| Repairs and maintenance-Other property, plant and equipment | **56,683** | 37,433 |
| Advertising, promotional and marketing expenses | **50,024** | 735,388 |
| Subscription expenses | **45,367** | 0 |
| Representation expenses | **25,332** | 88,127 |
| Litigation/Acquired assets expenses | **19,969** | 22,950 |
| Repairs and maintenance-buildings and other structures | **18,227** | 11,284 |
| Semi-expendable machinery and equipment expenses | **12,550** | 5,650 |
| Legal services | **9,800** | 0 |
| Insurance expenses | **2,510** | 0 |
| Bank charges | **1,650** | 14,615 |
| Repairs and maintenance-furniture and fixtures | **150** | 500 |
| Semi-expendable furniture, fixtures and books expenses | **0** | 51,106 |
| Consultancy services | **0** | 1,719,200 |
| Other financial charges | **0** | 24,000 |
| Other maintenance and operating expenses | **1,428,959** | 1,327,647 |
| | **79,959,207** | 70,040,793 |
| Provision for probable losses | **431,597,529** | 58,532,569 |
| | **551,556,736** | **128,573,362** |
| **Fund balance** | **488,443,264** | **1,371,426,638** |

The fund balance at year-end forms part of the Appropriated Retained Earnings to ensure continuous delivery of activities under the P3 program.

## 26. EMPLOYEE BENEFITS

### 26.1 Provident fund

Eligibility

All full-time employees of the SB Corporation occupying plantilla positions who have rendered at least six (6) months of continuous services with SB Corporation as plantilla personnel shall automatically be eligible for membership in the fund.

Fund Implementation

The provident fund is a defined contribution plan made by both the SB Corporation and its officers and employees. The affairs and business of the fund are directed, managed and administered by its Board of Trustees.

Each member shall authorize SB Corporation to deduct and withhold at the end of each month a portion of his basic monthly salary as his contribution to the Fund. SB Corporation, on the other hand, shall pay to the Fund a counterpart monthly contribution equivalent to a certain percentage of each member's Basic Monthly Salary.

Upon retirement, death or resignation, the employee or his heirs will receive from the fund payments equivalent to his contributions, his proportionate share of the corporate contributions and investment earnings thereon.

The creation of the provident fund was authorized by the BOD per BR No. 396, series of 1997, as amended by the DBM in its letter dated March 13, 2003. This is consistent with Section 14 (f) of R.A. 9501 (Section 11 of R.A. 6977, as amended by R.A. 8289 and R.A. 9501).

**26.2 Retirement benefits**

Retirement benefits are available to qualified employees under any one of the following laws:

| Covering Law | Coverage | Available Benefits | Paying Institution |
|---|---|---|---|
| RA No. 1616 | Employees as at May 31, 1977 with 20 years of service (YoS), the last three years of which are continuous | One month basic salary (BS) for the first 20 YoS, 1.5 BS in excess of 20 up to 30 YoS and 2.0 BS in excess of 30 YoS | SB Corporation |
| RA No. 8291 | At least 15 YoS, if below age 60 upon retirement, benefit is payable at age 60 | Monthly pension or cash payment | GSIS |

**26.3 Terminal leave benefits**

This represents the cash value of the accumulated vacation and sick leave credits of employees, 50 per cent of which can be monetized.

## 27. LEASES

SB Corporation leases the premises which serve as its extension offices in Cebu, Davao, Baguio and other desk offices in the different regions of the country for a period of one year and has the option to renew such leases under certain terms and conditions.

## 28. RELATED PARTY TRANSACTIONS

As of December 31, 2021, the composition of the Board of Directors of Small Business Corporation is as follows:

| Board Position | Name | Position from Other Agencies |
|---|---|---|
| 1. Acting Chairperson | Blesila Abellanosa Lantayona | Undersecretary, Department of Trade and Industry |
| 2. Member | Carlos Garcia Dominguez | Secretary, Department of Finance |
| 3. Member | Rosalia Villegas De Leon | Treasurer, Bureau of Treasury |
| 4. Member | Reina Ditan Cuarez | Executive Assistant V, Bureau of the Treasury |
| 5. Member | Ma. Luna Enriquez Cacanado | President & Chief Executive Officer (CEO), Small Business Corporation |

*(Forward)*

| Board Position | Name | Position from Other Agencies |
|---|---|---|
| 6. Member | Manuel Burgos Bendigo | Private Sector |
| 7. Member | Joe Jay Tan Doctora | Private Sector |
| 8. Member | Arnulfo Vega Galdo | Private Sector |
| 9. Member | Jacob Sabile Vasquez | Private Sector |
| 10. Member | Voltaire Bigornia Magpayo | Private Sector |

**Key Management Personnel Remuneration and Compensation**

The key Management personnel of Small Business Corporation are the President/ CEO, Executive Vice President, Sector Managers and various Group Managers, and Managers/Corporate Executive Officers of the operating and support groups.

Meanwhile, the total remuneration received by the members of the Board of Directors amounted to P2,103,106 and P2,021,762 for CY 2021 and CY 2020, respectively.

## 29. FINANCIAL RISK MANAGEMENT

SB Corporation is exposed to a variety of financial risks such as market risk (including currency risk, interest rate risk and price risk), credit risk, and liquidity risk. The financial risks are identified, measured and monitored through various control mechanisms to assess adequately the market circumstances to avoid adverse financial consequences. This is to ensure that SB Corporation performs its mandate as a government-owned and controlled corporation (GOCC) and not merely duplicates what the private sector and other GOCCs are already doing. This is to likewise optimize the utilization of NG investments by not contributing to the cycle of poverty and debt for small business owners.

ERMG conducts an independent review of the appropriateness of the classification and adequacy of the allowance for credit losses. It strives to promptly recognize, identify deteriorating credit exposures and determine appropriate ACL at all times. The loan classification and provisioning aim to adopt both quantitative and qualitative factors in the determination of SB Corporation's credit exposure, risk quality and consequently, the level of LLP to be allocated to individual accounts. Quantitative factor is based from the status and ageing of accounts generated through the ITG-MIS Past Due Report. Qualitative validation on the other hand is based on the result of account monitoring and other relevant information gathered/performed by the respective Regional Lending Groups. During the validation exercise, the principles of recognizing expected credit loss (ECL) in identifying impairment was adopted in order to promote prudence and transparency consistent with the PFRS 9 Guidelines on Impairment. Independent account-level validation exercise and project visit by ERMG at the various RLGs/borrowers was not performed in view of the COVID-19 restrictions.

SB Corporation's risk management policies for each financial risk factor are summarized below:

### a. Credit Risk

In view of its mandate to safeguard the interest of the public and contribute to the promotion of stability in the economy, SB Corporation manages credit risk at all relevant levels of the organization. It defines credit risk as the risk that the loans granted to borrowers and/or other financial institutions will not be paid when due, thereby, causing incurrence of financial losses.

SB Corporation therefore exercises prudence in the grant of loans over its exposures to credit risk, taking into consideration its developmental objectives as mandated by the Magna Carta for MSMEs. This is managed through the implementation of the borrower risk rating and monitoring of loan covenants in the loan agreements. The borrower risk rating is being used, among others, as basis for determining credit worthiness of loan applicants. Further, SB Corporation mitigates such credit risks through the acceptance of eligible collaterals as secondary form of payment.

**b. Market Risk–Interest Rate Risk and Foreign Exchange Risk**

SB Corporation anticipates, measures, and manages its interest rate sensitivity position to ensure its long-run earning power, build-up of its investment portfolio and avoid economic losses. Special emphasis is placed on the change in net interest income/expense that will result from possible fluctuations in interest rates, changes in portfolio mix and tenor.

SB Corporation manages its currency risk against foreign exchange rate fluctuations on its foreign currency denominated borrowings through a FXRC secured from the DOF at a given cost for the term of the loan. Moving forward however, with the prepayment of the Corporation’s foreign denominated loans this year, no currency risk will be experienced as the remaining loan is under its functional currency. On the other hand, SB Corporation’s exposure to market risk for changes in interest rates relates primarily to its loans from various financial institutions.

**c. Liquidity Risk**

SB Corporation seeks to manage its liquidity profile to be able to finance capital expenditures and service maturing debts. To cover its financing requirements, it intends to use internally generated funds and available long-term and short-term credit facilities.

As part of its liquidity risk management, SB Corporation regularly evaluates its projected and actual cash flows and institutes liquidity risk controls. It also continuously assesses conditions in the financial markets for opportunities to pursue fund raising activities, in case any requirements arise. Fundraising activities may include bank loans and capital market issues.

## 30. SUPPLEMENTARY INFORMATION REQUIRED BY THE BUREAU OF INTERNAL REVENUE

Presented below is the supplementary information which is required by the BIR Revenue Regulation No. 15-2010 to be disclosed as part of the notes to financial statements. This supplementary information is not a required disclosure under PFRS.

**Requirements under Revenue Regulation No. 15-2010**

Hereunder are the information on taxes, duties and license fees paid or accrued during the taxable year 2021. The taxes and licenses paid/accrued during the year are as follows:

*(a) Withholding taxes*

| | 2021 | 2020 |
|---|---|---|
| Taxes on compensation and benefits | **26,935,578** | 23,758,414 |
| Value added taxes (VAT) | **4,320,016** | 3,653,030 |
| Expanded withholding taxes | **2,450,347** | 1,156,618 |
| Gross receipt taxes (GRT) | **28,046,733** | 8,401,784 |
| | **61,752,674** | 36,969,846 |

These taxes, except for taxes on compensation and benefits, were remitted in the SB Corporation's capacity as withholding agent pursuant to RR No. 17-2003 as amended by RR No. 14-2008.

*(b) Other taxes*

| | 2021 | 2020 |
|---|---|---|
| **Local** | | |
| Real estate taxes | **639,770** | 614,919 |
| Corporate community tax | **10,500** | 10,500 |
| | **650,270** | 625,419 |
| **National** | | |
| Documentary stamp taxes | **61,122,591** | 33,558,183 |
| BIR annual registration | **1,000** | 500 |
| | **61,123,591** | 33,558,683 |
| | **61,773,861** | 34,184,102 |

*(c) Tax cases and assessment*

On December 20, 2018, the BIR issued a FAN to SB Corporation for deficiency tax amounting to P124 million. On June 4, 2019, SB Corporation counter filed a Manifestation with Motion to Suspend Proceedings before the Department of Justice (DOJ). After almost two years with no resolution from the DOJ, the Corporations' Board of Directors decided to withdraw the petition and resume the reinvestigation with the BIR. The petition for withdrawal was sent on March 19, 2021. The request for reinvestigation was granted by BIR and the discussion resumed on the 1st quarter of CY2022. As a result of the reconciliation and agreement, the following was paid to close the case:

| Tax type | Amount | Payment date |
|---|---|---|
| Income tax | 3,075,071 | April 21, 2022 |
| Percentage tax | 1,038,006 | April 21, 2022 |
| Percentage tax | 1,852,178 | May 26, 2022 |
| Other percentage tax | 1,707,730 | May 26, 2022 |
| Expanded tax | 1,057,458 | April 21, 2022 |
| **Total** | **8,730,443** | |

# PART II

# OBSERVATIONS AND RECOMMENDATIONS

## OBSERVATIONS AND RECOMMENDATIONS

## A. FINANCIAL AUDIT

**1. The absence of accounting policy which is Philippine Financial Reporting Standards (PFRS) 9 compliant as basis for the estimation of Allowance for Expected Credit Loss (ECL) on various financial assets measured at amortized costs totaling P14.871 billion as at December 31, 2021 constitutes a departure from Paragraph 5.5 of PFRS 9 on *Financial Instruments*, thus resulting in the overstatement of various asset accounts and understatement of related expense account all by undetermined amounts.**

1.1 Paragraphs 5.5.1 and 5.5.3 of PFRS 9 state that:

> *5.5.1 An entity shall recognize a loss allowance for expected credit losses on a financial asset that is measured in accordance with paragraphs 4.1.2 or 4.1.2A, a lease receivable, a contract asset or a loan commitment and a financial guarantee contract to which the impairment requirements apply in accordance with paragraphs 2.1(g), 4.2.1(c) or 4.2.1(d).*

> *5.5.3 Subject to paragraphs 5.5.13–5.5.16, at each reporting date, an entity shall measure the loss allowance for a financial instrument at an amount equal to the lifetime expected credit losses if the credit risk on that financial instrument has increased significantly since initial recognition.*

1.2 Moreover, paragraph 5.5.9 of PFRS 9 states that:

> *5.5.9 <u>At each reporting date, an entity shall assess whether the credit risk on a financial instrument has increased significantly since initial recognition</u>. When making the assessment, an entity shall use the change in the <u>risk of a default</u> occurring over the expected life of the financial instrument instead of the change in the amount of expected credit losses. To make that assessment, an entity shall compare the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and consider reasonable and supportable information, that is available without undue cost or effort, that is indicative of significant increases in credit risk since initial recognition.* (Underscoring ours)

1.3 Moreover, PAS 1 requires that financial statements must present fairly the financial position, financial performance and cash flows of an entity. Fair presentation requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the Conceptual Framework for Financial Reporting. The application of financial reporting standards, with additional disclosure, when necessary, is presumed to result in financial statements that achieve a fair presentation. A fair presentation also requires an entity to select and apply accounting policies in accordance with PAS 8 Accounting Policies, Changes in Accounting Estimates and Errors. PAS 8 sets out a hierarchy of authoritative guidance that management considers in the absence of a PFRS that specifically applies to an item.

1.4 The amendments in PFRS 9 sets the criteria using the expected credit loss (ECL) method in measuring the impairment loss of financial assets that meet the classification requirement of the standard under paragraphs 4.1.2 or financial assets measured at amortized cost (AC), under paragraphs 4.1.2A or financial assets measured at Fair Value Through Other Comprehensive Income (FVOCI), lease receivable, contract asset or loan commitment and financial guarantee.

1.5 As at December 31, 2021, SB Corporation reported the following financial assets which are recorded at amortized cost:

| Particulars | Amount | Allowance for Impairment Loss | Carrying Amount | % over Total Assets | Remarks |
|---|---|---|---|---|---|
| Investment in treasury bills | 1,797,283,966 | 0 | 1,797,283,966 | 11.60 | **A** |
| Investment in treasury bonds | 1,496,182,085 | 0 | 1,496,182,085 | 9.66 | **A** |
| Capital notes | 105,000,000 | 0 | 105,000,000 | 0.68 | **A** |
| Accounts receivable | 44,185,538 | (1,864,527) | 42,321,011 | 0.27 | **A;B** |
| Notes receivable | 11,262,338,701 | (1,481,666,548) | 9,780,672,153 | 63.14 | **A;B** |
| Other receivables | 166,347,830 | 0 | 166,347,830 | 1.08 | **A** |
| | **14,871,338,120** | **1,483,531,075** | **13,387,807,045** | | |
| Cash and cash equivalents | 1,649,847,951 | 0 | 1,649,847,951 | 10.65 | **C** |
| **Total Financial Assets** | **16,521,186,071** | **1,483,531,075** | **15,037,654,996** | **97.08** | |
| **Total Assets** | | | **15,489,743,220** | | |

*A – No loss allowance for expected credit losses was recognized on a financial asset that is measured in accordance with paragraphs 4.1.2 (amortized cost).*
*B – Loss allowance was recognized under PAS 39.*
*C – Assessed with low credit risk, hence no ECL was recognized.*

1.6 It can be gleaned from the table above that SB Corporation was not able to measure the impairment on its investments in treasury bonds and bills, and capital notes accounts which are classified and measured at amortized cost amounting to P3.398 billion. The non-provision of impairment loss for the mentioned investments is not in consonance with the ECL model under PFRS 9 wherein there is no clear exemption set in the standard. It only discussed that an entity should always account for ECL and changes in those credit losses even before objective evidence of impairment becomes apparent. Although investments in treasury bonds and bills are considered risk-free securities, SB Corporation should still assess whether it will constitute a low credit risk for purposes of ECL provisioning.

1.7 On the other hand, accounts receivables, notes receivable and other receivables totaling P11.473 billion were also not properly reduced by loss allowance based on expected credit loss model. The Audit Team noted that no loan loss provision was recognized for other receivables for CY 2021 while the recorded allowance for impairment loss for accounts and notes receivables is based on historical data/incurred loss model that the borrower will default payments. This is contrary to PFRS 9 on ECL provisioning that a loan loss allowance should be recognized at initial recognition of a financial instrument. According to SB Corporation, they are still assessing and analyzing the Receivable accounts before they can compute for additional impairment.

1.8 The absence of accounting policy as basis for the estimation of allowance for impairment in accordance with PFRS 9 constitutes a departure from the said Standard which resulted in the overstatement by undetermined amounts of the various financial assets measured at amortized costs amounting to P14.871 billion, thus, affecting the fair presentation of these assets in the financial statements.

1.9 **We recommended that Management, through the concerned Groups:**

**a. Formulate an accounting policy to be used and applied by the SB Corporation as basis in the estimation of ECL for its financial assets in accordance with PFRS 9; and**

**b. Strictly comply with the pertinent provisions and requirements of PFRS 9 in setting up Allowance for ECL.**

1.10 Management has commissioned a third-party validator for CY 2021 to properly measure the Allowance for ECL in accordance with PFRS 9.

**2. The non-elimination of the intra-agency Receivables-Due from Other Funds and Payables-Due to Other Funds accounts in the financial statements as at year-end overstated the total assets and total liabilities by P83.470 million and P91.590 million, respectively, as at December 31, 2021**.

2.1 SB Corporation, as an attached agency of the Department of Trade and Industry (DTI), administers the Pondo sa Pagbabago at Pag-asenso (P3) Program, which is a financing initiative of the government to assist micro entrepreneurs throughout the country by providing affordable and cost - efficient micro loans. The SB Corporation manages the P3 fund through separate book of accounts.

2.2 Further, Notes 6 and 14 to the FS of CY 2021 describe the intra-agency accounts of SB Corporation as receivables and payables between the SB Corporation and P3 funds representing advances that are regularly monitored on a periodic basis. The Management added that intra-agency accounts exist due to expenses interchangeably booked from other funds.

2.3 In theory, intra-agency accounts are reciprocal accounts that serve as clearing accounts to monitor the recording of intra-fund transactions and for convenience in setting up and eliminating reciprocal accounts. For SB Corporation, intra-agency accounts consist of Due from P3 as SB Corporation's receivable account; and Due to P3 as SB Corporation's payable account and vice versa. Thus, as reciprocal accounts, both accounts should have been eliminated with each other during combination of the SB Corporation and P3 books, and therefore should have zero balances in the FS at year-end.

2.4 As at December 31, 2021, the balances of the Intra-agency Receivables-Due from Other Funds and Intra-Agency Payables-Due to Other Funds accounts as presented in the Detailed Statement of Financial Position (SFP) of SB Corporation amounted to P83.470 million and P91.590 million, respectively. Details as follows:

| Fund | Intra-agency Receivable | Intra-agency Payable | Discrepancy |
|---|---|---|---|
| Corporate | 24,120,662 | 38,246,627 | (14,125,965) |
| P3 | 59,349,241 | 53,343,456 | 6,005,785 |
| **Total** | **83,469,903** | **91,590,083** | **(8,120,180)** |

2.5 Inquiry with the concerned personnel of the CG disclosed that the elimination of the reciprocal accounts upon combination cannot be performed because the reconciliation of the transactions as at December 31, 2021, are still ongoing. Management claimed that the major setback encountered in the reconciliation process is the voluminous transactions of the previous years' unreconciled amounts that occurred during the height of the pandemic.

2.6 Further, the Audit Team requested from SB Corporation, through CG, the Aging of the reconciling items or Reconciliation Report as at December 31, 2021 but none was submitted as of Report date, thus, details of the variances cannot be ascertained.

2.7 Consequently, the total assets and total liabilities as at December 31, 2021, of SB Corporation amounting to P15.490 billion and P307.421 million, respectively, are overstated by P83.470 million or 0.54 per cent of total assets and P91.590 million or 42.43 per cent of total liabilities, respectively due to the existence of the intra-agency reciprocal accounts that remain unreconciled, hence, not eliminated as at year-end. Details follow:

| Particulars | Amount |
|---|---|
| Total Assets | 15,489,743,220 |
| Intra-agency Receivables | 83,469,903 |
| **Should appear as total assets** | **15,406,273,317** |
| **Percentage of overstatement** | **0.54%** |
| Total Liabilities | 307,420,996 |

| Particulars | Amount |
|---|---|
| Intra-agency Payables | 91,590,083 |
| **Should appear as total liabilities** | **215,830,913** |
| **Percentage of overstatement** | **42.43%** |

2.8 The Audit Team would like to emphasize the definition of assets and liabilities as provided in Chapter 4 of the Conceptual Framework as follows:

> *4.3 An asset is a present economic resource controlled by the entity as a result of past events.*
>
> *4.4 An economic resource is a right that has the potential to produce economic benefits.*
>
> *4.5 A liability is a present obligation of the entity to transfer an economic resource as a result of past events.*

2.9 According to Management, the noted variances occurred due to non-recording and/or double recording of transactions to the fund accounts. Evidently, verification from the GLs of the accounts showed that there are transactions recorded twice and transactions that were not recorded in the corresponding reciprocal accounts.

2.10 The non-elimination of the amounts reported in both the Corporate and P3 funds as receivables from and payables to each other totaling P83.470 million and P91.590 million, respectively, overstated both the Total Assets and Total Liabilities by the same amounts as at December 31, 2021.

