

**COMPILATION OF MATERIAL FINDINGS ON 2010 AFS OF LENDING COMPANIES**

**TOTAL NUMBER OF COMPANIES COVERED: 50**

COMPONENTS OF FINANCIAL STATEMENTS	FINDINGS	NO. OF COMPANIES	PERCENTAGE (%) TO TOTAL
<b>Auditor's Report</b>	The company engaged an external auditor who is not accredited with the Commission under Group C category. This is in violation of Rule 8 (a) of the Implementing Rules and Regulations of Lending Company Act of 2007 and SEC Memorandum Circular No. 13, Series of 2009.	12	24%
	The basis of opinion in the Auditor's Report should have been full PFRS because the company is a holder of a secondary license with the Commission (PSA 700, PAS 1, SEC Resolutions).	10	20%
	There is no legal matter paragraph in the audit report that contains a discussion on the company's compliance with BIR Revenue Regulation 15-2010 (PSA 700).	12	24%
	The basis of opinion in the Auditor's Report is not consistent with Note 2 of financial statements (PSA 700).	3	6%
	The Auditor's Report was signed and dated prior to the authorization date for issuance by the Board of Directors (PSA 700, as revised).	2	4%
<b>Statement of Financial Position</b>	The amount total assets does not tally with total liabilities and equity (PAS 1).	1	2%
<b>Statement of Changes in Equity</b>	The Statement of Changes in Equity indicates an amount of net income for the period that is not consistent with the amount presented in the Income Statement (PAS 1).	1	2%
<b>Cash Flow Statements</b>	The Cash Flow Statement is not presented in a two-year comparative information (PAS 7).	2	4%
	The Statement of Cash Flows erroneously presented a "prior period adjustment" line item (PAS 7).	1	2%
	The Cash flow statement does not conform with the required presentation under PAS 7.	1	2%
	There is no cross-reference to a note that explains the additional paid up capital which is shown as cash inflow from financing activities (PAS 7).	1	2%
<b>Statement of Management Responsibility (SMR)</b>	The SMR was not signed by the authorized signatories (SRC Rule 68).	3	6%

NOTES TO FINANCIAL STATEMENTS	FINDINGS	NO. OF COMPANIES	PERCENTAGE (%) TO TOTAL
Basis of Preparation	The basis of preparation of the financial statements of the company should have been full PFRS because it is a holder of a secondary license with the Commission (SRC Rule 68, PAS 1, SEC Resolutions).	10	20%
	The financial statements of the company were prepared on a fair value measurement which is not in accordance with PAS 1.	5	10%
	There is no disclosure of the basis of preparation of financial statements (PAS 1).	2	4%
Material Accounts on the Financial Statements	The company failed to provide explanatory notes and amounts on each material accounts in the financial statements.	1	2%
Notes to Financial Statements	Substantially incomplete notes to Financial Statements (PAS 1 and applicable Standards).	1	2%
Receivables	The company recognized unearned discounts and interest under its liabilities which is not in accordance with PAS 39.	5	10%
	The accounting policy on measurement of receivables is not in accordance with PAS 39.	11	22%
	There are two different policies on receivables (PAS 1 and 39).	2	4%
	There is no accounting policy on receivables (PAS 1 and 39).	3	6%
	There is no measurement basis on receivables (PAS 1, PAS 39).	4	8%
	There are no disclosures on notes receivables (PAS 1, PAS 39).	2	4%
	Incomplete disclosures on notes and other receivables, i.e., nature, carrying amount and terms and conditions associated with the use of the collateral, roll-forward analysis of allowance for doubtful accounts and interest rate applied (PFRS 7).	6	12%
	Incomplete disclosures on receivables, i.e., explanatory note for each of the items comprising accounts and other current receivables (PAS 1, PAS 39, PFRS 7).	1	2%
	There is no impairment expense recognized on accounts that are past due over 360 days, as indicated in the aging analysis schedule under Note 2 on loans receivables (PAS 1, PAS 39).	1	2%

NOTES TO FINANCIAL STATEMENTS	FINDINGS	NO. OF COMPANIES	PERCENTAGE (%) TO TOTAL
	The company failed to present separately the current and non-current portion of its Loans Receivables (PAS 1).	2	4%
Financial Assets and Liabilities	There are no accounting policies on financial assets and liabilities covering accounting policy on impairment, reversal of impairment and derecognition (PAS 39).	7	14%
Inventories	The accounting policy on inventories is not in accordance with PAS 2.	2	4%
Property Equipment	Incomplete disclosures on property and equipment, i.e., initial recognition, useful life, elements of cost, impairment, de-recognition (PAS 16).	8	16%
	The basis for the revalued amount of property and equipment, i.e., latest tax declaration, is not an acceptable basis of fair value under PAS 16.	1	2%
	Incomplete disclosures on property and equipment, i.e., two-year comparative reconciliation analysis (PAS 16, PAS 1).	5	10%
Properties Acquired	The accounting policy on "properties acquired" is not clear whether it is accounted for under PAS 40 or PFRS 5.	2	4%
Real and Other Properties Owned or Acquired	There is no accounting policy on real and other properties owned or acquired (PAS 40, PFRS 5, PAS 1).	1	2%
Investments	There are no disclosures on "Investment on Non-Marketable Securities", i.e., portfolio analysis, valuation technique, information and percentage of ownership on the investee company (PAS 1, PFRS 7).	1	2%
Investment Property	The accounting policy and disclosures on investment property are not in accordance with PAS 40.	1	2%
Other Non-Current Assets	Incomplete disclosures on other non-current assets, i.e., explanatory notes for each of the accounts (PAS 1, PAS 39).	1	2%
Liabilities	There is no accounting policy on liabilities (PAS 39, PFRS 7, PAS 1).	1	2%
	The accounting policy on trade and other payables is not in accordance with PAS 39.	3	6%
	Incomplete disclosures on trade and other payables, i.e., explanatory note on the nature, terms and conditions, interest rates applied, details	2	4%

