

EXECUTIVE SUMMARY

INTRODUCTION

The Bangko Sentral ng Pilipinas (BSP) is the central bank of the Republic of the Philippines. It was established on 03 July 1993 as the country's independent central monetary authority, pursuant to Section 20, Article XII of the Philippine Constitution and Republic Act (R.A.) No. 7653, otherwise known as the New Central Bank Act. Under the Act, the BSP shall function and operate as an independent and accountable corporate body in the discharge of its mandated responsibilities concerning money, banking and credit. The BSP replaced the old Central Bank of the Philippines which was established on 03 January 1949.

A government corporation with fiscal and administrative autonomy, the BSP is responsible for maintaining price stability conducive to a balanced and sustainable growth of the economy; formulating and implementing policy in the areas of money, banking and credit; and supervising and regulating banks and quasi-banks, including their subsidiaries and affiliates engaged in allied activities. The BSP also performs the following functions, all of which relate to its status as the Republic's central monetary authority:

- Liquidity management;
- Currency issue;
- Lender of last resort;
- Financial supervision;
- Management of foreign currency reserves; and
- Determination of exchange rate policy.

The Monetary Board, which exercises the powers and functions of the BSP, is composed of seven members appointed by the President of the Philippines. The seven members are the Governor, who is the Head of the BSP and the Chairman of the Monetary Board; a member of the Cabinet to be designated by the President of the Philippines; and five members who shall come from the private sector, all of whom shall serve for a term of six years except the cabinet representative who serves at the pleasure of the President.

The BSP organizational structure is composed of (a) the Executive Management Services (EMS) which is directly under the Governor; (b) four functional sectors, namely: The Monetary & Economics Sector (MES), the Financial Supervision Sector (FSS) and the Corporate Services Sector (CSS) and the Currency Management Sector (CMS). A Deputy Governor heads each sector, while the CMS is headed by a Senior Assistant Governor.

As at 31 December 2018, the Bank had 5,527 personnel complement consisting of 5,191 regular employees and 336 contractual employees assigned at the Main Office, Security Plant Complex (SPC), and regional offices and branches.

SCOPE OF AUDIT

Our audit covered the examination, on a test basis, of transactions and accounts of Bangko Sentral ng Pilipinas for the period 01 January to 31 December 2018 in accordance with the International Standard of Supreme Audit Institutions (ISSAIs) to enable us to express an opinion on the fairness of presentation of the consolidated financial statements for the years ended 31 December 2018 and 2017. Also, we conducted our audit to assess compliance with pertinent laws, rules and regulations, as well as adherence to prescribed policies and procedures.

FINANCIAL HIGHLIGHTS (In pesos)

I. Comparative financial position

Particular	2018	2017 (as restated)	Increase/ (decrease)
Assets	4,851,291,366,767	4,666,892,651,385	184,398,715,382
Liabilities	4,734,856,963,954	4,586,200,343,636	148,656,620,318
Capital	116,434,402,813	80,692,307,749	35,742,095,064

II. Comparative results of operation

Particular	2018	2017 (as restated)	Increase/ (decrease)
Income	67,995,779,780	75,829,431,525	(7,833,651,745)
Expenses	65,904,314,019	66,655,729,199	(751,415,180)
Net income from operations	2,091,465,761	9,173,702,326	(7,082,236,565)
Gain on fluctuations in foreign exchange rates	53,107,589,860	15,503,406,950	37,604,182,910
Net Income before income tax	55,199,055,621	24,677,109,276	30,521,946,345
Income tax expense	15,353,831,211	1,140,561,882	14,213,269,329
Net income for the period	39,845,224,410	23,536,547,394	16,308,677,016

III. Comparative budget and actual expenditures¹

Expenses	Corporate operating budget		Actual expenditures	
	2018	2017	2018	2017
Personnel services	16,230,485,421	15,575,181,082	15,441,577,210	14,697,442,071
Interest Expenses	38,388,737,400	49,804,823,344	30,854,409,124	36,486,420,695
MOOE	9,883,388,374	8,262,363,672	8,300,588,537	7,151,288,313
Capital Outlay	29,784,494,398	27,117,522,749	18,908,502,973	18,135,697,955
Total	94,287,105,593	100,759,890,847	73,505,077,844	76,470,849,034

¹ Excluding Philippine International Convention Center, Inc.

AUDITOR’S OPINION

We draw attention to Note 2.8.3 to the consolidated financial statements which disclosed that as approved by the Monetary Board effective CY2010, gains or losses due to changes in exchange rates are realized only when the foreign currency is repatriated to local currency or the foreign currency is used to pay foreign obligations, or upon maturity of a foreign exchange forward or option contract involving the Philippine Peso. This practice of recognizing realized gains/losses on foreign exchange rate fluctuation is generally the industry practice of other central banks. Moreover, we draw attention to Note 2.8.3 to the consolidated financial statements which disclosed that changes in price and exchange rates of financial assets, liabilities, and derivative instruments are booked under “Revaluation of International Reserves” (RIR) account, either asset (if loss) or liabilities (if gain) in accordance with Section 45 of RA No. 7653.

Likewise, we draw attention to Note 2.10 to the consolidated financial statements which disclosed that BSP will defer the mandatory adoption of the applicable provisions of Philippine Financial Reporting Standard (PFRS) 9 – Financial Instruments as aligned with the provisions of Republic Act (R.A.) No. 7653, as amended by R.A. No. 11211 (BSP Charter) from 01 January 2018 to 01 January 2019. BSP has yet to seek the opinion of the Philippine Interpretations Committee on the recognition of expected credit losses (ECL) on foreign currency financial assets to be booked under “Revaluation of Internal Reserves” (RIR) account instead of presenting it in the Other Comprehensive Income or Profit or Loss. Based on our assessment, the effects of the non-adoption of the classification and measurement; and impairment provisions of PFRS 9 in CY 2018 did not materially impact BSP’s consolidated financial statements.

Our opinion is not modified in respect to these matters.

SIGNIFICANT AUDIT OBSERVATIONS AND RECOMMENDATIONS

1. Dividend computations were not in accordance with the transitory provisions of Republic Act (RA) No. 7653 (CYs 2016 and 2017) and RA No. 7656 (CYs 2008 and 2009) resulting in the underpayment of dividends paid to the National Government (NG) totaling PHP4.498 billion

We recommended that Management comply with the dividend computations as required under the transitory provisions of RA No. 7653 and 1998 Revised IRR of RA No. 7656; and remit the underpayment of dividends to the NG.

2. The faithful representation of the balances of the Demand Deposit-Reserves could not be established due to discrepancies in the confirmation results with banks’ records amounting to PHP105.836 million. Further, confirmation of accounts with no reply from 161 banks amounted to PHP109.442 billion.

We recommended that Management:

- a. Reconcile and determine the cause/s of the discrepancies between the BSP and the banks' books, effect the necessary adjustment/s and furnish COA a copy of the reconciliation of the reported differences of the accounts for validation;
- b. Follow-up the reply of the banks with no confirmation replies; and
- c. Verify and update the address/location of the rural bank with returned confirmation request.

SUMMARY OF AUDIT SUSPENSIONS, DISALLOWANCES AND CHARGES

As at 31 December 2018, audit disallowances amounted to PHP166,750,241.39. There are no balances of audit suspensions and charges as at 31 December 2018.

STATUS OF IMPLEMENTATION OF PRIOR YEARS' AUDIT RECOMMENDATIONS

Out of the 35 audit recommendations embodied in the prior years' Annual Audit Reports, 19 were fully implemented, 15 were partially implemented and one was not implemented.