2.11 **We recommended that Management, through the CG:**

a. **Prioritize the reconciliation of intra-agency accounts and set reasonable timelines for the reconciliation thereof. Subsequently, make the necessary adjustments to pave the way for the elimination of reciprocal accounts of the Corporate and P3 fund;**

b. **Closely monitor and periodically review transactions made between the Corporate and P3 funds;**

c. **Formulate policies and guidelines on the recording of intra-agency transactions including measures in eliminating the variances of the reciprocal accounts and the accumulation of the same; and**

d. **Disclose the accounting policy on the combination and elimination of the reciprocal accounts in the NTFS, as appropriate.**

2.12 Management commented that a dedicated staff will be assigned to handle the reconciliation procedure until the third quarter of CY 2022 for the balances as at December 31, 2021. Further, elimination may be done after the reconciliation. In the meantime, the net variance amounting to P8.120 million will be reflected in the consolidated FS with a disclosure that the said variance is subject to reconciliation.

2.13 For CY 2022 transactions and onwards, Management will ensure that reciprocal accounts are timely and properly recorded in both Corporate and P3 funds.

2.14 In addition, the Payment Classification Module (PCM) in the Oracle System, one of the solutions to address and/or lessen the unreconciled balances, was implemented in January 2022. In this Module, collections made by P3 Fund for SB Corporate Fund is monitored and automatic accounting entries are effected in both funds. This is expected to minimize potential errors resulting from manually encoding accounting entries.

2.15 Management also shared that they would incorporate in the accounting manual, the policies and guidelines on the recording of intra-agency transactions including measures on eliminating the variances of the reciprocal accounts and accumulation of the same by the third quarter of CY 2022.

2.16 Prospectively, the policy regarding the consolidation of FS and elimination of the reciprocal accounts shall be disclosed in the NTFS.

2.17 As an audit rejoinder, the Audit Team appreciates the actions taken and to be undertaken by Management to reconcile the intra-agency accounts of SB Corporation. Such will be monitored and evaluated accordingly. However, we would like to emphasize that offsetting or netting of Due to and Due From Other Funds accounts to eliminate the balances of the reciprocal accounts shall be strictly done pursuant to the applicable provisions of PAS 32, which provides that offsetting of financial asset and liability is allowed when an entity currently has a legally enforceable right to set off the recognized amounts; and intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously, and accordingly disclose in the Notes to FS such offsetting of accounts in accordance with PFRS 7.

**3. Undistributed Collections (UC) totaling P10.807 million as at December 31, 2021, posted a significant increase of P7.203 million or 199.88 per cent from that of the previous year's UC, thus, misstating the balances of the Notes Receivable (NR), Interest Income and other related income accounts all by undetermined amounts as at and for the year ended December 31, 2021, and Other Payables accounts by P10.807 million as at even date.**

3.1 Paragraph 15 of PAS 1 provides that financial statements shall present fairly the financial position, financial performance and cash flows of an entity. Fair presentation requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the Conceptual Framework.

3.2 Relative thereto, Paragraphs 2.12 and 2.13 of the Conceptual Framework provides that 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, and that to be a perfectly faithful representation, a depiction would have three characteristics. It would be complete, neutral and free from error.

3.3 Meanwhile, SB Corporation's Accounting Policies and Procedures Manual defines UC as an account that represents direct deposit to the company's bank accounts without proper identification and therefore cannot be properly identified.

3.4 Item III, Annex A of Board Resolution (BR) No. 2020-12-3024 dated January 05, 2021, on Policies, Guidelines, and Measures to Eliminate UC, provides that:

> *1. The Account Officer (AO) must include in their orientation/negotiation with borrower-client on where to pay their amortization upon due date of the loan.*
>
> *2. Upon approval and signing of the borrower-client loan application with SB Corp, the Loan Releasing Officer must provide a PAYMENT INSTRUCTION SLIP (should be duly received by the borrower) where to pay or deposit their amortization upon due date xxx.*
>
> *3. To ensure that a certain borrower has been fully informed of the process, the PAYMENT INSTRUCTION SLIP shall form part of the requirement of Treasury Group (TG) in the processing of loan release/credits.*
>
> *4. The Collection Officer shall provide the List of Undistributed Collections manually generated based on data from the Official Receipt (OR) oracle-system. It shall be emailed to the concerned units (Business Delivery Unit (BDU) Head, AO, Desk Officers (DO), Coordinators, Loan Releasing Officer, Remedial Collection Officers (RCO)) and other officers to help in the identification of depositor/borrower's name. To have enough time, Collection Officer to send weekly the List of Undistributed Collections.*
>
> *5. The Credit and Asset Recovery Support Group (CARSG) Collection Officer shall, on a semestral basis, send confirmation letter to all borrowers indicating their outstanding loan balance/s (for development of an oracle-generated template) with SB Corporation as of a given cut-off date. The confirmation letter will likewise include information on where to deposit or pay their loan amortization due.*
>
> *6. The TG shall request LBP's endorsement allowing our BDU Heads, Cashier, Collections Officers, AOs, DO, Coordinators, RCO to receive duplicate copy/ies of deposit slip, if the need arises. The authorization of concerned personnel shall be signed by authorized*

*signatories in accordance with SBC Codified Approving and Signing Authorities (CASA).*

3.5 Verification of available accounting records, among others, General/Subsidiary Ledgers (G/SL), schedules and financial statements of SB Corporation pertaining to UC under Other Payables account with a reported balance of P10.807 million as at December 31, 2021 revealed that a significant increase of P7.203 million or 199.88 per cent from that of the previous year occurred, details follow:

| | **UC Balance** |
|---|---|
| As at December 31, 2020 | 3,603,884 |
| As at December 31, 2021 | 10,807,259 |
| **Increase** | **7,203,375** |
| Percentage of increase | 199.88% |

3.6 Aging of the reported P10.807 million UC as at December 31, 2021 is presented below:

| | **1 to 30 days** | **31 to 360 days** | **More than 1 year** | **Total** |
|---|---|---|---|---|
| Regular accounts | 205,010 | 1,435,567 | 1,551,587 | 3,192,164 |
| P3 accounts | 311,910 | 5,429,882 | 1,873,303 | 7,615,095 |
| | **516,920** | **6,865,449** | **3,424,890** | **10,807,259** |

3.7 Audit revealed that in CY 2021, collections from unidentified regular and P3 borrowers amounted to P1.748 million and P7.051 million, respectively, wherein an aggregate amount of P1.416 million or 16.10 per cent were identified and reconciled within the year, details as follows:

| **CY 2021** | **UC-Regular** | **UC-P3** | **Total** | **Percentage** |
|---|---|---|---|---|
| Reconciled accounts | 106,950 | 1,309,253 | 1,416,203 | 16.08% |
| Outstanding accounts | 1,640,576 | 5,741,793 | 7,382,369 | 83.92% |
| **Total** | **1,747,526** | **7,051,046** | **8,809,572** | **100.00%** |

3.8 According to the concerned personnel of the Credit Support and Asset Recovery Group (CSARG), then CARSG, the significant increase of UC was mainly due to the launch of the CoVID-19 Assistance to Restart Enterprises (CARES) Program of both SB Corporation and P3 funds in July 2020 and October 2020 pursuant to the implementation of Republic Act (RA) No. 11469, otherwise known as Bayanihan to Heal as One Act "Bayanihan 1" and RA No. 11494, otherwise known as the Bayanihan to Recover as One Act or "Bayanihan 2" providing interest and collateral-free loan to micro, small and medium enterprises (MSMEs) who have been adversely affected by the CoVID-19 pandemic. The number of borrowers increased from 12,107 in December 31, 2019 to 31,835 in December 31, 2020, and further increased to 52,070 as at December 31, 2021, thereby, increasing the collections towards the end of CY 2021.

3.9 Relative thereto, collections marked as unidentified were posted to the UC account either due to invalid/inexistent Promissory Note (PN) number and/or payor's name provided when paying their loan amortization to SBC's depository bank account and accredited payment partners are inexistent in the system

3.10 Further, verification of 197 accounts totaling P974,264, out of 1,479 outstanding accounts from the Schedule of UC-P3 account submitted by CSARG as at December 31, 2021 revealed that 70 accounts totaling P311,189 can be possibly identified to existing borrowers through the Loan Portfolio Report (LPR), while the remaining 127 accounts totaling P663,075 may not be possibly identified due to either inexistent name and/or invalid/inexistent PN Number, details follow:

| Particulars | Loan Status per LPR | No. of Accounts | Amount |
|---|---|---|---|
| Existing name, existing PN number | Current | 3 | 17,723 |
| Existing name, existing PN number | Past Due | 10 | 34,446 |
| Existing name, invalid/inexistent PN number | Current | 1 | 1,114 |
| Existing name, invalid/inexistent PN number | Past Due | 11 | 66,645 |
| Existing name but PN number isn't provided | Current | 8 | 140,684 |
| Existing name but PN number isn't provided | Past Due | 37 | 50,577 |
| | | **70** | **311,189** |
| Inexistent name and/or invalid/inexistent PN Number | | **127** | **663,075** |
| | | **197** | **974,264** |

3.11 The concerned personnel of CSARG informed the Audit Team of the following reasons on the inexistence and invalidity of the details provided by the borrowers:

a. Borrowers copying the sample Name and/or PN Number provided in the Payment Instruction Slip (PIS);
b. Borrowers providing the Bank Account of SB Corporation as the PN Number; and
c. Borrowers sending someone on their behalf to pay their amortization by depositing their payment, who then provides his/her name as the payor/depositor instead of the borrower's name.

3.12 It is worth noting that the Management adopted measures to mitigate the accumulation of UC provided under Item III, Annex A of BR No. 2020-12-3024. However, the Audit Team noted that the following were not successfully implemented, thus contributed to the significant increase in the UC account:

a. Sending of manually generated List of Undistributed Collections to the concerned units on a weekly basis via email by the Collecting Officer to help in the identification of depositor/borrower's name; and

b. Sending of confirmation letters to all borrowers on a semestral basis by the CSARG Collecting Officer indicating their outstanding balances and the information on where to deposit or pay their loan amortization due.

3.13 Consequently, the borrowers' accounts become long overdue, hence, tagged as past due accounts in the LPR-generated by the Management Information System because CG was not able to update the borrowers' SLs.

3.14 Ultimately, the non-posting of payments received from unidentified borrowers by SB Corporation to the concerned borrowers' SLs caused the accumulation of UC totaling P10.807 million which consequently overstated the NR as at December 31, 2021 and understated the Interest Income and other related income accounts for CY 2021 all by undetermined amounts, and overstated the Other Payables account by P10.807 million as at even date.

3.15 **We reiterated our prior years' audit recommendation that Management, through the concerned Groups/Units, prioritize the identification of loan accounts recorded under UC and immediately record payments and update the SL of identified borrowers to come up with the correct individual loan account balances.**

3.16 **We further recommended that Management, through the concerned Group/Unit:**

**a. Ensure the strict implementation of the established policies, guidelines and measures to eliminate UCs provided under Annex A of BR No. 2020-12-3024;**

**b. Create a unique borrower's account code for each MSME borrower to be indicated in the PIS, and brief the concerned borrower/representative on the importance of the borrower's account code and strict usage of the PIS in making payment, to effectively implement the measures provided under Item III, Annex A of BR No. 2020-12-3024;**

**c. Inform the Collecting Officers/Partner Agents not to accept payment without the unique borrower's account code in the PIS; and**

**d. Effect the necessary adjustments from UC to NR, Interest Income and other related accounts to reflect the correct SL balances and ultimately the account's balances in the financial statements.**

3.17 Management commented that efforts and other measures have been undertaken to address the increasing volume of UCs and to comply with the recommendations of the Audit Team. These are the following:

a. Approval of the Manning Changes in the Credit Support Teams and other CSARG units and Transition Plan of CSARG's collection functions under ManCom Resolution Nos. 2022-0301-007 and 2022-0301-008, respectively, to set up the Ad Hoc Team within CSARG and assign additional manpower to work on the identification of UCs;

b. An Ad Hoc Committee for UCs (AHC-UC) was created pursuant to ManCom Resolution via Routing No. 2022-0301-018 and Special Order No. 019, Series of 2022; and

c. During its initial meeting, the AHC-UC arrived at the following solutions:

c.1 Arrest the entry of the new UCs

i. Enhancement of the PIS to include the translation of the payment instructions in the local dialect for better understanding of the MSME borrowers;

ii. Adoption of the unique Customer Account Number (CAN) to properly identify accounts especially those with multiple accounts and covered by several PNs;

iii. Briefing of MSME borrowers on how to properly use the various payment modes/platforms as listed in the PIS; and

iv. Development of the necessary module under the Application of Payment System (APS) to allow manual matching of UCs incurred prior to the implementation of the APS to the correct borrower's account.

c.2 Address the volume of UCs as at December 31, 2021

i. Assignment of seven CSARG personnel who will work on the identification of UCs at least twice a week;

ii. The CSARG personnel to report on the progress of identified UCs to the AHC-UC on a weekly basis;

iii. As a matter of strategy, the UC work will focus on CY 2021 accounts starting with the highest amount;

iv. Target is to work on UCs up to April 30, 2022, and to request for extension as necessary. Thereafter, turn over the UC function to the different Regional Lending Groups for the identification of the remaining UCs;

v. Coordination with the collection partners on the proper identification of collections received/coursed thru their branches; and

vi. Coordination with the CG for the proper booking of identified collections.

3.18 Management added that as at April 20, 2022, they had identified 390 UCs totaling P4.977 million and that more are expected to be identified and payments applied accordingly as the AHC-UC continues its task of identifying and applying UCs.

3.19 As an audit rejoinder, the Audit Team acknowledges the efforts exerted by Management to address the increasing volume of UCs. However, the reported balance of NR, Interest Income and other related income accounts remain misstated pending application of the remaining UC to the borrowers' loan accounts. Accordingly, the actions taken and to be undertaken by the Management to comply with the recommendations will be monitored and evaluated.

**4. Deficiencies in the administration and accounting of Real and Other Properties Acquired (ROPAs)**

**A. Non-appraisal of ROPAs under Investment Property (IP) and Non-Current Assets Held for Sale (NCAHFS) accounts for more than a year with aggregate carrying value of P26.489 million as at December 31, 2021 affects the valuation of ROPAs.**

4.1 Paragraph 9 of PAS 36 on Impairment of Assets, requires that:

*An entity shall assess at the end of each reporting period whether there is any indication that an asset may be impaired. If any such indication exists, the entity shall estimate the recoverable amount of the asset which is the higher of its fair value less costs of disposal (FVLCD) and value in use (VIU).*

4.2 In addition, Section 3(c) 5 of BSP Circular No. 520, series of 2006, provides that:

*Appraisal of Properties. Before foreclosing or acquiring any property in settlement of loans, it must be properly appraised to determine its true economic value. If the amount of ROPA to be booked exceeds P5 million, the appraisal must be conducted by an independent appraiser acceptable to the BSP. An in-house appraisal of all ROPAs shall be made* ***at least every other year****: Provided, that immediate re-appraisal shall be conducted on ROPAs which materially decline in value. (Emphasis ours).*

4.3 Notes 2.8 and 2.9 to the FS of SB Corporation, states that:

*NCAHFS are booked initially at the outstanding balance of the loan less allowance for impairment plus transaction costs incurred upon acquisition. After classification as Non-current assets held for sale, they are measured at the lower of carrying amount and fair value less costs to sell and* ***shall be tested for impairment.***

*xxx*

*Investment properties are appraised* ***every two years to determine whether impairment exists****. Immediate reappraisal may be undertaken if there is evidence of material decline in value. If the recoverable amount/appraised value is less than its carrying amount, the difference is recognized in the SCI as impairment loss.* (Emphasis ours).

4.4 Review of the Schedule of ROPA showed that various properties under the following accounts with aggregate carrying amount of P26.489 million as at December 31, 2021, have not been subjected to appraisal for two to 21 years:

| Account | No. of Years of Non-appraisal | Carrying Amounts at 12/31/2021 |
|---|---|---|
| IP–Land | 2 to 21 years | 17,706,717 |
| IP–Buildings | 2 to 21 years | 310,652 |
| **Sub-total** | | 18,017,369 |
| | | |
| NCAHFS–Land | 2 years | 8,224,446 |
| NCAHFS–Building | 2 years | 246,793 |
| **Sub-total** | | 8,471,239 |
| **Total** | | **26,488,608** |

4.5 Non-appraisal of IP and NCAHFS at the frequency required by PAS 36 and BSP Circular No. 520, series of 2006, as well as the SB Corporation's policy, may result in the non-recognition of impairment loss for properties that have materially declined in value and/or reversal of impairment loss for properties that increased in value, thus, affecting the valuation of ROPAs.

4.6 **We recommended and Management agreed, through the concerned Group, to conduct the in-house appraisal of the properties at the frequency required by PAS 36 and BSP Circular No. 520, series of 2006.**

**B. Acquired properties totaling P8.624 million are recorded under NCAHFS despite not having met the reporting requirements of PFRS 5, thus, overstating the NCAHFS account and understating the IP account both by the same amount as at December 31, 2021.**

4.7 The NCAHFS account consists of land and building amounting to P10.631 million and P466,571, respectively, as at December 31, 2021. Examination of the account disclosed that properties totaling P8.624 million did not meet the criteria to be classified as NCAHFS as follows:

| Status | NCAHFS As at December 31, 2021 | | |
|---|---|---|---|
| | **Building** | **Land** | **Total** |
| Disposal for implementation | 0 | 2,474,044 | 2,474,044 |
| **Assets not under the scope of PFRS 5** | | | |
| Failed Public Bidding from CY 2019 to CY 2021 | 466,571 | 6,647,392 | 7,113,963 |
| For Negotiated Sale | 0 | 1,069,083 | 1,069,083 |
| Reverted from Sales Contract Receivable | 0 | 149,763 | 149,763 |
| For Consolidation | 0 | 211,346 | 211,346 |
| Under Redemption Period | 0 | 79,721 | 79,721 |
| | **466,571** | **8,157,305** | **8,623,876** |
| | **466,571** | **10,631,349** | **11,097,920** |

4.8 Foregoing table shows that:

a. properties totaling P7.114 million were offered for public bidding but the auction failed;

b. properties totaling P1.069 million is still for negotiated sale after two failed public bidding;

c. a property amounting to P149,763 was reverted from Sales Contract Receivable account due to a defaulting buyer;

d. a property amounting to P211,346 has been issued with Certificate of Sale (COS) but is for consolidation in the name of SB Corporation; and

e. a property amounting to P79,721 has been issued with COS but is still under the redemption period of one year for which the owner-mortgagor has the right to redeem.

4.9 Appendix B of PFRS 5 on Non-Current Assets Held for Sale and Discontinued Operations (*Extension of the period required to complete a sale),* prescribes that:

*As noted in paragraph 9 (PFRS 5), an extension of the period required to complete a sale does not preclude an asset (or disposal group) from being classified as held for sale if the delay is caused by events or circumstances beyond the entity's control and there is sufficient evidence that the entity remains committed to its plan to sell the asset (or disposal group). An exception to the one in paragraph 8 (PFRS 5) shall therefore apply in the following situations in which such events or circumstances arise:*

*(a) at the date an entity commits itself to a plan to sell a non-current asset (or disposal group) it reasonably expects that others (not a buyer) will impose conditions on the transfer of the asset (or disposal group) that will extend the period required to complete the sale, and:*

*(i) actions necessary to respond to those conditions cannot be initiated until after a firm purchase commitment[1] is obtained, and*
*(ii) a firm purchase commitment is highly probable[2] within one year*

*(b) an entity obtains a firm purchase commitment and, as a result, a buyer or others unexpectedly impose conditions on the transfer of a non-current asset (or disposal group) previously classified as held for sale that will extend the period required to complete the sale, and:*

*(i) timely actions necessary to respond to the conditions have been taken, and*
*(ii) a favorable resolution of the delaying factors is expected.*

*(c) during the initial one-year period, circumstances arise that were previously considered unlikely and, as a result, a non-current asset (or disposal group) previously classified as held for sale is not sold by the end of that period, and:*

*(i) during the initial one-year period the entity took action necessary to respond to the change in circumstances,*
*(ii) the non-current asset (or disposal group) is being actively marketed at a price that is reasonable, given the change in circumstances, and*
*(iii) the criteria in paragraphs 7 and 8 are met.*

4.10 Relatedly, Paragraph 7 of PFRS 5 provides that for this to be the case, the asset must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets and its sale must be highly probable.

4.11 Meanwhile, Paragraph 8 of the same standard requires that for the sale to be highly probable, the appropriate level of Management must be committed to a plan to sell the asset, and an active program to locate a buyer and complete the plan must have been initiated. Further, the asset must be actively marketed for sale at a price that is reasonable in relation to its current fair value. In addition, the sale should be expected to qualify for recognition as a completed sale within one year from the date of classification, except as permitted by Paragraph 9 (PFRS 5), and actions required to complete the plan should indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn.

4.12 Verification disclosed that the aforementioned considerations on extending the period required to complete a sale in order for foreclosed properties to

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*[1] Appendix A of PFRS 5 defines firm purchase commitment as an agreement with an unrelated party, binding on both parties and usually legally enforceable, that (a) specifies all significant terms, including the price and timing of the transactions, and (b) includes a disincentive for non-performance that is sufficiently large to make performance* ***highly probable.***
*[2] From same Appendix A of PFRS 5 - significantly more likely than* ***probable***

be classified to NCAHFS account were not satisfied, thus, the retention of subject assets as NCAHFS understates and overstates the IP and NCAHFS accounts, respectively, both by P8.624 million as at December 31, 2021.

4.13 **We recommended that Management, through CSARG, provide the updates on the disposition of NCAHFS in order for the CG to make the necessary adjustment on the NCAHFS and IP accounts in consonance with the provisions of PFRS 5, PAS 1 and Conceptual Framework.**

4.14 Management commented that the initial ROPA Disposal Plan for CY 2022 submitted to ManCom is subject for revision per instruction in ManCom Resolution No. 2022-0412-003. The revised ROPA Disposal Plan for CY 2022 shall be submitted to the ManCom thru the Asset Recovery and Collection Committee (ARCCo) within May 2022 for approval. The CSARG shall provide the CG a copy of the same once it has been approved by ManCom.

4.15 As an audit rejoinder, the Audit Team will monitor and evaluate the actions taken and to be undertaken by the Management on the audit recommendations.

**C. The balance of Accumulated Impairment Losses (AIL) for IP-Land and NCAHFS amounting to P5.665 million and P306,148 as at December 31, 2021, respectively, were not fully adjusted for ROPAs with appraised value less than its carrying amount and non-reversal of the same for properties that increased in value.**

4.16 PAS 36 prescribes the procedures that an entity applies to ensure that its assets are carried at no more than their recoverable amount. An asset is carried at more than its recoverable amount if its carrying amount exceeds the amount to be recovered through use or sale of the asset. Paragraphs 59 and 114 of the said standard provides:

> *59. If, and only if, the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset shall be reduced to its recoverable amount. That reduction is an impairment loss.*
>
> *114. An impairment loss recognized in prior periods for an asset other than goodwill shall be reversed if, and only if, there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If this is the case, the carrying amount of the asset shall, except as described in paragraph 117, be increased to its recoverable amount. That increase is a reversal of an impairment loss.*

4.17 Also, Paragraphs 15, 18 and 20 of PFRS 5, prescribes that:

*An entity shall measure a non-current asset (or disposal group) classified as held for sale at the lower of its carrying amount and fair value less costs to sell.*

*xxx*

*Immediately before the initial classification of the asset (or disposal group) as held for sale, the carrying amounts of the asset (or all the assets and liabilities in the group) shall be measured in accordance with applicable PFRSs.*

*xxx*

*An entity shall recognize an impairment loss for any initial or subsequent write-down of the asset (or disposal group) to fair value less costs to sell, to the extent that it has not been recognized in accordance with paragraph 19.*

4.18 As at December 31, 2021, the AIL for IP increased from P0.941 million to P5.665 million whereas the AIL for NCAHFS decreased from P9.056 million to P306,148, showing a net decrease of P4.026 million as follows:

| **Account** | **2021** | **2020** | **Increase/ (Decrease)** |
|---|---|---|---|
| AIL–IP, Land | 5, 665,252 | 941,019 | 4,724,233 |
| AIL–IP, Building | 0 | 0 | 0 |
| | 5,665,252 | 941,019 | 4,724,233 |
| AIL–NCAHFS, Land | 149,759 | 4,152,536 | (4,002,777) |
| AIL–NCAHFS, Building | 156,389 | 4,903,943 | (4,747,554) |
| | 306,148 | 9,056,479 | (8,750,331) |
| | **5,971,400** | **9,997,498** | **(4,026,098)** |

4.19 The increase of AIL-IP for CY 2021 amounting to P4.724 million is mainly due to: a) reclassification of properties from NCAHFS-Land to IP-Land; and b) recording of additional impairment loss of IP in CY 2021; Details follow:

| **AIL for IP** | **Increase/ (Decrease)** |
|---|---|
| Reclassification of land properties from NCAHFS to IP | 3,606,309 |
| Impairment loss of IP (per SCI) | 3,067,459 |
| Reversal of impairment loss to unappropriated RE | (1,949,535) |
| | **4,724,233** |

4.20 Whereas, the decrease of AIL-NCAHFS for CY 2021 totaling P8.750 million is due to: a) reclassification of properties from NCAHFS-Land to IP-Land; and NCAHFS-Building to IP-Building; and b) reversal of impairment loss of NCAHFS-Land and Building amounting to P396,468 and P63,389, respectively, to unappropriated RE.

| AIL for NCAHFS | Increase/ (Decrease) |
|---|---|
| Reclassification of land properties from NCAHFS to IP | (3,606,309) |
| Reclassification of building properties from NCAHFS to IP | (4,684,165) |
| Reversal of impairment loss to unappropriated RE | (459,857) |
| | **(8,750,331)** |

4.21 Review of the Schedule of ROPA vis-à-vis the corresponding GLs, however, revealed that properties with an aggregate carrying amount of P8.210 million as at December 31, 2021 have been impaired by P3.742 million but no impairment loss was recognized thereof, details as follows:

| Account | As at December 31, 2021 | | |
|---|---|---|---|
| | Carrying Amount per GL | Appraised Value per Schedule | Unrecorded IL |
| IP, Land | 7,593,896 | 4,103,500 | 3,725,579 |
| IP, Building* | 235,183 | | |
| NCAHFS, Land | 380,424 | 364,000 | 16,424 |
| | **8,209,504** | **4,467,500** | **3,742,004** |

**Property with carrying amount of P608,300 is recorded as IP-Buildings but no land improvements per Schedule of ROPA*

4.22 On the other hand, properties with carrying amount of P6.202 million have corresponding AIL amounting to P2.526 million despite having appraised value higher than its carrying amount, for which, impairment loss should have been reversed. Details are as follows:

| | As at December 31, 2021 | | |
|---|---|---|---|
| | Carrying Amount per GL | Appraised Value per Schedule | AIL per GL |
| IP, Land | 5,802,027 | 15,558,220 | 2,441,529 |
| NCAHFS, Land | 400,000 | 1,000,000 | 84,155 |
| | **6,202,027** | **16,558,220** | **2,525,684** |

4.23 Ultimately, the AIL for IP-Land and NCAHFS-Land and Building amounting to P5.665 million and P306,148 as at December 31, 2021, respectively, are misstated due to non-recognition of impairment losses for properties with recoverable amount/appraised value less than its carrying amount and non-reversal of impairment loss for properties that increased in value, contrary to relevant provisions of PAS 36, PFRS 5, PAS 1 and the Conceptual Framework.

4.24 **We recommended that Management, through the concerned Groups, recognize impairment loss for all properties with appraised value less than its carrying amount and/or reverse impairment loss for all properties that increased in value, if warranted.**

4.25 Management commented that in compliance with the recommendation, Management recorded impairment loss of IP with appraised value less than its carrying amount, and made reversal of impairment loss for IP and

NCAHFS that increased in value based on memoranda from CSARG dated May 12, 2022 and May 17, 2022, respectively.

4.26 As an audit rejoinder, the Audit Team appreciates the actions taken by Management to comply with the recommendations. However, we have noted that the recording and reversal of impairment loss were not fully complied with as other accounts remain unadjusted as of report date. Also, adjustments were recorded on a lump sum basis and not on an individual account basis to properly evaluate the said adjustments. **Hence, we further recommend that Management, through CG, adjust the AIL per property account to reflect the correct SL balances for each property.**

## D. Other deficiencies noted on the comparison between the Schedule of ROPA vis-à-vis the corresponding GLs and SLs

4.27 Review of the Schedule of ROPA vis-à-vis the corresponding GLs and SLs showed that acquired land properties that should have been lodged to IP-Land or NCAHFS-Land accounts were recorded as IP-Buildings or NCAHFS-Buildings amounting to P565,910 as at December 31, 2021 despite having no reported land improvements per Schedule of ROPA. Details follow:

| Account | Classification | Carrying Amount per GL |
|---|---|---|
| IP-Building | | |
| Account 1 | IP-Building | 29,880 |
| Account 2 | IP-Building | 235,183 |
| Account 3 | IP-Building | 85,636 |
| Account 4 | IP-Building | 24,069 |
| | | 374,768 |
| NCAHFS | | |
| Account 5 | NCAHFS-Building | 191,142 |
| | | **565,910** |

4.28 On the contrary, improvements to acquired land properties with appraised value of P5.601 million per Schedule of ROPA were not recorded as IP-Buildings as at December 31, 2021. Details follow:

| Account | Appraisal Date | Appraised Value of the Improvement per Schedule |
|---|---|---|
| Account 6 | 10/10/2019 | 158,000 |
| Account 7 | 09/05/2018 | 5,210,000 |
| Account 8 | 06/02/2021 | 233,000 |
| | | **5,601,000** |

4.29 Meanwhile, IP-Land recorded in the books with carrying amount totaling P798,940 as at December 31, 2021, cannot be traced to ROPA accounts per schedule.

| Account | As at December 31, 2021 | | |
|---|---|---|---|
| | **Cost** | **AIL** | **Carrying Amount** |
| Account 9 | 606,814 | (316,489) | 290,325 |
| Account 10 | 675,555 | (166,940) | 508,615 |
| | **1,282,369** | **(483,429)** | **798,940** |

4.30 Conversely, an acquired property with book value per Schedule of ROPA amounting to P150,755 as at December 31, 2021 and appraised value amounting to P1.020 million as at October 09, 2019, is not recorded in the books.

4.31 It bears emphasis that the requested schedules from CG for IP-Land, IP-Building, NCAHFS-Land and NCAHFS-Building have not yet been submitted to the Audit Team as of Report date despite several requests and follow-ups, hence, the Audit Team relied on the details provided in the Schedule of ROPA submitted by CSARG.

4.32 The misrecording of acquired land properties and improvements totaling P565,910 recorded as IP-Buildings or NCAHFS-Buildings despite having no reported land improvements per Schedule, and improvements to other acquired land properties with appraised value of P5.601 million per Schedule not recorded as IP-Buildings, resulted in the misstatement of the balances of IP and NCAHFS accounts.

4.33 Further, the untraceable ROPAs recorded in the books under IP-Land account with carrying amount totaling P798,940 as at December 31, 2021, and the acquired property with carrying amount per Schedule amounting to P150,755 not recorded in the books, cast doubt on the accuracy, completeness of recording, and reliability of the balances of IP and NCAHFS accounts. These are contrary to the fair presentation required under PAS 1 and the Conceptual Framework.

4.34 **We recommended that Management, through the concerned Groups:**

a. **Recognize improvements made to land properties as IP-Buildings or NCAHFS-Buildings, whichever is appropriate, with the corresponding depreciation. Relatedly, reclassify IP-Buildings and NCAHFS-Buildings accounts to IP-Land and NCAHFS-Land, respectively, for properties without improvements;**

b. **Reconcile the Schedule of ROPA to the GL and SL balances of IP and NCAHFS accounts; and**

c. **Submit to the Audit Team the detailed schedules of IP and NCAHFS for further verification.**

4.35 Relative to the deficiency per Paragraph 4.27 hereof, Management commented that the acquired properties recorded as IP-Buildings or NCAHFS-Buildings are correct as there are indeed buildings and/or improvements erected thereon at the time of foreclosure and booking. CSARG failed to record the improvements in the Schedule of ROPA because recent Appraisal Reports did not indicate the presence of the improvements particularly those with “Table Appraisal”.

4.36 As regards the improvements to the acquired land properties which are not recorded as IP-Buildings as at December 31, 2021, CSARG sent a memorandum to CG requesting for the booking of the existing improvements to the subject properties.

4.37 Management also added that reconciliation of the records of IP and NCAHFS shall be made once the complete appraisal reports have been considered. Likewise, revised schedules shall be submitted by CG to the Audit Team for further verification as soon as possible.

4.38 As an audit rejoinder, the Audit Team will monitor and evaluate the actions taken and to be undertaken by the Management on the audit recommendations.

**5. Various rental payments on the lease of office space for the period March to December 2021 were inappropriately recorded under Rental Expense totaling P1.700 million in the books of SB Corporation and P3 fund while the Right-of-Use (ROU) asset, Lease liability, Depreciation and Interest expenses of undetermined amounts are not recognized in the books, contrary to PFRS 16, Paragraph 15 of PAS 1 and Paragraphs 2.12 and 2.13 of the Conceptual Framework.**

5.1 All entities reporting under PFRS shall adopt the new PFRS 16, replacing the previous PAS 17 on Leases effective January 1, 2019. The new standard requires the lessee to recognize an asset and liability on the balance sheet at the inception of a lease, except for relatively small-value assets and leases with terms of 12 months or less. The lessee is required to recognize a right-of-use asset and lease liability, measured at the discounted value of the future lease payments in the balance sheet. A depreciation expense of the right-of-use asset and the interest charged on the outstanding lease liability are then recognized in the Income Statement. Any lease payment is treated as a reduction from the lease liability.

5.2 Paragraph 15 of PAS 1 provides that financial statements shall present fairly the financial position, financial performance and cash flows of an entity. Fair presentation requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the Conceptual Framework.

5.3 Relative thereto, Paragraphs 2.12 and 2.13 of the Conceptual Framework provides that 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, and that to be a perfectly faithful representation, a depiction would have three characteristics. It would be complete, neutral and free from error.

5.4 In addition, COA Circular No. 2021-009 dated October 01, 2021, prescribes the Implementation of Philippine Financial Reporting Standard 16 - *Leases,* by all Government Corporations (GCs) classified as Commercial Public Sector Entities (CPSE) effective January 1, 2021.

5.5 Details of the Contact of Lease (COL) of the SB Corporation's regional offices are as follows:

| | North Luzon Group | Visayas Group | Mindanao Group | Total rental payments charged to Rent expense CY2021 |
|---|---|---|---|---|
| **Contract of Lease** | 2 years March 1, 2021 to February 28, 2023 | 3 years October 1, 2021 to September 30, 2024 | 2 years September 1, 2021 - August 31, 2023 | |
| **Monthly Rental Payments:** | | | | |
| March | 75,000 | - | - | **75,000** |
| April | 75,000 | - | - | **75,000** |
| May | 75,000 | - | - | **75,000** |
| June | 75,000 | - | - | **75,000** |
| July | 75,000 | - | - | **75,000** |
| August | 75,000 | - | - | **75,000** |
| September | 75,000 | - | 113,640 | **188,640** |
| October | 75,000 | 165,021 | 113,640 | **353,661** |
| November | 75,000 | 165,021 | 113,640 | **353,661** |
| December | 75,000 | 165,021 | 113,640 | **353,661** |
| **TOTAL** | **750,000** | **495,063** | **454,560** | **1,699,623** |

5.6 Review of the existing lease contracts disclosed that the above COL are qualified for recognition under PFRS 16. However, these regional offices did not implement the requirement of PFRS 16 at the inception of the Contract and customarily booked/recognized the rental payments totaling P1.700 million to Rental expense account as at December 31, 2021.

5.7 Further, Management informed that they were not aware of the change in accounting policy and the required adoption of PFRS 16 on Leases effective January 1, 2019. Thus, there was no recognition and measurement of ROU asset, Lease liability, Depreciation and Interest expense accounts in the books on the lease of office space for the period September to December 2021, contrary to the provisions of PFRS 16, resulting in the understatement of the ROU asset, Lease liability, Depreciation and Interest expense accounts by undetermined amounts, and overstatement of the Rent expense account by P1.700 million as at December 31, 2021, contrary to Paragraph 15 of PAS 1 and Paragraphs 2.12 and 2.13 of the Conceptual Framework.

**5.8 We recommended that SBC North Luzon, Visayas and Mindanao Groups coordinate with the Head Office for the computation and corresponding recognition of the ROU asset, Lease liability, Depreciation and Interest expense accounts in the books in accordance with applicable provisions of PFRS 16, PAS 1 and the Conceptual Framework.**

**5.9 Also, effect the necessary adjustment to the Rental expense account to correct the errors in the books.**

5.10 Management commented that the lease term of their previous contracts with the Lessor was only one year and it was only because of the pandemic that it took them a longer time to process the contract since the Lessor's Office is located in Makati City. Thus, it was decided to recommend for a two-year contract instead.

5.11 As an audit rejoinder, the Audit Teams at the Head Office and Regions will monitor SB Corporation's adherence to the requirement of PFRS 16. At this point, it is clear that the non-recognition of ROU asset, Lease liability and other related accounts and the non-adjustment of rental expense to its appropriate account affects the fairness of the presentation of the financial statements as at December 31, 2021.

**6. Various deficiencies were noted on the reported balances of Prepaid Income Tax, Current Income Tax Expense, Deferred Tax Asset and Deferred Income Tax Benefit as at December 31, 2021, contrary to paragraph 15 of PAS 1, thereby, affecting the fair presentation of said accounts in the financial statements.**

6.1 Paragraph 15 of PAS 1 states that:

> *The financial statements shall present fairly the financial position, financial performance and cash flows of an entity. Fair presentation requires the faithful representation of the effects of transactions, other events, and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the Framework. The application of IFRSs, with additional disclosure when necessary, is presumed to result in financial statements that achieve a fair presentation.*

6.2 Furthermore, Paragraph 2.12 of the Conceptual Framework provides that "[F]inancial 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." Xxxx. While paragraph 2.13 further provides that "[T]o be a perfectly faithful representation, a depiction would have three characteristics. It would be complete, neutral and free from error." Xxxx.

6.3 Section 27(D)(4) of National Internal Revenue Code (NIRC) provides that:

> *Intercorporate Dividends. - Dividends received by a domestic corporation shall not be subject to tax under this Title: Provided, That for foreign-sourced dividends to be exempt, the funds from such dividends actually received or remitted into the Philippines are reinvested in the business operations of the domestic corporation in the Philippines within the next taxable year from the time the foreign-sourced dividends were received and shall be limited to funding the working capital requirements, capital expenditures, dividend*

*payments, investment in domestic subsidiaries, and infrastructure project: Provided, further, That the domestic corporation holds directly at least twenty per cent (20%) of the outstanding shares of the foreign corporation and has held the shareholdings for a minimum of two (2) years at the time of the dividend distribution.*

6.4 Also, Section 34(D)(1)(a) of the same NIRC dictates that:

*In General. - Losses actually sustained during the taxable year and not compensated for by insurance or other forms of indemnity shall be allowed as deductions If incurred in trade, profession or business.*

6.5 The Notes to Financial Statements (NTFS) of SB Corporation as at December 31, 2021 disclosed among others the computation of regular corporate income tax (RCIT), minimum corporate income tax (MCIT), income tax benefit (ITB), and the schedules of MCIT and Deferred Tax Asset and Liabilities as at December 31, 2021.

6.6 Review, however, of the income tax computation for CY 2021 showed that there are various deficiencies in the computation of the reported balances of Deferred Tax Asset, Prepaid Income Tax, Current Income Tax Expense and Deferred Income Tax Benefit, as follows:

| Reconciling items | Per SB Corporation | | Per Audit | | Account affected | Effect on SCI | Effect on SFP |
|---|---|---|---|---|---|---|---|
| | Tax Treatment | Amount | Tax Treatment | Amount | | Under/(Over) Statement | Under/(Over) Statement |
| *Permanent*: | | | | | | | |
| MOOE-P3 | Non-deductible expense | P79,959,207 | Deductible Expense | P(79,959,207) | Current tax expense | P(19,989,802) | |
| | | | | | Prepaid income tax | | P19,989,802 |
| Dividend Income | Taxable Income | 211,765 | Non-taxable Income | (211,765) | Current tax expense | (52,941) | |
| | | | | | Prepaid income tax | | 52,941 |
| *Temporary*: | | | | | | | |
| Realized FV net gain on derivative valuation | Non-taxable income | (16,406,899) | Taxable income | 16,406,899 | Current tax expense | 4,101,725 | |
| | | | | | Prepaid income tax | | (4,101,725) |
| | | | | | Deferred tax benefit | 4,101,725 | |
| | | | | | Undetermined | Undetermined | Undetermined |
| Realized loss on ForEx translation | Non-deductible expense | 160,637,128 | Deductible expense | (160,637,128) | Current tax expense | (40,159,282) | |
| | | | | | Prepaid income tax | | 40,159,282 |
| Provision for impairment losses | Future deductible expense | 705,414,826 | Future deductible expense | 692,218,982 | Current tax expense | (3,298,961) | |
| | | | | | Prepaid income tax | | 3,298,961 |
| | | | | | Deferred tax benefit | (3,298,961) | |
| | | | | | Deferred tax asset | | (3,298,961) |
| Accrued salary | Future deductible expense | 1,763,785 | Future deductible expense | 1,763,785 | Deferred tax benefit | 440,946 | |
| | | | | | Deferred tax asset | | 440,946 |

| Reconciling items | Per SB Corporation | | Per Audit | | Account affected | Effect on SCI | Effect on SFP |
|---|---|---|---|---|---|---|---|
| | Tax Treatment | Amount | Tax Treatment | Amount | | Under/(Over) Statement | Under/(Over) Statement |
| NOLCO | Deductible expense | (3,606,314) | Future deductible expense | 98,902,574 | Current tax expense | 25,627,222 | |
| | | | | | Prepaid income tax | | (25,627,222) |
| | | | | | Deferred tax benefit | 25,627,222 | |
| | | | | | Deferred tax asset | | 25,627,222 |
| MCIT | Tax credited | (10,262,956) | Future tax credit | 5,643,651 | Current tax expense | 5,643,651 | |
| | | | | | Prepaid income tax | | (15,906,607) |
| | | | | | Deferred tax benefit | 5,643,651 | |
| | | | | | Deferred tax asset | | 15,906,607 |
| Total | | | | | | 4,386,195 | 56,541,246 |

*MOOE amounting to P79.959 million was considered as permanent difference in the computation of taxable income, resulting in the overstatement of the income tax expense for CY 2021 and understatement of Prepaid income tax by P19.990 million as at December 31, 2021.*

6.7 Section 34 of NIRC as amended provides that:

> *There shall be allowed as deduction from gross income all the ordinary and necessary expenses paid or incurred during the taxable year in carrying on or which are directly attributable to, the development, management, operation and/or conduct of the trade, business or exercise of a profession.*

6.8 Further review disclosed that the MOOE charged to P3 totaling P79,959,207 was added back as permanent difference in the computation of income of tax, thus, overstating the income tax expense for CY 2021 and understating the prepaid income tax by P19,989,802 as at December 31, 2021 which represents the 25 per cent of the MOOE, contrary to Section 34(A)(1) of the NIRC, as amended.

*Reconciling items as permanent differences on accounting and taxable income were not considered in the computation of taxable income resulting in the overstatement and understatement of Prepaid Income Tax and Income Tax Expense, respectively, for the year both by P36.110 million.*

6.9 The following reconciling items have not been considered in the computation of taxable income for the year:

a. Realized loss on foreign exchange translation amounting to P160.637 million;
b. Realized gain on derivative valuation from the disposal of financial instruments at fair value through profit or loss of P16.406 million; and
c. Dividend income from Joint Venture amounting to P211,765.

6.10 The unrealized gains and losses on foreign exchange translation of undetermined amount were excluded in the prior years' gross income as future taxable income and deductible loss. It should be noted that the net unrealized loss from previous years amounting to P160.637 million was actually realized this year due to the disposal of financial instruments of which the loss was based on. Since the loss on foreign exchange translation was actually realized and sustained this year, the loss should be deducted from the gross income for income tax computation purposes.

6.11 The unrealized gains and losses on derivative valuation of undetermined amount were excluded in the prior years' gross income as future taxable income and deductible loss. It should be noted that the net unrealized gain of P16.406 million from previous years was actually realized this year due to the disposal of financial instruments of which the gain was based on. Hence, it should be included in the gross income for income tax computation purposes.

6.12 Dividend income from domestic corporation amounting to P211,765 which is a non-taxable income under Republic Act (RA) 8424 as amended, also known as NIRC of 1997 Section 27(D)(4), was not deducted from the gross income of taxable year 2021.

6.13 These resulted in the overstatement of the reported balances of the Prepaid income tax and Current income tax expense both by P36,110,499 representing 25 per cent of P144,441,994 (net) tax base stated above during the current taxable year, contrary to Section 27(D)(4) and Section 34(D)(1)(a) of NIRC, paragraph 15 of PAS 1 and paragraphs 2.12 and 2.13 of the Conceptual Framework.

*The amount of Provision for impairment loss considered as temporary difference in the computation of taxable income in CY 2021 is overstated by P13.196 million, thus overstating both the Deferred tax asset and Deferred income tax benefit accounts both by P3.299 million as at December 31, 2021.*

6.14 Moreover, the provision for impairment loss account per books amounting to P705,414,826 considered as temporary difference in the computation of taxable income differs from the balance per audit of P692,218,982 or a difference of P13,195,844, thus, overstating both the Deferred tax asset and Deferred tax benefit accounts both by P3,298,961 as at December 31, 2021 representing 25 per cent of the said difference, contrary to paragraph 15 of PAS 1.

*Deferred tax asset amounting to P440,946 on accrued salaries and wages was not recognized in the books, thereby, understating the Deferred tax asset and overstating the Deferred income tax benefit both by the same amount as at December 31, 2021.*

6.15 Paragraph 24 of PAS 12 provides that:

> *A deferred tax asset shall be recognised for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilized.*

6.16 Verification revealed that the deferred tax amounting to P440,946 on accrued salaries and wages of P1,763,785 as deductible for future taxable income upon withholding of appropriate taxes from employee subject to remittance to BIR was not recorded in the books in CY 2021, resulting in the understatement of DTA and overstatement of Deferred income tax benefit accounts both by P440,946 contrary to paragraph 24 of PAS 12.

*Deferred tax asset on Net Operating Loss Carry-Over (NOLCO) was erroneously measured, thereby overstating the Deferred tax asset and Deferred income tax benefit both by P2.704 million as at December 31, 2021.*

6.17 Paragraph 47 of PAS 12 mentioned that:

> *Deferred tax assets and liabilities shall be measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.*

6.18 Deferred tax asset (DTA) on Net Operating Loss Carry-Over (NOLCO) amounting to P3,606,314 was measured at full amount instead of at 25 per cent tax rate equivalent to P901,579, thus, overstating the DTA by P2,704,735, contrary to paragraph 47 of PAS 12.

*Deferred income tax benefit was not recognized upon the derecognition of Deferred tax liability on disposed financial instrument at FVTPL resulting in the understatement of the Deferred income tax benefit by P4.102 million as at December 31, 2021.*

6.19 There was also no deferred income tax benefit of P4,101,725 recognized upon the derecognition of deferred tax liability in relation to disposal of financial instrument at fair value through profit or loss resulting in an understatement of the Deferred income tax benefit by P4.102 million for CY 2021. The said derecognition was made through a compound entry, hence, the corresponding accounts affected and their effect/s in the financial statements cannot be determined.

*Effect on change of corporate income tax rate to be used due to miscalculation of taxable income.*

6.20 The abovementioned scenarios resulted in a higher Minimum Corporate Income Tax (MCIT) compared with the Regular Corporate Income Tax (RCIT), thus, making the NOLCO not deductible to taxable income, MCIT paid in prior years cannot be deducted from tax payable and an additional amount of NOLCO due to a resulting taxable loss. This further resulted in an understatement of deferred tax asset amounting to P41.534 million, overstatement of prepaid income tax amounting to P41.534 million and understatement of current tax expense and deferred tax benefit amounting to both P31.271 million.

**6.21 In view of the foregoing, we recommended and Management agreed, through the concerned Groups to:**

**a. Analyze the computation of income tax thoroughly and review all the permanent and temporary differences to come up with the correct taxable income;**

**b. Ensure that the Deferred tax assets, especially NOLCO, are measured in accordance with PAS 12;**

**c. Check all reconciling items in temporary difference that has a corresponding set-up of Deferred tax asset/liability that has been recorded in the books along with the Deferred tax benefit/expense;**

**d. Make sure that there is an acceptable basis for the difference in accounting and taxable income to avoid errors in tax computations; and**

**e. Prepare the necessary journal entries to adjust/correct the affected accounts in the financial statements as at December 31, 2021.**

## B. OTHERS

**7. Non-submission of complete documentary requirements to support the writing-off of 168 receivable accounts totaling P80.029 million as at December 31, 2021, is contrary to Section 28 of PD No. 1445, Section 7.1.1 of COA Circular No. 2009-006, and applicable provision of BSP Circular 855, BSP's MORNBFI, and SB Corporation's Write-off Policy, thus, casting doubt on the accuracy, validity and reliability of the written-off receivable accounts.**

7.1 Section 28 of PD No. 1455 provides that:

> *Section 28. Examining authority. The Commission shall have the authority to examine books, papers, and documents filed by individuals and corporations with, and which are custody of government offices in connection with government revenue collection operations, for the sole purpose of ascertaining that all funds determined by the appropriate agencies as collectible and due the government have actually been collected, except as otherwise provided in the Internal Revenue Code of 1977.*

7.2 Section 7.1.1 of COA Circular No. 2009-006 dated September 15, 2009 states that:

> *The head of the agency, who is primarily responsible for all government funds and property pertaining to his agency, shall ensure that: (a) the required financial and other reports and statements are submitted to the concerned agency officials in such form within the period prescribed by the Commission; xxx*

7.3 Also, Section 1 (D) X178.19 on Writing off problem credits of BSP Circular No. 855 dated October 29, 2014, prescribes that:

> *Policies for writing off problem credits must be approved by the board of directors in accordance with defined policies, and shall incorporate, at a minimum, well defined criteria (i.e., circumstances, conditions and historical write-off experience) under which credit exposures may be written off. Procedures shall explicitly narrate and document the necessary operational steps and processes to execute the policies.*

7.4 Meanwhile, the SB Corporation's Write-off Policy was approved by the BOD under BR No. 2018-11-2648 dated December 3, 2018, quoted hereunder:

> *There shall be no automatic writing off of loans and other credit accommodations. They shall be subject to proper procedures and supported by the necessary documentary evidences (please refer to Annex A).*

7.5 The Annex A of the policy enumerates the possible conditions that warrants the write-off and the documentary requirements, as follows:

| Conditions | Documentary Requirements |
|---|---|
| 1. Absence of records or documents to validate/support the claim | Certification from the responsible officials of the Corporation (e.g. Lending Units or Legal Services Group) to the effect that there are no records/documents available to validate claim.<br><br>Other justifications, like in the case of request for write-off due to loss of documents, the circumstances of the loss should be indicated in the certification and that despite diligent efforts, the documents can no longer be found. This is without prejudice to the filing of an administrative case or complaint against the personnel responsible for the loss. |
| 2. Death of the debtor | Death certificate issued by the Philippine Statistics Authority (formerly National Statistics Office) and those efforts to locate his next of kin or to file a claim against the descendant's estate has failed. |
| 3. Unknown whereabouts of the debtor, and he/she could not be located despite diligent efforts to find him/her. | Certification from the Department of Trade and Industry that the debtor has no registered business.<br><br>Certification from the Securities and Exchange Commission that the debtor-corporation is no longer active, has been ordered closed, or such other circumstances that would indicate collection from the debtor is no longer possible. |

| Conditions | Documentary Requirements |
|---|---|
| 4. Incapacity to pay or insolvency | Proof of Insolvency (i.e. Court decision pursuant to Financial Rehabilitation Insolvency Act (FRIA)). |
| 5. Exhaustion of all possible remedies by Management to demand and collect the receivable | Proof of exhaustion of all remedies to collect the receivables, such as but not limited to the copies served or returned demand letters. |
| 6. No pending case in court involving the subject account | Certification by the Legal Services Group of no pending case relative to the account. |

7.6 The above enumerated documents, where applicable, are neither attached to the JV that records the written-off accounts nor submitted to the Audit Team as proof to the conditions that warrant the writing-off of each receivable account despite the previous year's audit recommendations to submit the documentary requirements for audit.

7.7 Further verification of available documents disclosed that out of the board-approved 169 accounts totaling P80.141 million, the accounts from North Luzon and Visayas Group totaling P112,092.64 were not written-off in the books per JV No. 2021-12-748-B dated March 10, 2022, because of the actual cash collections received before the posting date, thus, reducing the written-off receivables account to 168 accounts equivalent to P80.029 million.

7.8 Further, the Checklist/Criteria for accounts written-off disclosed that several accounts: a) have collaterals such as Real Estate Mortgages and Chattels Mortgages; b) have no Credit Committee reports and instructions; and c) have status "to be filled out if applicable" on the documentary requirements enumerated in Annex A of the SB Corporation's Write-off Policy. Likewise, the corresponding documents to support the aforesaid criteria for accounts written-off are not available.

7.9 Thus, the non-submission of complete documentary requirements to support the writing-off of the 168 receivable accounts in the books of SB Corporation totaling P80.029 million as at December 31, 2021, is contrary to Section 28 of PD No. 1445, Section 7.1.1 of COA Circular 2009-006 and BR No. 2018-11-2648, casting doubt on the accuracy, validity and reliability of the written-off receivable accounts.

7.10 **We reiterated our prior year's recommendations that Management, through the concerned Groups:**

**a. Strictly comply with the provisions of SB Corporation's Write-off Manual on the write-off of receivable accounts; and**

b. **Submit the necessary documentary requirements to support the write-off of the receivable accounts for review and validation of the Audit Team.**

7.11 Management commented that the enhanced policy, which aims to improve the internal operating procedures on the write-off of receivables, has been submitted to the Management Committee with the directive for the Planning and Policy Management Group to do its review of the policy revision.

7.12 Further, Management commented that SB Corporation submitted the documentary checklist on the 168 written-off accounts totaling P80.029 million with inputs coming from the different Regional Lending Groups.

7.13 By an audit rejoinder, the Audit Team would like to emphasize that the documents submitted for the written-off past due accounts totaling P80.029 million are insufficient preventing them to make a conclusion thereof. Subsequent verification on the available documents led to the discovery that the following related documents are not attached:

a. Credit policies for the grant of loan, foreclosure and application of collaterals and restructuring, among others;
b. Reports supporting the classification of accounts to be written-off, such as report on past-due, aging of accounts, collection efforts, skip tracing of borrowers;
c. Investigation and Inspection Reports;
d. Credit Committee reports and instructions;
e. Applicable documents enumerated in Annex A of the SB Corporation's Write-off Policy; and
f. Other documents deemed necessary to fully evaluate the written-off accounts.

**8. Non-financial assets (NFA) - chattels portion of acquired assets through dacion en pago, were not disposed immediately after the redemption period, contrary to Board Resolution (BR) No. 2019-08-2796 dated August 05, 2019, thus, resulted in the non-recovery of SB Corporation's receivables from loan borrowers which further increased losses.**

8.1 SB Corporation adopted policies and guidelines on the administration and disposal of ROPA under BR No. 2019-08-2796 dated August 05, 2019. Pertinent provisions of the said resolution follow:

*C. POLICIES AND GUIDELINES ON THE ADMINISTRATION OF ROPA*

*1. As a general rule, ROPA used as collateral to the loan and recognized in the books of accounts shall be* ***for immediate disposal, except for those properties converted and used for SB Corp's operation.***

*xxx*

*D. ROPA INSPECTION/VALUATION/REPORTING*

*xxx*

*2. Inspection of assets shall aim* ***to establish viable ways to generate income*** *and provide economic recommendation as to how it could be better maintained, protected and disposed.*

*xxx*

*E. MODES OF DISPOSAL OF ROPA AND OTHER ASSETS OF SB CORPORATION*

*xxx*

*1. REDEMPTION OF FORECLOSED PROPERTY*

*xxx*

*h.* ***No redemption period for Chattels and properties offered under "dacion en pago".*** (Emphasis ours)

8.2 Accounting records show that: a) assets totaling P7.090 million which have been fully impaired and depreciated with zero carrying value; and b) assets totaling P8.448 million which have been fully depreciated with net book value of P135,745, have not yet been disposed, hence, are still carried in the books under Other Assets account. According to the concerned personnel of CSARG, the following assets are not in use and are still to be located in their warehouse, and have not been processed for disposal.

| Account | Depreciation Status | Year Acquired | Amount | | |
|---|---|---|---|---|---|
| | | | Investment Property | Allowance for Impairment Loss | Net Value |
| **Fully Impaired and Depreciated NFA-Chattels** | | | | | |
| Account 13 | Fully depreciated | 1998 | 104,400 | (104,400) | 0 |
| Account 14 | Fully depreciated | 1998 | 3,489,219 | (3,489,219) | 0 |
| Account 15 | Fully depreciated | 2000 | 270,000 | (270,000) | 0 |
| Account 16 | Fully depreciated | 1999 | 10,500 | (10,500) | 0 |
| Account 17 | Fully depreciated | 1989 | 360,803 | (360,803) | 0 |
| Account 18 | Fully depreciated | 1986 | 550,826 | (550,826) | 0 |
| Account 19 | Fully depreciated | 2001 | 355,290 | (355,290) | 0 |
| Account 20 | Fully depreciated | 2006 | 714,840 | (714,840) | 0 |
| Account 21 | Fully depreciated | 1999 | 4,500 | (4,500) | 0 |
| Account 22 | Fully depreciated | 1998 | 1,138,200 | (1,138,200) | 0 |
| Account 23 | Fully depreciated | 1998 | 49,000 | (49,000) | 0 |
| Account 24 | Fully depreciated | 1998 | 42,691 | (42,691) | 0 |
| **Sub-total** | | | **7,090,269** | **(7,090,269)** | **0** |
| **Fully Depreciated NFA-Chattels** | | | | | |
| Account 25 | Fully depreciated | 2007 | 238,446 | (214,601) | 23,845 |
| Account 26 | Fully depreciated | 2007 | 235,037 | (211,533) | 23,504 |
| Account 27 | Fully depreciated | 2006 | 29,080 | (26,172) | 2,908 |
| Account 28 | Fully depreciated | 2013 | 119,000 | (107,100) | 11,900 |
| Account 29 | Fully depreciated | 2014 | 76,103 | (68,493) | 7,610 |
| Account 30 | Fully depreciated | 2001 | 12,425 | (11,183) | 1,242 |
| Account 31 | Fully depreciated | 2010 | 560,161 | (504,145) | 56,016 |
| Account 32 | Fully depreciated | 2002 | 21,200 | (19,080) | 2,120 |
| Account 33 | Fully depreciated | 2009 | 66,000 | (59,400) | 6,600 |
| **Sub-total** | | | **1,357,452** | **(1,221,707)** | **135,745** |

| Account | Depreciation Status | Year Acquired | Investment Property | Allowance for Impairment Loss | Net Value |
|---|---|---|---|---|---|
| | | | Amount | | |
| Total | | | 8,447,721 | (8,311,976) | 135,745 |

8.3 Foreclosure of assets is conducted to recover the amount owed on a defaulted loan. Hence, the acquired NFA-Chattels being irredeemable by the defaulting borrowers, should have been processed for immediate disposal to generate income, except if converted and used for SB Corporation's operations pursuant to the policies laid out under BR No. 2019-08-2796. Delay in the disposal thereof exposes the assets to physical deterioration and reduction of its selling price which defeat the purpose of its acquisition.

8.4 To ascertain the physical condition and existence of the assets, the Audit Team requested from CSARG through the Office of the Chief Compliance Officer (OCCO) the duly accomplished Inventory and Inspection Report of NFAs (IIRNFA), updated appraisal reports, as well as current photographs of the assets as at December 31, 2021. However, CSARG is yet to locate some equipment and undertake appraisal of the assets.

8.5 Relevantly, the physical condition and existence of the NFA-Chattels cannot be ascertained due to non-submission of IIRNFA, complete appraisal reports, photographs of the assets and other related documents.

8.6 The non-disposal of the same NFA-chattel portion of acquired assets immediately after the redemption period resulted in the non-recovery of SB Corporation's receivables from loan borrowers that further contributed to the losses of SB Corporation, contrary to BR No. 2019-08-2796 dated August 05, 2019.

8.7 In addition, it was observed that for the previous years, NFA-Chattels were recorded under IP-Building account despite having not met the definition provided under relevant provisions of BSP Circular No. 494, as amended by BSP Circular No. 520, series of 2006, and PAS 40. In fact, reclassification of NFA-Chattels from IP to Other Assets account was only made upon recommendation of the Audit Team.

8.8 **We recommended that Management, through the concerned Groups:**

a. **Periodically conduct physical inventory of the acquired NFA-Chattels stating the physical condition of the assets, and immediately dispose those that will not be converted and used for SB Corporation's operations pursuant to the policies adopted under BR No. 2019-08-2796;**

b. **Furnish the Audit Team with the complete appraisal reports and IIRNFA together with the current photographs of the acquired NFA-Chattels and other relevant documents for audit; and**

c. **Strictly comply with the pertinent provisions, adopted policies and guidelines on the administration of ROPA and other foreclosed properties.**

8.9 **We also recommended and Management agreed to:**

a. **Revisit the policy and guidelines of SB Corporation to include the accounting treatment of NFA-Chattels acquired through *dacion en pago*;**

b. **Prospectively, record foreclosed NFAs, such as: motor vehicles, machinery, equipment, and furniture and fixtures to the appropriate account, provide depreciation and impairment, if applicable; and**

c. **In the absence of appropriate account for NFAs, such as: motor vehicles, machinery, equipment, and furniture and fixtures, SB Corporation to request COA-GAS the inclusion in the RCA of the new account.**

8.10 Management submitted to the Audit Team the copies of the: (a) Call Report for the inspection and inventory conducted by CSARG last April 12, 2022, for the various Chattel Mortgage (CHM) stored at the Muntinlupa Warehouse; and (b) Appraisal Report for the inspection conducted on the Chattels for Account 29 last May 05, 2022. Moreover, SB Corporation, thru CSARG shall ensure that physical inventory of acquired NFA-Chattels is conducted every six (6) months.

8.11 Management also added that of the 50 properties noted with no updated appraisals, 41 have been updated during the first quarter of CY 2022. The other nine properties are those which have pending cases and being handled by the Legal Services Group which shall be updated within the second quarter of CY 2022.

8.12 Photographs of NFA-Chattels, which have already been inspected and appraised, shall be submitted to the Audit Team once available.

8.13 Likewise, SB Corporation, thru CSARG, shall strictly monitor the compliance of all lending units in the administration of ROPA and other foreclosed properties.

8.14 As an audit rejoinder, the Audit Team will monitor and evaluate all actions taken and to be taken by the Management to fully comply with the recommendations mentioned.

9. **The Real Estate Mortgages (REMs) and Deeds of Assignment (DOAs) executed by the borrowers/mortgagors in favor of the SB Corporation with total loan balance of P385,258 and P5.702 million, respectively, were neither annotated in the titles nor registered with the Registry of Deeds (RD), contrary to**

**Sections 51, 54 and 113 of PD No. 1529 or Property Registration Decree[3], the terms and conditions of the REM and Article 2125 of the Civil Code of the Philippines, thus, the rights and interests of the Corporation over the properties cannot be protected against third parties.**

9.1 Sections 51, 54 and 113 of PD No. 1529 or the Property Registration Decree, provides that:

> ***Section 51. Conveyance and other dealings by registered owner.***
>
> *An owner of registered land may convey, mortgage, lease, charge or otherwise deal with the same in accordance with existing laws. He may use such forms of deeds, mortgages, leases or other voluntary instruments as are sufficient in law. But no deed, mortgage, lease, or other voluntary instrument, except a will purporting to convey or affect registered land shall take effect as a conveyance or bind the land, but shall operate only as a contract between the parties and as evidence of authority to the Register of Deeds to make registration.*
>
> *The* ***act of registration shall be the operative act to convey or affect the land insofar as third persons are concerne****d, and in all cases under this Decree, the registration shall be made in the office of the Register of Deeds for the province or city where the land lies.*
>
> ***Section 54. Dealings less than ownership, how registered.***
>
> *No new certificate shall be entered or issued pursuant to any instrument which does not divest the ownership or title from the owner or from the transferee of the registered owners.* ***All interests in registered land less than ownership shall be registered by filing with the Register of Deeds the instrument which creates or transfers or claims such interest****s and by a brief memorandum thereof made by the Register of Deeds upon the certificate of title, and signed by him. A similar memorandum shall also be made on the owner's duplicate. The cancellation or extinguishment of such interests shall be registered in the same manner.*
>
> ***Section 113. Recording of instruments relating to unregistered lands****.* ***No*** *deed, conveyance****, mortgage****, lease, or other voluntary instrument affecting land not registered under the Torrens system* ***shall be valid, except as between the parties thereto, unless such instrument shall have been recorded in the manner herein prescribed in the office of the Register of Deeds*** *for the province or city where the land lies.* (Emphasis ours.)

9.2 Also, under Article 2125 of the Civil Code of the Philippines, it is expressly provided**:**

[3] Amending and Codifying the Laws Relative to Registration of Property and for Other Purposes.

*In addition to the requisites stated in Article 2085, it is indispensable, in order that a mortgage may be validly constituted, that the documents in which it* ***appears be recorded in the Registry of Property****. xxx*

*The persons in whose favor the law establishes a mortgage have no other than to* ***demand the execution and the recording of the document in which the mortgage is formalized.***

9.3 Further, in the terms and conditions of the REM, the following are specified:

*The Mortgagor(s)/Borrower(s) shall pay all the expenses in connection with the documentation, of this mortgage, its notarization and the documentary stamps required, its registration, the foreclosure or cancellation thereof, and any litigation relating to the mortgaged properties in which the Mortgagee might become involved. Xxx.*

9.4 Registration is a necessary act for the transaction to bind third parties. Without such registration, any conveyance, lien or interest on any property could not be enforced to third persons.

9.5 It can be inferred from the above-mentioned provisions that SB Corporation has the right to demand the registration of the REMs executed in its favor. As a government financial institution, it should exert all efforts to safeguard the money/funds of the Government.

9.6 It is apparent and was even agreed upon by both the SB Corporation and the mortgagors that the REMs must be registered with the RD and/or annotated in the titles of the properties mortgaged.

9.7 Relative thereof, verification and examination of the REMs disclosed that one account with TCT No. T-38895 from Mortgagor A, with outstanding loan balance of P385,258 as at December 31, 2021, is neither annotated in the title nor registered with the RD.

9.8 Also, there are 27 DOAs totaling P5.702 million which are neither annotated in the titles nor registered with the RD, detailed as follows:

| Item No. | OCT/TCT | Amount |
|---|---|---|
| 1 | P-15159<br>P-15158 | 42,500 |
| 2 | P-9751 | 162,020 |
| 3 | T-95686 | 990,940 |
| 4 | T-14252 | 150,0000 |
| 5 | T-12776 | 39,146 |
| 6 | T-87616 | 75,000 |
| 7 | O-3580 | 17,500 |
| 8 | O-4198 | 21,689 |
| 9 | P-30812 | 90,000 |

*(Forward)*

| Item No. | OCT/TCT | Amount |
|---|---|---|
| 10 | T-54056 | 185,911 |
| 11 | T-30139<br>T-30714 | 208,000 |
| 12 | P-27209 | 174,366 |
| 13 | T-10513 | 27,500 |
| 14 | T-6907 | 107,750 |
| 15 | P-13592 | 78,600 |
| 16 | T-137922 | 2,000,000<br>46,500 |
| 17 | P-12144 | 142,950 |
| 18 | T-133972 | 23,800 |
| 19 | P-26416 | 15,000 |
| 20 | P-17897 | 27,625 |
| 21 | T-2476 | 44,950 |
| 22 | T-10 | 19,261 |
| 23 | T-71222<br>T-71221 | 171,000 |
| 24 | C-963 | 221,500 |
| 25 | T-88295 | 42,837 |
| 26 | T-34493 | 17,500 |
| 27 | T-35606 | 558,100 |
| | | **5,701,945** |

9.9 The above-mentioned DOAs dated October 18, 2018, were made and executed by Davao Cooperative Bank, Inc., (DCB), a closed bank under liquidation by the Philippine Deposit Insurance Corporation, in favor of SB Corporation pursuant to the Court Order of Liquidation, approving the Project of Distribution of the assets of DCB which constitutes as the full/partial disposition of SB Corporation's claim against DCB with a disclosed amount of P32.221 million.

9.10 Well-settled is the rule that registration is the operative act that gives validity to the transfer or creates a lien upon the land. Consequently, where there is nothing in the certificate of title to indicate any cloud or vice in the ownership of the property, or any encumbrance thereon, the purchaser is not required to explore farther than what the Torrens title upon its face indicates in the quest for any hidden defect or imperfect right that may subsequently defeat his right thereto.

9.11 Consequently, the rights of SB Corporation might easily be defeated by a transfer or conveyance of the mortgaged property to an innocent third person because of the non-registration of all its interests over the subject real properties.

9.12 Given the aforementioned situation, the REM and DOAs in favor of SB Corporation cannot secure the rights and interests of the Corporation over the said properties against third persons because they are neither annotated in the titles nor registered with the RDs, contrary to Sections 51, 54 and 113 of PD No. 1529 or Property Registration Decree, the terms and conditions of the REM and Article 2125 of the Civil Code of the Philippines.

9.13 **We recommended that Management through the CSARG and Legal Services Group (LSG):**

a. **Strictly enforce the right of SB Corporation to demand the annotation of the REMs or DOAs in the titles or the registration with the RDs to protect the Corporation from losses and/or undue claims from third parties;**

b. **Consolidate the REMs or DOAs in the name of SB Corporation, if ownership warrants; and**

c. **Dispose the ROPA with DOA.**

9.14 Management commented that it required the registration of REM relative to Mortgagor A's loan. However, the title is still for reconstitution because the original copy of the title was lost during the Typhoon Yolanda.

9.15 With respect to DOAs not yet annotated in the titles, SB Corporation submitted an inventory and status. Some are with paid BIR-Documentary stamp tax in view of the annotation. Also, SB Corporation got hold of the 29 titles in relation to its effort to recover from DCB, but no DOAs were executed.

9.16 As an audit rejoinder, the Audit Team maintains its recommendations and will monitor the compliance of SB Corporation.

9.17 **We, further recommended that CSARG consult LSG on the legality of holding the 29 titles without the corresponding DOAs from DCB or PDIC**.

**10. One ROPA, with an appraised value of P951,840 is being occupied by its previous owner without the benefit of a lease contract. Moreover, 10 ROPAs, with a total appraised value of P4.696 million, have no perimeter fences and signages indicating SBC's ownership of the property, contrary to Section 2 of PD No. 1445, and the SB Corporation Memorandum dated June 23, 2009, thus, proper management, preservation and utilization of the acquired ROPAs could not be achieved.**

10.1 Section 2 of PD No. 1445 states that:

*It is the declared policy of the State that resources of the government shall be managed, expended or utilized in accordance with law and regulations, and safeguarded against loss or wastage through illegal or improper disposition, with a view to ensuring efficiency, economy and effectiveness in the operations of government. The responsibility to take care that such policy is faithfully adhered to rests directly with the chief or head of the government agency concerned.*

10.2 SBC Memorandum dated June 23, 2009, on Area Office Functional Matters, provides for the Collateral and Acquired Assets Management Functions of Area Offices. It is stated therein that the Head Office Acquired Assets Management Unit (AAMU) shall handle all technical tasks with regard to management of acquired assets while the administrative tasks or legwork shall be delegated to the Area Offices. As such, the Area Officer, with the assistance of the AAMU, shall be responsible for the administration and maintenance of acquired assets, which cover the following activities:

a. Hiring of caretaker, undertaking cleanliness, repair and fencing activities, if needed; and
b. Leasing out of the property.

10.3 During the ocular inspection of the 15 ROPAs last December 20 and 22, 2021, it was observed that one ROPA (Account 1) with an area of 150 square meters under TD No. 146-2014003086 and located at Maya Street, Southern Homes, Doña Pilar, Sasa, Davao City, with an appraisal value of P951,840 as at February 18, 2021, is being occupied by its previous owner, without the benefit of a lease contract.

10.4 Moreover, in the same ocular inspection, it was observed that ten (10) ROPAs, with total appraisal value of P4.696 million, were not properly secured with perimeter fences and signages indicating SBC's ownership of the property. Details of the properties are presented below:

| Account | KOT/TCT No. | Area (sqm) | Location | Appraised Value (2021 valuation) |
|---|---|---|---|---|
| Account 2 | 146-T-303184 | 110 | San Miguel, Indangan, Buhangin, Davao City | 192,500 |
| Account 3 | 146-2012011622 | 200 | San Miguel, Indangan, Buhangin, Davao City | 350,000 |
| Account 4 | T-263988 | 1,000 | Brgy. Toril, Island Garden City of Samal, Davao del Norte | 1,300,000 |
| Account 5 | T-162358 | 429 | Matina Pangi, Talomo District, Davao City | 858,000 |
| Account 6 | T-413891 | 193 | Brgy. Communal, Davao City | 193,000 |
| Account 7 | CARP20140013 0 7 | 448 | Poblacion, Compostela, Davao de Oro | 772,800 |
| Account 8 | T-142-2014002447 | 200 | Brgy. Sta. Maria, Nabunturan, Davao de Oro | 200,000 |
| Account 9 | T-154503 | 220 | Brgy. Sta. Maria, Nabunturan, Davao de Oro | 220,000 |
| Account 10 | P-59320 | 283 | Limbaan, New Corella, Davao del Norte | 226,400 |
| Account 11 | T-199328 | 766 | Poblacion, New Corella, Davao del Norte | 383,000 |
| | | | | **4,695,700** |

10.5 In an interview with Management, as to the ROPA acquired from Account 1, they allowed the previous owner to occupy the property without entering into a lease contract because he/she can be its caretaker to prevent informal settlers from occupying the property. The Management also stated that the previous owner will vacate the property once the Management issues a Notice to vacate.

10.6 As for the ROPAs with no perimeter fences and signages, Management explained that because of time constraint due to other work activities, and lack of manpower, the installation of perimeter fences and signages was not undertaken.

10.7 Non-execution of lease contract by the SBC-MG with the occupants of acquired property deprived the SB Corporation of rent income, thus, maximum utilization of the said property could not be achieved. Further, the absence of perimeter fences and signages on the ROPAs indicate that the acquired assets of SB Corporation are not properly managed and inadequately safeguarded and preserved.

10.8 **We recommended that Management, through concerned Groups:**

a. **Execute lease contracts with the occupants or demand that they vacate the property if they refuse to enter into a lease agreement with SBC-MG or unreasonably ignore demands for payment of rentals; and**

b. **Adequately secure and preserve the properties against unauthorized occupants by constructing perimeter fences and posting signages/ markers indicating that the property is owned by SB Corporation and is available for sale/lease.**

10.9 Management commented that the recommendations are well taken and will be complied with immediately. Moreover, with regards to the leasing out of acquired assets, the Management will seek guidance and approval from the ARCCo since the policy is not specific as to when the previous owner shall be liable for a rental fee.

10.10 As an audit rejoinder, the SBC Audit Team in Region XI will monitor the progress of implementation of the audit recommendations.

**11. Two acquired assets with a total appraised value of P801,840 are not covered by insurance, contrary to RA No. 656 and COA Circular No. 2018-002 dated May 31, 2018, thus, denies the government of an adequate and reliable protection against any damage to or loss of its properties or assets due to fire, earthquake, storm, or other fortuitous events/casualty.**

11.1 RA No. 656, otherwise known as the Property Insurance Law, as amended by PD No. 245, requires all government agencies to insure against any insurable risk their properties, assets, and interests with the General

Insurance Fund (GIF), as administered by the Government Service Insurance System (GSIS).

11.2 Also, COA Circular No. 2018-002 dated May 31, 2018 was issued to assist in the implementation of the provisions of RA No. 656. Sections 5.1.a and 5.1.b of the Circular provides that:

*5.1 Heads of government agencies shall direct the pertinent officials under his/her supervision to:*

*a. Secure directly from the GSIS GIF, all insurances or bonds covering properties, contracts, rights of action, and other insurable risks of their respective offices.*

*b. Prepare the Property Inventory Form (PIF) listing of all the insurable properties and other assets, showing their latest appraised values/valuation, appraisal date, location, and other information. xxx" (emphasis and underscoring ours).*

11.3 In adherence to aforesaid law, SBC issued Foreclosure Policy and Guidelines and one of the actions to be undertaken to preserve the value of the ROPAs is the continuous insurance coverage of insurable properties and payment of corresponding insurance premiums.

11.4 Review of the SBC-MG's appraisal of its 45 acquired assets booked as NCAHFS as at December 31, 2021, disclosed that it includes two insurable improvements identified as follows:

| Mortgagor | Description of Insurable Property | Location | Book value | Appraised value (Building) |
|---|---|---|---|---|
| Mortgagor 1 | 1-Storey Residential Building | Gersanville Subdivision, Bula, Gen. Santos City | 56,854 | 600,000 |
| Mortgagor 2 | 1-Storey Residential Building | Southern Homes, Doña Pilar, Sasa, Davao City | Lumped with Land | 201,840 |
| | | | | **801,840** |

11.5 Both properties were acquired by the Corporation through extra-judicial foreclosure and covered with Sheriff's Certificate of Sale dated February 28, 2019 and June 10, 2020, respectively.

11.6 However, there are no submitted proofs of insurance coverage on the said insurable acquired assets with a total appraised value of P801,840 denoting that these properties are not covered by any insurance policy, contrary to COA Circular No. 2018-002.

11.7 In an inquiry with SBC-MG personnel, we learned that they are not certain as to whose function are the processing and enrollment of insurable assets to insurance coverage. Nevertheless, they asserted that the appraisal reports of acquired assets are submitted to SBC Head Office upon completion, thus, the condition, valuation, as well as the presence of any improvements in the property, are properly disclosed. SBC-MG only processes insurance with the GSIS upon receipt of specific instructions from the Head Office.

11.8 The Corporation's inability to insure the acquired assets denies the government with adequate and reliable protection against any damage to or loss of its properties and interests due to fire, earthquake, storm or other fortuitous events/casualty.

11.9 **We recommended and Management agreed, through SBC-MG, to:**

a. **Revisit and be cognizant with the Corporation's policies and guidelines defining functions and responsibilities of different sectors/groups in the administration of acquired assets;**

b. **Make representation with the CSARG in SBC Head Office to clarify the department/region/group responsible for the insurance enrollment of their respective acquired properties;**

c. **Facilitate the immediate enrollment of the two identified acquired assets for insurance with GSIS; and**

d. **Henceforth, ensure compliance with Republic Act No. 656 and COA Circular No. 2018-002 on the requirement for general insurance coverage with the GIF of the GSIS of all the insurable assets of the Corporation.**

**12. The Extraordinary and Miscellaneous Expenses (EME) - Entertainment and Promotional Expenses (EPE) paid to SBC Corporation's officers exceeded the allowable amount by P10.150 million for the period from July 2018 to December 2021, contrary to the provisions of COA Circular Nos. 2006-001, 2012-001, 2012-003, the general provisions of General Appropriations Act (GAA) of even years as well as the approved Corporate Operating Budget (COB) of SB Corporation, thus, disallowable in audit.**

12.1 Item III of COA Circular No. 2006-001 dated January 3, 2006 prescribes the guidelines on the disbursement of extraordinary and miscellaneous expenses and other similar expenses in government-owned and controlled corporations/government financial institutions and their subsidiaries, to wit:

> *The amount of extraordinary and miscellaneous expenses, as authorized in the corporate charters of GOCCs/GFIs, shall be the ceiling in the disbursement of these funds.* ***Where no such authority is granted in the corporate charter and the authority to grant extraordinary and miscellaneous expenses is derived from the General Appropriations Act (GAA), the amounts fixed thereunder shall be the ceiling in the disbursements;*** *(Emphasis ours)*

12.2 The above subject COA Circular is reiterated in Item 7.0 of COA Circular No. 2012-001 dated June 14, 2012, quoting the same provision.

12.3 Meanwhile, Par. 5.1 of COA Circular No. 2012-003 dated October 29, 2012, defines **Excessive Expenditures** as:

> *The term "excessive expenditures" signifies unreasonable expense or expenses incurred at an immoderate quantity and exorbitant price. It also includes expenses which exceed what is usual and proper, as well as expenses which are unreasonably high and beyond just measure or amount.* ***They also include expenses in excess of reasonable limits.*** (Emphasis ours)

12.4 Further, No.17, Annex D of the said COA Circular enumerates cases that are considered "Excessive" Expenditures of Government Funds, such as:

> *17. Claims for EMEs and other similar expenses of GOCCs in* ***excess of the amounts authorized in their corporate charters*** *and in the absence thereof,* ***the amounts fixed under the GAA. The amount provided to in the charter shall be included in the Corporate Operating Budget (COB), subject to the approval of the DBM.*** (Emphasis ours)

12.5 The GAA for FYs 2018[4], 2019[5], 2020[6], and 2021[7] prescribed on its General Provisions that:

> *Extraordinary and Miscellaneous Expenses. Appropriations authorized in this Act may be used for the annual extraordinary expenses of the following officials with the following ranks and their equivalents, as may be determined by the DBM or by the GCG for GOCCs/GFIs covered by R.A. No. 10149, not exceeding the amounts indicated:*
>
> *(a) P264,000 for each Department Secretary;*
> *(b) P108,000 for each Department Undersecretary;*
> *(c) P60,000 for each Department Assistant Secretary;*
> *(d) P45,000 for each head of the bureau or organization of equivalent rank, organization or equivalent rank; and for each head of a Department Regional Office;*
> *(e) P26,400 for each head of a Bureau Regional office or organization of equivalent rank: and*
> *(f) P19,200 for each Municipal Trial Court Judge, Municipal Circuit Trial Court Judge, and Shari'a Circuit Court Judge.*

4 Sec. 43 Extraordinary and Miscellaneous Expenses of the 2018 GAA
5 Sec. 47 Extraordinary and Miscellaneous Expenses of the 2019 GAA
6 Sec. 42 Extraordinary and Miscellaneous Expenses of the 2020 GAA
7 Sec. 44 Extraordinary and Miscellaneous Expenses of the 2021 GAA

12.6 In addition, annual miscellaneous expenses not exceeding P72,000 in 2018 and 2019; and P90,000 for 2020 and 2021 for each of the above-named officials and their equivalents are authorized as stated in the GAA.

12.7 Further, the Corporate Charter of SB Corporation does not have a provision for the EME-EPE, hence, the GAA provisions subject to the approval of the budget by Department of Budget and Management (DBM) shall be applied.

12.8 Relatedly, the DBM-approved COBs of the SB Corporation for CYs 2018, 2019, 2020, and 2021, indicate that the disbursements for EME and other Maintenance and Other Operating Expenses (MOOE) shall be subject to the relevant provisions of the annual GAA, among others.

12.9 On the contrary, the structure for the SB Corporation's EME- EPE effective July 2018 was approved by the BOD through BR No. 2018-06-2578 dated June 29, 2018, as follows:

| GCG-Approved Position Title | Monthly EPE Ceiling |
|---|---|
| President/CEO | P80 thousand |
| OIC-President/CEO | 70 thousand |
| Executive Vice President | 60 thousand |
| OIC-Executive Vice President | 50 thousand |
| Sector Manager | 40 thousand |
| OIC-Sector Manager | 30 thousand |
| Group Manager | 20 thousand |
| OIC-Group Manager | 15 thousand |

12.10 Verification of available accounting records, such as: the SLs, Disbursement Vouchers and its supporting documents on the payments of EME-EPE disclosed that the EME-EPE granted to the PCEO and the Senior Officers of SB Corporation were in excess of the prescribed GAA rates. For CYs 2018, 2019, 2020 and 2021, the excess payments amounted to P1.093 million, P3.656 million, P2.450 million, and P2.951 million, respectively, or a total of P10.150 million. Detailed as follows:

| OFFICER | OVERPAYMENT | | | | TOTAL |
|---|---|---|---|---|---|
| | 2018 | 2019 | 2020 | 2021 | |
| 01 | 348,120 | 780,000 | 782,000 | 762,000 | **2,672,120** |
| 02 | 243,480 | 588,000 | 402,000 | 117,000 | **1,350,480** |
| 03 | - | - | - | 300,000 | **300,000** |
| 04 | 122,400 | 227,800 | - | - | **350,200** |
| 05 | 71,600 | 261,600 | 283,600 | 328,400 | **945,200** |
| 06 | - | 83,418 | 70,800 | 161,022 | **315,240** |
| 07 | - | 1,600 | 83,600 | 109,400 | **194,600** |
| 08 | 21,600 | 186,337 | 178,800 | 259,971 | **646,707** |
| 09 | 45,800 | 141,600 | 83,600 | 123,600 | **394,600** |
| 10 | 21,600 | 141,600 | 63,600 | 89,800 | **316,600** |
| 11 | 31,600 | 216,863 | - | - | **248,463** |
| 12 | 21,600 | 141,600 | 103,700 | 82,600 | **349,500** |
| 13 | 21,600 | 141,600 | 67,600 | 119,600 | **350,400** |
| 14 | 21,600 | 141,600 | 38,800 | 87,600 | **289,600** |
| 15 | 21,600 | 141,600 | 71,600 | 123,600 | **358,400** |
| 16 | 21,600 | 141,600 | 55,600 | 23,600 | **242,400** |
| 17 | 45,700 | 141,600 | 43,600 | - | **230,900** |

| OFFICER | OVERPAYMENT | | | | TOTAL |
|---|---|---|---|---|---|
| | 2018 | 2019 | 2020 | 2021 | |
| 18 | 1,600 | - | - | - | **1,600** |
| 19 | - | - | - | 51,000 | **51,000** |
| 20 | - | 88,800 | 30,100 | 60,600 | **179,500** |
| 21 | - | - | 14,800 | 55,800 | **70,600** |
| 22 | - | - | 24,618 | - | **24,618** |
| 23 | - | 88,800 | 40,500 | - | **129,300** |
| 24 | 31,160 | - | - | - | **31,160** |
| 25 | - | - | 11,280 | 95,294 | **106,574** |
| **TOTAL** | **1,092,660** | **3,656,018** | **2,450,198** | **2,950,887** | **10,149,763** |

12.11 Such overpayment is contrary to the pertinent provisions of COA Circular Nos. 2006-001, 2012-001 and 2012-003 and the general provisions of GAA for FYs 2018 to 2021.

12.12 **We recommended that Management, through the concerned Groups and the Senior Officers of SB Corporation:**

a. **Strictly comply with the applicable provisions and requirements of the GAA and COA Circular Nos. 2006-001, 2012-001 and 2012-003 in the grant of EME-EPE or its equivalent; and**

b. **Collect from the Senior Officers the excess EME-EPE paid to them totaling P10.150 million.**

12.13 Management commented that under Section 14(f) of RA No. 9501 as amended by RA No. 6977 and further amended by RA No. 8289, the governing board of SB Corporation is authorized to grant fringe benefits and said authority likewise covers the grant of EME-EPE. Further, Management pointed out that the exact term of EME-EPE is not required to be indicated in SB Corporation's Charter for it to have authority to grant the same as ruled by the Supreme Court in the case of Espinas vs. COA. They added that the nuanced control measures referred in the said case is the authority of COA to prescribe rules and regulations specifically for government corporations to regulate the incurrence of these expenditures and ensure the prevention and disallowance of irregular, unnecessary, excessive, extravagant, or unconscionable expenditures or uses of government funds which is in the said case is the imposition of the required officials receipts for the claim of EME-EPE instead of mere certifications. It was also claimed that the EME-EPE, if considered as fringe benefit, does not need OP approval because the COA Circular on EME does not require OP approval, and that such is needed if there is a grant of new benefits or increase in the rates. It added that the same had been existing since 2000.

12.14 As an audit rejoinder, the Audit Team agrees that the BOD has the authority to grant EME-EPE but it is not absolute. We also agree that the issue in the case of Espinas vs. COA is the official receipts. However, we see no reason not to apply it to SB Corporation. The COA Circular was issued to carry out the authority of COA to prescribe rules and regulations and to ensure the prevention and disallowance of irregular, unnecessary, **excessive**, extravagant, or unconscionable expenditures or uses of government funds.

The grant of EME-EPE must not exceed the threshold in the Charter or in the absence thereof, in the GAA. Since no amount is expressly provided in SB Corporation's Charter, the rates should be in accordance with the GAA. To allow otherwise would render the EME disbursements prone to abuse and render inutile the power of COA to impose measures relative to EME disbursements.

12.15 Also, the averment that the payment is considered a fringe benefit does not make the disbursement valid. With the enactment of RA No. 6758, all kinds of allowances, except those specifically mentioned in Section 5.5 of Department of Budget and Management (DBM)-Corporate Compensation Circular No. 10 and those which may be determined by the DBM, are deemed integrated into the standardized salary rates. Considering that fringe benefit is not among the exceptions, its grant should be authorized by the Office of the President.

12.16 Further, the requirements for the continuous grant of allowances and fringe benefits on top of the standardized salary rates for employees of GOCCs and government financial institutions (GFIs) are: 1) the allowance or benefit was not consolidated in the standardized salary rate prescribed in RA No. 6758; and 2) the employee is an incumbent, one who is in present possession of an office, and is legally authorized to discharge the duties of an office as of July 1, 1989. These requirements are wanting in the case of SB Corporation.

**13. The Motor Vehicle Lease Purchase Plan (MVLPP) granted by SB Corporation to one of the BODs amounting to P1.595 million is contrary to Section 8 of Executive Order (EO) No. 24, Series of 2011, Par. 7 of Governance Commission for GOCCs (GCG) Memorandum Circular (MC) No. 2016-01 and Section 3.1 of COA Circular No. 2012-003.**

13.1 Section 8 of EO No. 24, Series of 2011, expressly provides:

> *Section 8. Compensation Structure – The compensation of the Board of Directors/Trustees shall have the following components:*
>
> a. *Compensation shall be in the form of* ***per diems*** *and subject to limits as provided for under Sections 9 and 10 hereof;*
>
> b. *Compensation in the form of* ***Performance-Based Incentives*** *may be allowed and shall be based on agreed upon metrics as provided under Section 11 hereof;*
>
> c. *Annual Retainer Fees and Stock Plans shall not be allowed; and*
>
> d. ***Salaries, Allowances, Benefits and other Bonuses shall not be allowed unless specifically authorized by law or Charter and approved by the President****, provided that the total of the foregoing compensation and per diems shall not exceed the limits stipulated under Sections 9 and 10 hereof.* (Emphasis ours.)

13.2 Par. 7 of GCG MC No. 2016-01 dated May 10, 2016, states that:

> *7.* ***DIRECTOR'S COMPENSATION STRUCTURE****. – Unless otherwise revised by the GCG in accordance with its power under Section 23 of R.A. No. 10149, the Compensation Structure for Appointive Directors shall remain limited to the following components:*
>
> *(a)* ***Per Diems****, but only up to the limits provided in Section 9 below; and*
>
> *(b)* ***Performance-based Incentives*** *(PBI) in accordance with Chapter IV herein.*

13.3 Section 3.1. of COA Circular No. 2012-003 dated October 29, 2012 defines irregular expenditure, to wit:

> *"Irregular expenditure signifies an expenditure* ***incurred without adhering to established rules, regulations, procedural guidelines, policies, principles or practices that have gained recognition in laws****. Irregular expenditures are incurred if funds are disbursed without confirming with prescribed usages and rules of discipline. There is no observance of an established pattern, course, mode of action, behavior, or conduct in the incurrence of an irregular expenditure. A transaction conducted in a manner that deviates or departs from, or which does not comply with standards set is deemed irregular. A transaction which fails to follow or violates appropriate rules of procedure is, likewise, irregular."*

13.4 Verification of available accounting records, such as: MVLPP, General/Subsidiary Ledger, Property Acknowledgement Receipt and Disbursement Voucher disclosed that a member of the governing board applied for MVLPP on January 12, 2021 and was granted by SB Corporation. Details as follows:

| | |
|---|---|
| **Choice of Vehicle:** | Nissan Terra VE AT |
| **Color:** | Aspen Pearl White |
| **Name of Dealer:** | MGM Motor Trading Inc.,<br>Nissan, Sumulong Highway, Marikina |
| **Acquisition cost:** | P1,547,000 |
| **Comprehensive Insurance:** | P48,162 |
| | **P1,595,162** |

13.5 The application for the lease-purchase of a car was granted based on the MVLPP as approved by the Office of the President of the Philippines through a letter dated May 04, 1992 addressed to Hon. Jose L. Cuisia, Jr., former Governor of the Central Bank of the Philippines, from Franklin H. Drilon, then Executive Secretary. In the said car plan, it shall be limited to top officials or positions in the GFIs but not lower than the Director's level position. On a later date, the car plan benefit of SB Corporation was authorized by the BODs under BR No. 37, Series of 1992, dated October 30,1992 and implemented in 1993. The said BR was further amended by BR No. 1556, Series of 2008, and BR No. 2016-12-2347 dated December 2, 2016.

13.6 Based on the aforementioned rules and regulations, the car plan benefit extended to the governing board member is prohibited because the members of the Board are allowed only to be compensated through *per diems*, PBI and reimbursable expenses. Car plan is not among them.

13.7 Thus, the granting of MVLPP benefit to one of the members of the governing board amounting to P1,595,162 constitutes irregular expenditure as provided in Section 3.1 of COA Circular No. 2013-003, and unauthorized payment, contrary to Section 8 of EO. No. 24, Series of 2011, Par. 7 of GCG MC No. 2016-01.

13.8 **We recommended that Management, through the Concerned Groups:**

**a. Require the concerned member of the BOD to immediately refund the MVLPP benefit granted by SB Corporation, contrary to EO. No. 24, Series of 2011, Par. 7 of GCG MC No. 2016-01 and Section 3.1 of COA Circular No. 2012-003; and**

**b. Discontinue the granting of said benefit which is not in accordance with existing laws, rules and regulations.**

13.9 Management commented that it is one of the benefits allowed under the said EO given that the MVLPP was approved by the President of the Philippines. They added that under Section 23, Chapter IV of RA No. 10149 or the GOCC Governance Act of 2011, the compensation, per diems, allowances and incentives of the members of the Board of Directors/Trustees of the GOCCS shall be determined by the GCG using as reference, among others, EO No. 24 dated February 10, 2011.

13.10 Management also commented that on the basis of the approval of the MVLPP by the President of the Philippines, the BOD of SB Corporation authorized the car plan benefit thru a Board Resolution in 1992 and it is consistent with the powers and authorities of the BOD as provided under Section 14 of RA No. 9501, as amended by RA No. 6977 and further amended by RA No. 8289.

13.11 Management believes that the car plan does need the Office of the President (OP) of the Philippines' approval because the amendments were mere improvements to and clarification on the guidelines to ensure a more efficient and cleared operationalization of the Car Plan. It added that the change of the term of car plan from 10 years to 5 years is even more advantageous to the Corporation as it will be able to recover the cost of the vehicle which is advanced in a shorter period.

13.12 As an audit rejoinder, while it is true that EO No. 24 is used as reference by the GCG in determining the compensation, per diems, allowances and incentives of the members of the Board of GOCCs, the Car Plan approved by the OP provides that any change in the terms and conditions of the Car

Plan shall be subject to prior approval from the OP. Further, the word "change" was used in general term. No condition was provided on whether the change is beneficial or detrimental to the Corporation. With SB Corporation, the changes made on the terms and conditions do not have the required OP approval. Hence, there is no basis for the grant of Car Plan to the members of the Board.

13.13 Also, Section 14 (f) of RA No. 9501, as amended by RA No. 6977 and further amended by RA 8289, is not applicable because the provision speaks about the salaries, allowances and fringe benefits of employees and personnel of SB Corporation. The members of the Board are not employees because there is no employer-employee relationship between the former and SB Corporation.

**14. Hiring of Individual Contract of Service (COS) Personnel to perform the regular functions of SBC-Visayas Group (VG) is contrary to COA-DBM Joint Circular (JC) No. 2, s. 2020, dated October 20, 2020.**

14.1 Section 7.0 of COA-DBM JC No. 2, s. 2020, dated October 20, 2020 limits the hiring of Contract of Service (COS) workers to consultants, learning service providers, and/or technical experts to undertake special projects or job within a specific period. The project or job is not part of the regular functions of the agency, or the expertise is not available in the agency, or it is impractical or more expensive for the government agency to directly undertake the service provided by the individual or institutional contractor.

14.2 The said Circular also provides that COS workers should not in any case, be made to perform functions which are part of the job description of the agency's existing regular employees.

14.3 As of December 31, 2021, SBC-VG has 22 COS Employees with actual functions and duties summarized as follows:

| Job Description/Actual Functions | No. of COS Employees |
|---|---|
| 1. Provincial Coordinators – in charge in the marketing of related loan programs; conduct prequalification of Microfinance Institutions; conduct regular monitoring/validation of MFI's portfolio as compliance to loan covenants; provide guidance to potential clients and/or borrowers on loan matters; assist the Area Coordinator; prepare various program reports and perform other related functions that may be assigned from time to time. | 18 |
| 2. Borrower Information Assessors – evaluates the documents of loan applicants; upload all the required documents of loan applicants to SBC online document filing system. | 3 |
| 3. Legal Assistant – receive and log memoranda, legal documents for review, and endorse accounts for legal action; calendar scheduled hearings/mediation; remind due dates/schedules; prepare demand letters/memoranda; maintain and update | 1 |

| Job Description/Actual Functions | No. of COS Employees |
|---|---|
| inventory/report concerning LSG legal accounts/cases; filing and follow-up cases before the court; and other related functions that may be assigned from time to time. | |
| | **22** |

14.4 As gleaned from the job description and actual functions performed, the COS Employees cannot be considered consultants, learning service providers, and/or technical experts. Moreover, they cannot also be considered as undertaking a special project or job within a specified period for these employees are performing functions in relation to loans which is a primary function of SBC.

14.5 Further, the contracts of these employees have also been continuously renewed every year for several years already, some as early as CY 2017, thus affirming that they perform the regular functions of the SB Corporation.

14.6 It is also worthy to note that as at December 31, 2021, SBC-VG has 15 unfilled plantilla positions which SB Corporation may utilize for the benefit of these COS employees.

14.7 The practice of continuously rehiring COS employees for the regular functions of the SB Corporation is contrary to Section 7.0 of COA-DBM JC No. 2, s. 2020, and deprives these employees of the benefits being received by a regular government employee such as leave privileges, Personnel Economic Relief Allowance, Representation and Transportation Allowance, Holiday Pay, 13th and 14th Month Pay and other bonuses and incentives.

14.8 **We recommended that Management, through concerned Groups:**

a. **Review the functions, systems and procedures, organizational structure and staffing pattern of the Agency to assess the needs and gaps and determine the appropriate human resource complement for their programs/activities/projects; and propose the creation of permanent positions for regular functions to the Head Office in accordance with Section 11.4 of COA-DBM JC No. 2, s. 2020; and**

b. **Consider for appointment to unfilled regular positions and/or newly created positions as determined under letter (a) recommendation, the existing qualified COS employees, subject to existing civil service laws, rules and regulations as well as the CSC-approved Merit Selection Plan of the agency as per Section 11.3 of the same Circular.**

14.9 Management commented that SB Corporation has a centralized Human Resource Department at the Head Office so they have to elevate the matter to their Head Office. The hiring of Individual COS Personnel is true to all regional offices of the Agency. As of now, the HR is looking for the previously issued resolutions granting exemptions on hiring said COS personnel. The said Individual COS Personnel were hired during the start of the P3 Program.

14.10 As an audit rejoinder, the Audit Team maintains its stand that the hiring of COS Personnel should be undertaken on special projects only. Since the main role of SBC is to provide lending services, the functions of the COS hired personnel as previously mentioned are regular functions of the existing employees of SB Corporation.

**15. Various deficiencies were noted on the SB Corporation's procurement activities and its documentation, contrary to the applicable provisions of RA No. 9184 and its 2016 RIRR, Section 4(6) of PD No. 1445 and Paragraph B.1 of COA Circular Nos. 96-010 and 92-389.**

15.1 Section 10 of RA No. 9184 provides that all procurement shall be done through competitive bidding, except as provided in Rule XVI of the said Act on Alternative Methods of Procurement which states that the Procuring Entity may, in order to promote economy and efficiency, resort to any of the alternative methods of procurement. Alternative methods of procurement shall be resorted to only in highly exceptional cases provided for in the same law.

15.2 Paragraph J of Item IV of the General Guidelines under Annex "H" of the 2016 RIRR of RA No. 9184 on Consolidated Guidelines for the Alternative Methods of Procurement on Delegation of Authority prescribed that the conduct of SVP may be delegated to the End-user unit or any other appropriate bureau, committee, or support unit duly authorized by the BAC through a Resolution approved by the HoPE.

15.3 Paragraph D (8) of Item V - Specific Guidelines under Annex "H" of the 2016 RIRR of RA No. 9184 on Small Value Procurement (SVP) provides the procedure to be followed in SVP, to wit:

> *xxx*
> *b)* ***Procedure***
>
> *i.* ***The End-User shall submit a request for SVP to the BAC****, which indicates the technical specifications, scope of work, terms of reference, ABC and other terms and conditions.*
>
> *ii.* ***The BAC shall prepare and send the RFQs/RFPs to at least three (3) suppliers, contractors or consultants of known qualifications****. This, notwithstanding, those who responded through any of the required postings shall be allowed to participate. Receipt of at least one (1) quotation is sufficient to proceed with the evaluation thereof.*
>
> *iii.* ***Except for those with ABCs equal to Fifty Thousand Pesos (P50,000.00) and below****,* ***RFQs shall be posted for a period of three (3) calendar days in the PhilGEPS website, website of the***

***Procuring Entity, if available, and at any conspicuous place reserved for this purpose in the premises of the Procuring Entity.***

*iv. Pre-bid conference may be conducted at the discretion of the BAC, in order to clarify and/or explain any of the requirements, terms, conditions, and specifications stipulated in the RFQ/RFP.*

*v. After the deadline for submission of quotations/proposals, an Abstract of Quotations/Ratings shall be prepared setting forth the names of those who responded to the RFQ/RFP, their corresponding price quotations/ratings.*

*vi.* ***The BAC shall recommend to the HoPE*** *the award of contract in favor of the supplier or contractor with the Single or Lowest Calculated and Responsive Quotation (for goods or infrastructure projects), or consultant with the Single or Highest Rated and Responsive Proposal (for consulting services). In case of approval, the HoPE shall immediately enter into contract with the said supplier, contractor or consultant. (Emphasis ours).*

15.4 Appendix A of Annex "H" of the 2016 RIRR of RA No. 9184 on Consolidated Guidelines for the Alternative Methods of Procurement on the Documentary Requirement of Alternative Methods of Procurement provides the following:

*I. This Appendix prescribes for the documents that the BAC shall require from suppliers, contractors and consultants for Alternative Methods of Procurement, except for Repeat Order, Shopping under Section 52.1(a), and Negotiated Procurement under Sections 53.1 (Two-Failed Biddings), and 53.5 (Agency-to-Agency) of the IRR of RA 9184.*

*xxx*
*As amended by GPPB Resolution No. 36-2017, dated 7 November 2017, published in the Philippine Daily Inquirer on 24 April 2018.*

| ***Alternative Modality*** | ***Mayor's/ Business Permit*** | ***Professional License /Curriculum Vitae (Consulting Services)*** | ***PhilGEPS Reg. Number*** | ***PCAB License (Infra.)*** | ***NFCC (Infra.)*** | ***Income/ Business Tax Return*** | ***Omnibus Sworn Statement*** |
|---|---|---|---|---|---|---|---|
| *Xxx* | | | | | | | |
| ***III. Negotiated Procurement*** | | | | | | | |
| ***F. SVP (Section 53.9)*** | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ *For ABCs above P500K* | ✓ *For ABCs above P500K* |

*Note 1. For individuals engaged under Sec. 53.6, 53.7 and 53.9 of the IRR of RA No. 9184, only the BIR Certificate of Registration shall be submitted in lieu of DTI Registration and Mayor's Permit.*
*xxx*
*Note 2. For methods of procurement requiring Mayor's Permit and PhilGEPS Registration Number, Certificate of Platinum Membership may be submitted in lieu of the said documents. (n)*

*III. Procuring Entities already maintaining an updated file of any of the bidder's above-mentioned requirements, whether through the PhilGEPS Certificate of Registration and Membership or its own records, may no longer require its re-submission.*

15.5 **Verification of available accounting records on procurement, such as: DV, Budget Utilization Request and Status, Purchase Request (PR), Request for Quotation (RFQ), Quotations, Abstract of Quotations/Canvass, Evaluation/Assessment Report of Technical Working Group (TWG), ManCom Routing Resolutions, Purchase Orders (PO), Delivery Receipt/Sales Invoice, Progress Report, Certificate of Acceptance, Request for Payment, Warranty, among others, revealed the following deficiencies:**

**A. Although alternative method of procurement may be delegated to the unit or any other appropriate bureau, committee, or support unit, the procurement activities done through Negotiated Procurement (NP)-SVP totaling P3.227 million were not supported with Bids and Awards Committee (BAC) Resolution recommending to the HoPE the award of the contract/PO, contrary to the provisions of the 2016 RIRR of RA No. 9184.**

15.6 Review of the transactions of SB Corporation on procurement through NP-SVP revealed that the 10 POs awarded by SB Corporation to the winning bidders/contractors were not supported by the corresponding BAC Resolution recommending to the HoPE the award of the contract/PO, contrary to Paragraph D of Item V of the Specific Guidelines under Annex "H" of the 2016 Revised IRR of RA No. 9184 on Consolidated Guidelines for the Alternative Methods of Procurement-NP-SVP that prescribed the procedures and the corresponding documents.

15.7 Hereunder are the above-referred procurements done by ASU without the corresponding BAC Resolution recommending to the HoPE the award of the contract/PO:

| Item No. | Winning Bidder | PO No./Date | Amount per PO | Amount per DV |
|---|---|---|---|---|
| 1. | A | 21-02-0029/ 02-18-2021 | 88,080 | 88,080 |
| 2. | B | 21-03-0068/ 03-23-2021 | 47,500 | 47,500 |
| 3. | B | 21-03-0070/ 03-24-2021 | 60,400 | 56,900 |
| 4. | B | 21-11-0237/ 11-10-2021 | 901,725 | 135,259 |
| 5. | C | 21-03-0068/ 03-23-2021 | 100,000 | 100,000 |
| 6. | D | 21-04-0079/ 04-15-2021 | 393,000 | 393,000 |
| 7. | E | 21-05-0104/ 05-19-2021 | 457,550 | 457,550 |

| Item No. | Winning Bidder | PO No./Date | Amount per PO | Amount per DV |
|---|---|---|---|---|
| 8. | F | 21-04-0081/ 04-19-2021 | 598,880 | 598,880 |
| 9. | G | 21-09-0185/ 09-09-2021 | 132,550 | 132,550 |
| 10. | H* | 21-11-0238/ 11-10-2021 | 447,441 | - |
| **TOTAL** | | | **3,227,126** | **2,009,719** |

**No DV yet, Contractor still working on the defective renovated areas. Expected delivery of the renovated facilities cannot be determined because the attached PO did not bear the signature nor date of receipt by the Contractor.*

15.8 Also, it was noted that there are procurements that were addressed by the TWG and/or End-User to the Management Committee (ManCom) for approval of the HoPE through ManCom Routing Resolutions, totaling P2,092,529, contrary to the prescribed procedure that requests for procurement shall be through the BAC for the issuance of the corresponding BAC Resolution recommending to the HoPE the award of the contract/PO, details follow:

| Item No. | Winning Bidders | PO No./Date | Check No./Date | PO Amount |
|---|---|---|---|---|
| **1.** | B | 21-03-0070/ 03-24-2021 | 559226/11-24-021 | 60,400 |
| **2.** | B | 21-11-0237/ 11-10-2021 | 559292/12-07-021 | 135,259 |
| **3.** | D | 21-04-0079/ 04-15-2021 | 558518/06-21-021 | 393,000 |
| **4.** | F | 21-04-0081/ 04-19-2021 | 558521/06-22-021 | 598,880 |
| **5.** | E | 21-05-0104/ 05-19-2021 | 338884/08-14-021 | 457,550 |
| **6.** | H | 21-11-0238/ 11-10-2021 | - | 447,441 |
| **Total** | | | | **2,092,529** |

**B. Significant dates, terms and conditions, conforme, other information and details were not provided in the procurement documents, contrary to COA Circular No. 96-010 dated August 15, 1996.**

15.9 Available supporting documents on procurement activities, such as: POs, PRs, Quotations/Proposals, Abstract of Quotations/Canvass, Evaluation/ Assessment Reports and Memorandum addressed to ManCom for approval of the President and Chief Executive Officer of SB Corporation disclosed that the dates, terms and conditions, conforme, other information and details were not stated in the supporting documents, contrary to the requirements of COA Circular No. 96-010 dated August 15,1996, thus, the faithful delivery of the obligation by the winning bidders that may have affected the day-to-day activities of the End-User of SB Corporation could not be ascertained.

15.10 The above-stated significant information and details are not disclosed in the following documents:

| Documents | Lacking information | Purpose/s |
|---|---|---|
| PO, RFQ, Proposal, Abstract of Quotations/Proposals, Evaluation/Assessment Report and ManCom Routing Resolution | Date of delivery, conforme, date of acknowledgement of the winning bidder, terms and conditions, information whether the supplier is a manufacturer or exclusive distributor; Registration with SEC, DTI or both and taxes paid by agency; i.e., VAT, etc. | • to determine the exact delivery of the goods and services in accordance with the terms and conditions and whether there is delay/s;<br>• to determine the urgency of the procurement of goods and services and if promptly received by the End-User;<br>• to determine whether the modality of procurement used are those provided in the APP; and<br>• to determine whether the taxes due were remitted to the Bureau of Internal Revenue (BIR) by the responsible party. |
| PR | Urgency of the request | • for BAC to promptly address the needs of the End-User |

15.11 Likewise, the conditions set in the RFQ were not implemented by the SB Corporation. Instead, the proposals submitted by the suppliers prevail over the conditions imposed by the SB Corporation.

**C. Incomplete documentation of the procurement transactions under NP-SVP alternative method of procurement totaling P2.457 million is contrary to paragraph D (8) and Appendix A of Annex "H" of the 2016 RIRR of RA No. 9184 and Section 4(6) of PD No. 1445.**

15.12 In addition, Section 4(6) of PD No. 1445 on Fundamental principles. Financial transactions and operations of any government agency shall be governed by the fundamental principles set forth hereunder:

> *6. Claims against government funds shall be supported with complete documentation.*

15.13 Scrutiny of the procurement transactions on various purchases of goods, repairs and renovation of SB Corporation for CY 2021 revealed that the sampled ten DVs totaling P2,457,159.31 lack the documents required in paragraph D (8) and Appendix A of Annex "H" the applicable provisions of the 2016 RIRR of RA No. 9184 and Section 4(6) of PD No. 1445, thus, the SB Corporation fell short on the full compliance with the rules and regulations of RA No. 9184.

15.14 Hereunder are the lacking documents required to support the validity, accuracy, completeness and reliability of the procurement activities:

- o BAC Resolution recommending to the HoPE the award of the contract/PO;

- RFQ posted at DBM-PS PhilGEPS signed by the Chairperson of the BAC;
- Proof of posting to SB Corporation's website and to any conspicuous place at the SB Corporation;
- Clearance from the Department of Information and Communication Technology (DICT) on the five (5) -Year Information Systems Strategic Plan (ISSP) of SB Corporation per Memorandum Order No. 237 dated March 23, 1989;
- PhilGEPS Certificate of Registration (Platinum Membership) and List of Documents;
- Other bidding documents supporting the documentary, technical and financial eligibility of the bidders supporting the abstract of quotations/proposals;
- Complete signature/conforme of authorized signatories to the PO, Property Acknowledgement Receipt, bidders' proposal/quotations, Certificate of Acceptance, Evaluation/Assessment Report; and
- Original procurement documents with disclosure as to what office is keeping the originals.

**D. Lastly, the paid DVs and its supporting documents totaling P2.010 million were not stamped "PAID" upon payment, contrary to COA Circular No. 92-389, which opens the possibility of re-using the supporting documents for another claim.**

15.15 COA Circular No. 92-389 dated November 3, 1992 states that:

> *Q. Paid vouchers, including its supporting documents, shall be perforated and conspicuously stamped Paid by the Cashier. The stamp shall provide space for the number of the check issued and date of actual payment, and its size should be 2" X 3.*

15.16 Audit of DVs covering the procurement transactions on NP-SVP for CY 2021 totaling P2,009,718.75 disclosed that 10 DVs as well as its supporting documents were not stamped as "PAID".

15.17 The stamping of paid disbursement vouchers including all its supporting documents is an internal control measure to prevent the reuse of same documents in the future for claims of similar nature. Hence, failure to perform this control opens the possibility of re-using the supporting documents for another claim.

15.18 **We recommended that Management, through the concerned Groups/Units:**

**a. Strictly adhere to paragraph D (8) and Appendix A of Annex "H" of the 2016 RIRR of RA No. 9184, Section 4(6) of PD No. 1445 and COA Circular Nos. 96-010 and 92-389;**

**b. Strictly fill-up the significant information and details of the prescribed documents for procurement activities to determine the**

**urgency of the request, the faithful delivery of the obligation of the winning bidders, the obligation of SB Corporation, and to substantiate every act of the BAC and HoPE;**

c. **Submit the lacking documents to the Audit Team to support the validity, accuracy and reliability of the transactions, to wit:**

- **RFQ posted at DBM-PS PhilGEPS signed by the Chairperson of the BAC;**
- **Proof of posting to SB Corporation's website and to any conspicuous place at the SB Corporation;**
- **Clearance from the Department of Information and Communication Technology (DICT) on the 5-Year Information Systems Strategic Plan (ISSP) of SB Corporation per Memorandum Order No. 237 dated March 23, 1989;**
- **PhilGEPS Certificate of Registration (Platinum Membership) and List of Documents;**
- **Other bidding documents supporting the documentary, technical and financial eligibility of the bidders supporting the abstract of quotations/proposals.**

d. **Submit the original documents with disclosure as to what Office is keeping the originals as support to the Disbursement Voucher;**

e. **Ensure that the supporting documents are completely signed by the authorized signatories to confirm the validity of the transaction;**

f. **Conduct the training on RA No. 9184 and its 2016 RIRR for its proper implementation; and**

g. **Require the concerned personnel to stamp "PAID" all the DVs and all its supporting documents as an internal control measure to safeguard the disbursement of public funds.**

15.19 Management commented that:

- The SB Corporation through the ASU, complied with the provisions and requirements of Appendix A, Annex H of the 2016 RIRR of RA No. 9184 and Section 4 (6) of PD No. 1445 to protect the government funds from non-eligible suppliers.

- In CY 2017, the BAC issued BAC Resolution No. 2017-DEL-05-03, Series of 2017, delegating the procurement to the following: Administrative Services Group (ASG), North Luzon Group (NLG), Visayas Group (VG) and Mindanao Group (MG). Thus, all procurements made in CY 2021 were compliant to the requirement of RA No. 9184.

- Moving forward, the SB Corporation will regularly update the Delegation of Authority through BAC Resolution taking into consideration the yearly update of the Corporation’s procurement needs, memberships, and requirements of RA No. 9184.

- For some TORs, timelines were indicated in the NOA as received by the winning bidders.

- Prospectively, ASU will draft a standardized template for all TORs to include the following information: a) ABC; b) Specifications; c) Criteria for Evaluation; and d) Timeline for delivery including penalty clause.

- As part of the improvement, ASU will conduct training on procurement process to the end-users within the year.

- With respect to the renovation and repair of San Fernando property, it is intended for SB Corporation Central Luzon Group (CLG) and secondary site for Business Continuity. The project started in December 2020 which was completed in March 2021. Nearing its completion, the Contractor informed SB Corporation of the low water pressure which was only realized upon reconnection of the water pipeline, thus, the necessity to procure pressurized water tank.

- When the project was undertaken, the entire nation was still placed under different levels of community quarantine, which Pampanga was not spared of, and yet proceeded with the project to finish the CLG Office and the provision for the alternative business recovery office.

- During this time, to be able to come up with estimate or budget proposal, the SB Corporation verbally canvassed price quotations from among the industry players/suppliers. Quotations received came from the same suppliers who actually participated in the bidding. The suppliers submitted the same quotation without any changes.

- The SB Corporation, through the Treasury Group will comply with the requirements on the stamping of “PAID” to the paid DVs.

15.20 It is noteworthy that Management has submitted some of the lacking documents, nonetheless, there are still some important requirements which are either not complied with or submitted to the Audit Team for validation, to enumerate:

a. Posting of RFQ in the PE's website and at conspicuous places reserved for that purpose in the premises of PE is required for SVP amounting to P50,000 and above;
b. Purchase Orders with complete details;
c. Posting, for information purposes, of the POs, Contracts, NOA including NTP, if necessary, shall be posted in PhilGEPS' website, PE's website if available and conspicuous places within 10 days from issuance except for ABCs P50,000 and below;
d. Copy of 5-Year ISSP as endorsed to DICT by SB Corporation to secure a clearance; and

e. Original/Authenticated documentary requirements.

15.21 By an audit rejoinder, the Audit Team would like to emphasize that the submission of the Sworn Omnibus Statement was made only after the issuance of the AOM requiring its submission.

15.22 Also, in compliance with Paragraph (b) of Section 11 of RA No. 9184, the HoPE through the recommendation of BAC should issue an Office Order for ASU to conduct the alternative method of procurement of the Corporation, and not just delegated to ASU.

15.23 Further, the Audit Team emphasize that the MANCOM is different from BAC. While the President and Chief Executive Officer (PCEO) is a member of MANCOM, the PCEO is not a member of BAC but the approving officer on the awarding of the PO and/or contract.

15.24 Furthermore, all the documents supporting the procurement are important and necessary on the evaluation, qualification and awarding of the PO/Contract to the lowest calculated bidder, thus, there are no less important requirements.

15.25 Moreover, pre-audit of government transactions was lifted through COA Circular No. 2011-002 dated July 22, 2011. It is already the responsibility of Management as part of its accounting and fiscal control process.

15.26 Lastly, BAC Resolution No.2017-DEL-05-03, Series of 2017, delegating the procurement authority to ASU, NLG, VG and MG is no longer compliant to the requirement of RA No. 9184 and its 2016 RIRR. Procurement needs vary every year. The BAC Resolution mentioned is applicable only on the year it was passed.

15.27 Thus, the said authority delegating ASU, NLG, VG and MG to conduct NP-SVP of SB Corporation at the Head Office and Regional Offices is already outdated, contrary to Paragraph (b) of Section 11 of RA No. 9184 which provides that unless sooner removed for a cause, the members of the BAC shall have a fixed term of one (1) year reckoned from the date of appointment, renewable at the discretion of the Head of the Procuring Entity.

15.28 Relative thereto, **the Audit Team further recommends that Management update the issuance of authority delegating the ASU, NLG, VG and MG to conduct the alternative method of procurement as authorized by SB Corporation's approving officer.**

**E. Occurrence of delays on the delivery of goods and services that disregards the urgent need of the End-users on their day-to-day activities and non-collection of liquidated damages with an estimated total amount of P80,822 are contrary to Section 68 Rule XXII of RA No. 9184 and its 2016 IRR and Section 3.1 of Annex "D" of its 2016 RIRR.**

15.29 Section 68, Rule XXII of RA No. 9184 and its 2016 RIRR on Liquidated Damages provides that:

*All contracts executed in accordance with this Act shall contain a provision on liquidated damages which shall be payable in case of breach thereof. The amount thereof shall be specified in the IRR.*

15.30 Also, Section 68, Rule XXII of the 2016 RIRR (updated March 31, 2021), expressly states that all contracts executed in accordance with the Act and its IRR shall contain a provision on liquidated damages which shall be payable by the contractor in case of breach thereof. For the procurement of Goods, Infrastructure and Consulting Services, the amount of the **liquidated damages shall be at least equal to one-tenth of one per cent (0.001) of the cost of the unperformed portion for every day of delay**. Once the cumulative amount of the liquidated damages reaches ten per cent (10%) of the amount of the contract, the procuring Entity may rescind or terminate the contract, without prejudice to other courses of action and remedies available under the circumstances. This was also reiterated in Section 3.1 of Annex "D" of the said RIRR.

15.31 Verification of available accounting records showed that there were delays in the delivery of goods and services on the following procurements with an estimated total amount of P80,822:

| Item No. | Winning Bidder | Terms and condition per RFQ | Date Confirmed | Date of Delivery per winning bidder | No. of days delayed | Amount per PO | Liquidated damages |
|---|---|---|---|---|---|---|---|
| 1. | A | 7 days* | 02-22-2021 | 06-07-2021 | 96 WDs | 88,080 | 8,456 |
| 2. | B | 3 days* | 03-30-2021 | 04-16-2021 | 14 WDs | 47,500 | 665 |
| 3. | B | 3 days* | None | 10-25-2021 | 212 WDs | 56,900 | 12,063 |
| 4. | B | 90 days* | 11-17-2021 | 02-15-2022 | 18 WDs | 901,725 | 16,231 |
| 5. | F | 1 month | None | 06-07-2021 | 19 WDs | 598,880 | 11,379 |
| 6. | E | 7 days* | 05-26-2021 | 08-13-2021 | 70WDs | 457,550 | 32,029 |
| 7. | H | 15 days* | none | - | - | 447,441 | - |
| **Total** | | | | | | **2,598,076** | **80,822** |

**RA No. 9184 and its 2016 RIRR applies calendar days.*
***No DV yet due to unfinished work of Contractor*

15.32 As can be gleaned from the above table, six out of seven contractors/suppliers incurred delays in the delivery of goods and services without charging liquidated damages at an estimated total amount of P80,821.75, which is clearly disadvantageous on the part of SB Corporation. Likewise, the delayed delivery of the goods and services may affect the efficient and effective delivery of services by the SB Corporation.

15.33 Lastly, inspection of the project site located in Muntinlupa, Alabang was conducted by the Audit Team on February 24, 2022, and it was observed that the repair/renovation is still on-going despite the fact that it should have been completed by February 15, 2022 and such delay warrants the collection of liquidated damages.

15.34 **We recommended that Management, through the concerned Groups:**

a. **Enforce the collection of the liquidated damages, if warranted; and**

b. **In case of failure of the winning bidder to pay the liquidated damages, identify the person/s responsible for the transactions.**

15.35 Management commented that prospectively, the SB Corporation will require the end-user to include in the TOR, the timeline or expected delivery date of goods and services and to include a provision on the payment of liquidated damages in the event of unfaithful performance of the supplier.

15.36 By an audit rejoinder, the Audit Team will monitor the compliance of SB Corporation relative to the significant information and details needed in the preparation, evaluation, awarding and issuance of PO, NOA and NTP to the winning bidder as well as the payment of liquidated damages, if warranted.

**16. The GAD Plan and Budget (GPB) and GAD Accomplishment Report (AR) were not endorsed and reviewed by the Philippine Commission on Women (PCW), contrary to Sections 7, 8 and 10 of PCW-National Economic and Development Authority (NEDA)-Department of Budget and Management (DBM) JC No. 2012-001, as reiterated under PCW Memorandum Circular (MC) No. 2021-06, thus, preventing the appropriate government bodies from conducting the review of the same.**

16.1 In consonance with Sections 7 and 8 of the PCW-NEDA-DBM JC No. 2012-001, all agencies, bureaus and all government instrumentalities and other concerned shall formulate their annual GPB within the context of their mandates, and shall be submitted to the PCW on January or one (1) year before the budget year, for review. PCW shall then acknowledge in writing the receipt of the GPB within two working days and inform the agency of its comments or action on the GAD plans within 15 working days.

16.2 Also, Section 10 of the said JC No. 2012-001 and as reiterated in PCW MC No. 2021-06 dated December 10, 2021, requires the executive departments and their attached agencies to submit their annual GAD AR for CY 2021 to PCW through the PCW Gender Mainstreaming Monitoring System (GMMS) on or before March 11, 2022, which shall serve as PCW's basis in preparing the Annual GAD Budget Report for submission to Congress and the Office of the President. PCW will then inform the agency of its comments within 30 working days.

16.3 The PCW will review, provide comments, observations, and remarks, and return the GAD AR to the agency. A maximum of two passes of review will be undertaken by the PCW on the submitted GAD AR. The returned GAD AR with final comments, observations and remarks shall serve as reference or guide for the concerned agency in the implementation of their current GAD programs, activities and projects (PAPs), as well as in the preparation of their succeeding GAD Plans and Budget.

16.4 The concerned agencies shall print the returned GAD AR with PCW's final observation and remarks for signature and submit signed copies to the PCW and the respective COA Audit Team.

16.5 Confirmation of the Audit Team with PCW, through telephone call and e-mail, on the submission of SB Corporation to PCW of the GPB and GAD AR for CY2021 revealed that the Corporation did not submit the same. According to the SB Corporation GAD focal person, the CY 2021GPB was anchored in their High-Level Corporate Plan, hence, they were not able to submit a separate report to the PCW.

16.6 Undeniably, the non-submission of the GPB and GAD AR to the appropriate government body such as the PCW is contrary to Sections 7, 8 and 10 of PCW-NEDA-DBM JC No. 2012-001, as reiterated under PCW MC No. 2021-06, thus, prevents the conduct of review and provide comments and observations and remarks on the said reports by the PCW which will serve as reference or guide of SB Corporation in the implementation of their current GAD PAPs, as well as in the preparation of their succeeding GPB.

16.7 **We recommended and Management agreed, through the GAD Focal Point System, to strictly comply with the applicable provisions of PCW-NEDA-DBM JC No. 2012-01 and PCW MC No. 2021-06 on the preparation and submission of GPB and GAD AR within the set deadlines.**

**17. GAD PAPs as approved by the DBM with budget totaling P3.380 billion have not been fully implemented by the SB Corporation with utilization of P1.392 billion or 41.18 per cent only for CY 2021, contrary to the applicable provisions of PCW-NEDA-DBM JC No. 2012-01 and PCW MC No. 2021-06, thus, SB Corporation did not fully carry out its mandate to benefit the women of micro, small, and medium enterprises (MSMEs).**

17.1 The Magna Carta for Women, the GAA and the PCW-NEDA-DBM Joint Circular No. 2012-01, otherwise known as the "Guidelines for the Preparation of Annual Gender and Development (GAD) Plans and Budgets and Accomplishment Reports to Implement the Magna Carta of Women", provides that all government departments, including their attached agencies, offices, bureaus, state universities and colleges (SUCs), government-owned and controlled corporations (GOCCs), local government units (LGUs) and other government instrumentalities shall formulate their annual GPB within the context of their mandates to mainstream gender perspectives in their policies, programs and projects. GAD Planning shall be integrated in the regular activities of the agencies, the cost of implementation of which shall be at least five per cent of their total budget.

17.2 Also, Section 8 of PCW-NEDA-DBM JC No. 2012-01 provides that all agencies, offices, bureaus and all government instrumentalities and others concerned shall formulate their annual GAD Plans and Budgets within the context of their mandates. GOCCs attached to line departments shall prepare their GPBs in accordance with their budget cycle and shall submit the same to their central office for review.

17.3 Further, Section 6.3 of the same Circular provides that the utilization and outcome of the GAD budget shall be annually monitored and evaluated in terms of its success in influencing the gender-responsive implementation of agency programs.

17.4 Based on the measurement provided under Section 10 of PCW MC No. 2021-006, hereunder is the computed Harmonized Gender and Development Guidelines (HGDG) assessment on the GAD PAPs of SB Corporation:

| | | Annual Program of Expenditure | Amount attributable to GAD in the AR |
|---|---|---|---|
| **I. Client Related** | | | 166,450 |
| **II. Organizational Related** | | | 42,108 |
| **III. HGDG Attributed:** | | | |
| A. P3<br>7.66 HGDG score / 20 Total HGDG Score | x 100 = 38.30% x | P1,435,000,000 | 549,605,000 |
| B. Bayanihan CARES<br>8.66 HGDG score / 20 Total HGDG Score | x 100 = 43.30% x | P1,945,000,000 | 842,185,000 |
| **Total Amount attributable to GAD AR** | | | **1,391,998,558** |
| **Amount per GAD Plan and Budget** | | | **3,380,215,498** |
| **Difference** | | | **1,988,216,940** |

17.5 As can be gleaned from the table above, the attributed cost on the GAD AR per HGDG assessment totaling P1.392 billion was relatively short by P1.988 billion as compared with the DBM approved GAD Budget of P3.380 billion.

17.6 Below is the matrix showing the GAD accomplishments as at December 31, 2021:

| Gender Issue/GAD Mandate | GAD Activity | Output Targets | Actual Result | DBM Approved GAD Budget | Actual Cost/Expenditure | GAD AR cost (per HGDG assessment submitted to COA) |
|---|---|---|---|---|---|---|
| **Client Related:** | | | | | | |
| Sex disaggregation of borrowers under the Bayanihan CARES Program (retail, wholesale sub borrower) | Ensure that Bay dashboard provide sex disaggregation data | Availability of SDD report showing percentage distribution of borrowers by gender | A dashboard was set up showing the percentage distribution of borrowers by gender. Said dashboard can be assessed by Management and concerned personnel | 130,000 | 116,450 | 116,450 |
| Empower more women entrepreneurs by providing financial programs targeting the gender group | Develop 1 financial program | • 1 financial program<br>• Loan Fund | Implementation of Sustaining Trade Access to Primary Food and Link to Enterprises (STAPLES) with P50,000 loan fund under Bayanihan CARES | 50,000 | 50,000 | 50,000 |

| Gender Issue/GAD Mandate | GAD Activity | Output Targets | Actual Result | DBM Approved GAD Budget | Actual Cost/Expenditure | GAD AR cost (per HGDG assessment submitted to COA) |
|---|---|---|---|---|---|---|
| **Organizational Related:** | | | | | | |
| Need to assess the application of Harmonized Gender and Development Guidelines (HGDG) to SB Corporation | Review re-asses the application of HGDG vis-à-vis the guidelines prescribed under PCW-NEDA-DBM Joint Circular No. 2012-01 | HGDG score | 1. Attendance of 4 SBC Officers in the HGDG training sponsored by the DTI and conducted by the PCW on 12-13 August 2021;<br>2. Discussion of the HGDG assessment of the P3 and B2C programs by the GFPS-TWG on 08 Nov 2021 and 31 Jan 2022; and<br>3. HGDG Assessment (Project Implementation) of 2 programs: P3–7.66 (Promising GAD prospects-conditional pass) B2C–8.66 (Promising GAD prospects– conditional pass as 2 elements obtained a score below 1) | 35,498 | 42,108 | 42,108 |
| **HGDG Attributed:** | | | | | | |
| A. Pondo sa Pagbabago at Pag-asenso (P3 Program) | | | HGDG assessment: 7.66/20 x 100 = 38.30% | 1,435,000,000 | 1,435,000,000 | 549,605,000 |
| B. Bayanihan CARES | | | HGDG assessment: 8.66/20 x 100 = 43.30% | 1,945,000,000 | 1,945,000,000 | 842,185,000 |
| **TOTAL GAD RELATED EXPENDITURES** | | | | **3,380,215,498** | **3,380,208,558** | **1,391,998,558** |

17.7 Further verification of the GPB and GAD AR and other related documents revealed that the HGDG[8] Project Implementation, Management, Monitoring and Evaluation (PIMME) were not considered in reflecting the correct attributed amount to GAD AR, thus, a discrepancy of P1.988 billion was noted affecting the effective and efficient implementation of the GPB, specifically on the PAPs for the women of MSMEs.

17.8 Meanwhile, the detailed schedule of the Client and Organizational related costs were not yet submitted to the Audit Team despite several follow-ups, hence, preventing the Audit Team to substantiate the correctness of the reported balances.

[8] *HGDG PIMME Score x 100% = % of annual program expenditure attributable to GAD*
*Total HGDG Points*
*(% of annual program expenditure attributable to GAD) x (annual program expenditure) = amount attributable to GAD in the AR*

17.9 Thus, the non and/or partial implementation of GAD PAPs by the SB Corporation did not fully respond to the needs of the women of MSMEs, contrary to the applicable provisions of PCW-NEDA-DBM JC No. 2012-01 and PCW MC No. 2021-06.

17.10 **We recommended that Management, through GAD Focal Point, maximize the utilization of the budget allocated for GAD PAPs of SB Corporation to a gender responsive PAPs following the guidelines of PCW-NEDA-DBM JC No. 2012-01 and PCW MC No. 2021-06.**

17.11 Management commented that the utilization of the GAD budget for 2021 was fully maximized based on the following conditions:

a. The result of the HGDG assessment conducted on P3 and Bayanihan CARES programs revealed the scores of 7.66 and 8.66 respectively, with a description as “promising GAD Prospects (conditional pass)”, allows 25 per cent attribution of the program to GAD Budget totaling P3.380 billion; and

b. With the HGDG scores obtained, the amount attributable to GAD is equivalent to P5.567 billion, however, the SB Corporation maintained the attribution at 25 per cent of the total program budget.

17.12 As an audit rejoinder, the Audit Team maintains its position that for the GPB to be fully maximized, the HGDG assessment score should be 20 over 20, as opposed to the assessment conducted on P3 and Bayanihan CARES with scores of 7.66 out of 20 and 8.66 out of 20. The Audit Team reiterates that SB Corporation effectively implement a gender responsive GAD PAPs intended for the women of MSMEs.

**18. Compliance with Tax Laws**

The taxes withheld in CY 2021 from the compensation and benefits of SB Corporation’s personnel and from suppliers amounting to P26.936 million and P2.450 million, respectively, as disclosed in Note 30 of the CY 2021 Financial Statements, were remitted to Bureau of Internal Revenue within the reglementary period.

**19. Compliance with Rules on Mandatory Government Deductions**

a. In CY 2021, SB Corporation complied with Rule III Sections 13 and 14 of the IRR of RA No. 8291 in the collection and remittance of contributions to GSIS;

b. SB Corporation also complied with Title III, Rule III, Section 18 of the IRR of RA No. 7875, as amended, in the payment of national health insurance premium contributions to Philhealth; and

c. In addition, in CY 2021, SB Corporation complied with Rule VI, Sections 2 and 3 of the IRR of RA No. 9679 in the collection and remittance of contributions to Pag-IBIG Fund.

## 20. Status of Audit Suspensions, Disallowances and Charges

20.1 As at December 31, 2021, the balance of the audit disallowance amounted to P277.008 million, while there is none for audit suspension and charge.

| Particulars | Beginning Balance, January 1, 2021 | January 1 to December 31, 2021 | | Ending Balance December 31, 2021 |
|---|---|---|---|---|
| | | NS/ND/NC | NSSDC | |
| Notice of Disallowance (ND) | 277,008,349 | 0 | 0 | 277,008,349 |

20.2 The above balance of disallowances upon the implementation of the 2009 Rules and Regulations on Settlement of Accounts consists of various NDs totaling P277.008 million issued for the overpayment of CNA incentives, unauthorized merit increases, economic and financial assistance, group life insurance, gift checks, various allowances, and salary increases, for the period April 2010 to December 2018.

20.3 On June 30, 2020, another ND No. 20-001-50101010 (17-18) totaling P107.858 million was issued regarding payment of unauthorized salary increase.

20.4 The appeal of SB Corporation to the Office of the Cluster Director (OCD) pertaining to the disallowed payment of Group Life Insurance and Birthday Allowance in the amount of P1.291 million per ND No. 19-001-893000-(17-18) ND No. 19-002-884000-(17-18), was denied under CGS Cluster 2 Decision No. 2020-019 dated October 6, 2020.

20.5 Also, the appeal of SB Corporation to the OCD relative to the unauthorized salary increase, creation of new position and hiring of new employees of SB Corporation for Calendar Years 2017 and 2018 per ND No. 20-001-50101010 (17-18) dated June 30, 2020 amounting to P107.858 million was denied under CGS Cluster 2 Decision No. 2020-028 dated December 17, 2020.

# PART III

# STATUS OF IMPLEMENTATION OF PRIOR YEARS' AUDIT RECOMMENDATIONS

## STATUS OF IMPLEMENTATION OF PRIOR YEARS' AUDIT RECOMMENDATIONS

Out of 28 audit recommendations embodied in the CY 2020 Annual Audit Report, nine were fully implemented, nine were partially implemented, nine were not implemented and one was reconsidered. Of the 9 partially implemented, two were reiterated under Part II thereof. Details are presented below:

| Reference | Audit Observations | Audit Recommendations | Status/ Actions Taken |
|---|---|---|---|
| **CY 2020** | | | |
| Observation No. 1, Page 51 | 1. Real and Other Properties (ROPAs) with net carrying value of P37.205 million as at December 31, 2020 were classified as Non-current Assets Held for Sale (NCAHFS) even though most of the properties are not immediately disposable within one year from the date of classification, contrary to the provisions of Philippine Financial Reporting Standard (PFRS) 5, resulting in the overstatement of NCAHFS and understatement of Investment Property (IP) both by P37.205 million and their corresponding depreciation/impairment loss for the year as well as the accumulated depreciation/impairment are all understated while they are classified as NCAHFS. Moreover, 61 of these ROPAs classified under NCAHFS and one under IP totaling P31.070 million have not been reappraised/tested for any impairment, thus, these assets are not measured at the lower of its carrying amount and fair value less costs to sell, and hampers the disposal of the acquired | a. Develop accounting and reporting policies for ROPAs that are consistent with the financial reporting standards and acceptable industry practice; | Not implemented |
| | | b. Reclassify the ROPAs which sale or disposal is not highly probable within one year to IP, taking into consideration the measurement and valuation prescribed for the latter; and | Fully implemented |
| | | c. Require the Credit and Asset Recovery Support Group (CARSG) to conduct appraisal/ impairment testing of the 61 ROPAs to determine their true economic value which is necessary in determining the selling price of the properties for disposal and coordinate the results of the appraisal with the CG for the proper valuation of IP and NCAHFS in the books. | Fully implemented |

| Reference | Audit | | Status/ Actions Taken |
|---|---|---|---|
| | Observations | Recommendations | |
| | properties leading to deterioration which is disadvantageous to the SB Corporation. | | |
| Observation No. 2.a, Page 54 | 2. The nine receivable accounts per CARSG's Summary of Accounts Written-Off amounting to P2.853 million differs by P110,000 from what was recorded in the books in the amount of P2.963 million. | a. Revisit the Write-off Policies under BR No. 2018-11-2648 to include the necessary procedures in the writing-off of accounts, as well as the monitoring of accounts written-off; | Not implemented |
| | | b. Reconcile the variance noted, also, evaluate the remaining problem credits account which were not recorded as written-off by the CG if zero probability of collectability, and seek the approval of BOD to write-off the remaining balances of the accounts; | Not implemented |
| | | c. Create an effective monitoring system to monitor debts written-off and future recoveries and periodically review the individual loan obligor's information; | Not implemented |
| | | d. Periodically report to the BOD and senior Management the progress of recovery of accounts written-off; and | Not implemented |
| | | e. Prospectively, for accounts to be written off, ensure that the process of reconciliation is properly undertaken by CARSG against the book balances reported by CG | Not implemented |

| Reference | Audit | | Status/ Actions Taken |
|---|---|---|---|
| | Observations | Recommendations | |
| | | before submission to BOD for approval. | |
| Observation No. 2.b, Page 56 | 3. The complete documentary requirements to support the written-off receivable accounts amounting to P65.244 million were not submitted for audit casting doubt on the correctness of the accounts written-off. | Submit for audit the necessary documentary requirements to support the written-off receivable accounts. | Partially implemented<br><br>Reiterated with modification under Observation No. 7, Part II of this report.<br><br>The required documentary requirements enumerated in Annex A of SB Corporation's Write-off policy were not yet submitted to wit:<br><br>1. Certification from the responsible officials of the corporation to the effect that there are no records/ documents available to validate claim;<br><br>2. Other justifications, like in the case of request for write-off due to loss of documents, the circumstances of the loss should be indicated in |

| Reference | Audit | | Status/ Actions Taken |
|---|---|---|---|
| | Observations | Recommendations | |
| | | | the certification and that despite diligent efforts, the documents can no longer be found. This is without prejudice to the filing of an administrative case or complaint against the personnel responsible for the loss;<br><br>3. Death certificate issued by the PSA and proofs that the efforts to locate the next of kin or to file a claim against the descendant's estate has failed;<br><br>4. Certification from the DTI that the debtor has no registered business;<br><br>5. Certification from the SEC that the debtor-corporation is no longer active, has |

| Reference | Audit | | Status/ Actions Taken |
|---|---|---|---|
| | Observations | Recommendations | |
| | | | been ordered closed, or such other circumstances that would indicate collection from the debtor is no longer possible;<br><br>6. Proof of Insolvency;<br><br>7. Proof of exhaustion of all remedies to collect the receivables, such as but not limited to the copies served or returned demand letters; and<br><br>8. Certification by the Legal Services Group (LSG) that there is no pending case relative to the account. |
| Observation No. 2.c, Page 58 | 4. Non-submission to the BSP of the required notice of write-off in the prescribed form on 110 receivable accounts totaling P98.881 million is contrary to the applicable provisions of BSP Circular No. 855, BSP's Manual of Regulations for Non-Bank Financial Institution | Strictly comply with the provisions and requirements of BSP Circular No. 855, MORNBFI, and SB Corporation's Board approved internal write-off policy and memoranda by preparing and submitting to BSP the required notice of | Not implemented |

| Reference | Audit | | Status/ Actions Taken |
|---|---|---|---|
| | Observations | Recommendations | |
| | (MORNBFI), and SB Corporation's Write-off policies. | write-off of receivable accounts in prescribed form. | |
| Observation No. 3, Page 60 | 5. The SB Corporation has incurred delays in the submission of various required reports, schedules and supporting documents for CY 2020 annual reporting, contrary to the pertinent provisions of Sections 41 and 122 of Presidential Decree (PD) No. 1445 and Sections 7 and 3 of COA Circular Nos. 2009-006 and 2015-004, respectively, precluding the timely audit of accounts and transactions thus, transparency and accountability of information and data is not fully attained. | a. Prioritize and expedite the submission of the required financial reports and schedules, DVs and JVs and its underlying documents in compliance with the pertinent provisions of PD No. 1445 and COA issuances; | Partially implemented<br><br>The submitted Disbursement Vouchers, Journal Vouchers and LBP Debit Advice for CY 2020 are still incomplete. |
| | | b. Subsequently, ensure that the deadlines set in the submission of financial statements and other reports prescribed in COA Circular No. 2015-004 are strictly observed; and | Fully implemented |
| | | c. Where warranted by the circumstances, cause the suspension of the payment of salary and other emoluments of the officials and employees responsible for the non-submission of the required reports or data on time. | Not implemented |
| Observation No. 4, Page 63 | 6. Four (4) foreclosed properties valued at P3.894 million under the account of one borrower are still recorded in the books despite having a court's finality of decision dated October 24, 2016 which indicates loss on the part of the SB Corporation. | a. Require the CARSG to periodically coordinate and submit to CG the schedule of all ROPAs with complete information relevant to the status of foreclosed properties, and if necessary, for CG to effect adjustment in the books of accounts to come up with the correct | Fully implemented |

| Reference | Audit | | Status/ Actions Taken |
|---|---|---|---|
| | Observations | Recommendations | |
| | | account balances for the fair presentation of the financial statements; | |
| | | b. Consult the LSG on how to recover the loss amount brought about by the unfortunate event of foreclosing the borrower's account, and identify the liable personnel who examined and accepted the assigned mortgaged documents presented by the assigning bank in behalf of SB Corporation; and | Partially implemented<br><br>The LSG was consulted, and it recommended the following:<br><br>a. To write-off the account; and<br>b. To file necessary legal action against the borrower. |
| | | c. Exercise due diligence in engaging into transactions involving real properties to avoid wastage of government funds. | Not implemented |
| Observation No. 5, Page 64 | 7. The pre-qualification done by the Partner Institutions and issuance of Certificate of Compliance without the accompanying documentary requirements on loans released totaling P13.700 million is contrary to Section 4 of PD No. 1445. Further, the Memorandum of Agreement (MOA) lacks provision on the liability of the Partner Institutions in the event that the borrower fails to pay his obligation caused by inadequate conduct of due diligence. Furthermore, the pre-qualification for the loans conducted by the | a. Directly conduct the pre-qualification of borrowers and exercise due diligence, and not the Partner Institutions, to safeguard the disbursement of the P3 CARES 1 and 2 subsidy and to ensure that loans are being given to the right and deserving MSMEs;<br><br>b. Prospectively, observe consistency in the terms of reference and among Partner Institutions and include a provision in the MOA on the liability of the Partner | Fully implemented<br><br>Fully implemented |

| Reference | Audit | | Status/ Actions Taken |
|---|---|---|---|
| | Observations | Recommendations | |
| | Partner Institutions is not tantamount to the due diligence by SB Corporation itself. | Institutions in case they issue the Certificate of Compliance even if the loan applicants failed to submit the complete set of required documents; and | |
| | | c. Strictly comply with Section 4(6) of PD No. 1445 by requiring the Partner Institutions to submit the documentary requirements of the borrowers with approved loans to support the disbursements made. | Partially implemented<br><br>Delay on full compliance is attributable to the ff:<br><br>a. piecemeal submission of documents by the Partner Institutions;<br>b. error in transmitting documents; and<br>c. incomplete scanning of documents. |
| Observation No. 6. Page 69 | 8. The acquired property of SB Corporation-NLG with a lot area of 260 sq.m. is being occupied or utilized by a private individual without the benefit of a lease contract due to the failure of the SB Corporation-NLG to strictly implement the acquired assets management activities required under SB Corporation Memorandum dated June 23, 2009, depriving the SB Corporation of the opportunity to earn rental income. | a. Execute lease contracts, if applicable, or demand that the illegal occupants vacate the property if they refuse to enter a lease contract or unreasonably ignore demands for payment of rentals; and<br><br>b. Coordinate with Head Office-AAMU to adequately secure and preserve the property against unauthorized occupants by constructing a perimeter fence and posting signage/markers | Partially implemented for both the recommendations<br><br>Asset Recovery and Collection Committee (ARCCo) issued Resolution No. 202, Series of 2021, and made the following decisions/ instructions:<br><br>a. Conduct of Survey and appraisal; |

| Reference | Audit | | Status/ Actions Taken |
|---|---|---|---|
| | Observations | Recommendations | |
| | | indicating that the property is owned by SB Corporation and is available for sale/lease. | b. If two public biddings failed, proceed with negotiation.<br><br>Otherwise, subject to public bidding procedures;<br><br>c. If possible, to install temporary markings and/or signages within the boundaries of SB Corp's property; and<br><br>d. LSG to prepare reply to COA and the possibility of requiring the tenant to sign an affidavit admitting the encroachment. |
| Observation No. 7, Page 70 | 9. The 136 Disbursement Vouchers (DVs) in the total amount P9.669 million as well as its supporting documents were not stamped "PAID" upon payment, in violation of COA Circular No. 92-389 dated November 03, 1992, which opens the possibility of re-using the supporting documents for another claim. | Require the concerned personnel to stamp "PAID" all the DVs and all its supporting documents and make sure to supply/fill in the necessary information for a sound internal control system, thus disbursement of public funds is safeguarded. | Fully implemented |
| Observation 8, | 10. The SB Corporation, through its Gender and | a. Strictly continue promoting support to the | Fully implemented |

| Reference | Audit | | Status/ Actions Taken |
|---|---|---|---|
| | Observations | Recommendations | |
| Page 72 | Development (GAD) programs, activities and projects (PAPs), has favorably implemented the major activities that were gender responsive and were focused to assist the marginalized sector of un-served and underserved micro women entrepreneurs through access to SB Corporation's Microfinance Financing and P3 program funds totaling P3.764 billion against the GAD budget totaling P3.760 billion, thus, exceeded by P4.071 million. | agenda of the NG towards gender perspective and gender-responsive PAPs for the benefit of the intended beneficiaries within the approved GAD Plans and Budget; and<br><br>b. Ensure that the implementation of the planned GAD PAPs are properly monitored, done as per schedule within the budget year, as approved by PCW. | <br><br><br><br><br><br><br><br><br>Fully implemented |
| **<u>CY 2019 AAR</u>** | | | |
| Observation No. 3, page 65 | 11. Absence of a MOA defining the responsibilities of the selected CMP in the collection of P3 loans, caused the improper accounting of cash collections, which ultimately resulted in delay in the recording of P3 collections in the amount of P22.330 million and non-recording of the same for at least P4.088 million, thus, misstating the balances of cash, loans receivable and interest income at any point in time, contrary to the requirements of Par. 15 of PAS 1. | a. Collect all outstanding remittances from CMP - A as reflected in their submitted report sent via e-mail last December 06, 2019; and correspondingly record the payments/update the subsidiary ledgers of all affected P3 borrowers; | Partially implemented<br><br>The Treasury Group (TG) has issued a Memorandum dated February 08, 2022, to Legal Services Group (LSG) seeking assistance on the possible legal action/s relative to the unclaimed remittances from the CMP.<br><br>The LSG is studying the course of action against the CMP and/or responsible officers of SB Corporation considering the provision in the CMP's Pera |

| Reference | Audit | | Status/ Actions Taken |
|---|---|---|---|
| | Observations | Recommendations | |
| | | | Padala Form stating that unclaimed remittances for 1.5 years will be donated to CMP's Foundation. |
| | | b. Require the Head, Treasury Office to cause the conduct of reconciliation for the collections received by CMP - A per record of SB Corporation's Regional/ Head Office Coordinators as against the Report of Collections submitted by CMP - A as of December 06, 2019, and address immediately any noted discrepancies; and | Partially implemented<br><br>The TG made several follow-ups from the CMP on the request for explanation on the variance between the collections recorded in the books and the Report of Collections per CMP but no response from the CMP has been received. This prompted the TG to refer the matter to the LSG. |
| | | c. Direct all Regional Coordinators to forward within the day to SB Corporation Head Office all payments made by P3 borrowers for prompt collection of remittances from CMP - A. Likewise, efforts should be exerted by Management to compel CMP - A to submit at least a weekly Report of Collection for prompt reconciliation of collections/remittances. | Reconsidered |

| Reference | Audit | | Status/ Actions Taken |
|---|---|---|---|
| | Observations | Recommendations | |
| Observation No. 4, page 69 | 12. Undistributed Collection (UC) amounting to P4.020 million as at December 31, 2019, showed an increase of P1.670 million or 71.07 per cent from that of the previous year's UC, thus, affecting the fair presentation of Notes receivable, Interest income and other related account balances in the financial statements, contrary to Par. 15 of PAS 1 as well as increasing the Past due rate and consequently affecting the collection efficiency ratio of the Corporation. | Prioritize the identification of loan accounts recorded under UC by creating a team that will conduct the confirmation of payments made and immediately record payments/update the subsidiary ledgers of identified borrowers who made the payments recorded under the UC account. | Partially implemented<br><br>SB Corporation has created an Adhoc team specifically for UC under the supervision of CARSG.<br><br>Reiterated under Observation No. 3, Part II of this report. |