NOTES TO FINANCIAL STATEMENTS	FINDINGS	NO. OF COMPANIES	PERCENTAGE (%) TO TOTAL
	of collateral used (PFRS 7, PAS 1).		
	There is no explanatory note on loans/notes payable (PAS 1, PAS 39, PFRS 7).	5	10%
	There is no explanatory note on accounts payable – others/rebates payable/non-trade payable (PAS 1, SRC Rule 68).	3	6%
	There are no disclosures on the Advances for future stock subscriptions/advances from stockholders (PAS 1).	2	4%
Equity	There is no discussion on capital management on the company's specific plans to addresses the accumulated deficiency amounting to P3.3 Million (PAS 1).	1	2%
	There is no disclosure on the increase in stockholders' equity (PAS 1).	1	2%
	The recognition of the "Deposit for future subscription is not supported by a disclosure of the following: <ul style="list-style-type: none"> <li>• Date of approval by the Board of Directors of the proposed increase in capitalization;</li> <li>• Date of approval by Stockholders of the proposed increase in capitalization; and</li> <li>• Status of SEC application for the approval proposed increase in capital stock (PAS 1, 32).</li> </ul> This constitutes an overstatement of Equity and understatement of Liabilities.	1	2%
Revenue	There is no specific revenue recognition policy on revenue (PAS 18, PAS 1).	7	14%
	There is no specific revenue recognition policy on "Other income" (PAS 18, PAS 1).	1	2%
	The revenue recognition as stated in note 2 is not consistent with the related note (PAS 18).	1	2%
	The accounting policy on the recognition of revenue is not in accordance with PAS 18.	1	2%
Leases	There are no accounting policy and disclosures on leases (PAS 17, PAS 1).	2	4%
	Incomplete disclosures on leases, i.e., future minimum lease payments on non-cancellable lease agreements, general description of the operating lease agreements (PAS 17).	1	2%
Related Party Transactions	There are no disclosures on related party transactions (PAS 24).	4	8%

NOTES TO FINANCIAL STATEMENTS	FINDINGS	NO. OF COMPANIES	PERCENTAGE (%) TO TOTAL
	Incomplete disclosures on related party transactions, i.e., information of relationships and transactions on outstanding related party balances, volume of transactions, terms and conditions and key management personnel compensation (PAS 24).	16	32%
	The note to AFS on related party transactions states that "the company has no related party transactions as of December 31, 2010". However, the note on liabilities discloses a "Due to shareholders" (PAS 24, PAS 1).	1	2%
Employee Benefits	There are no accounting policy and/or disclosures on employee benefits (PAS 19, PAS 1).	13	26%
	There is no reconciliation of the balances on deferred retirement cost and retirement payable (PAS 19, PAS 1).	2	4%
Income Taxes	There is no accounting policy and/or disclosures on income tax (PAS 12, PAS 1).	6	12%
Critical Accounting Estimates and Judgment	There is no discussion on critical accounting estimates (PAS 1).	4	8%
	There is no discussion on the basis of the estimate of allowance for doubtful accounts (PAS 1).	4	8%
Financial Risk Management	There is no discussion on financial risk management (PFRS 7).	6	12%
	Incomplete discussion on financial risk management, i.e., quantitative analysis on each financial risks (PFRS 7).	13	26%
	The amounts indicated in the Note on Financial Risk Management are not consistent with that indicated in the Statement of Financial Position (PFRS 7, PAS 1).	1	2%
Capital Management	There is no discussion on capital management (PAS 1).	7	14%
	Incomplete discussion on capital management, i.e., nature of the externally-imposed capital requirements and how it meets the requirements (PAS 1).	10	20%
	The note on Capital Risk Management states that "the company is not subject to externally-imposed capital requirements". This is incorrect considering that the company is required under the Lending Company Act to maintain a minimum capitalization that constitutes an externally-imposed capital requirement (PAS 1).	1	2%

NOTES TO FINANCIAL STATEMENTS	FINDINGS	NO. OF COMPANIES	PERCENTAGE (%) TO TOTAL
Special Requirement	The company's paid-up capital has been impaired due to its accumulated losses from operation (Lending Company Act and its IRR).	4	8%
	The company failed to use at least 51% of its funds for direct lending purposes (Rule 3(f) of IRR of the Lending Company Act).	4	8%
	The company failed to comply with the prescribed minimum paid-up capital of P1 Million (Rule 4 of IRR of the Lending Company Act).	1	2%
	The total investment in Property and Equipment exceeds 25% of the company's network, in violation of the Lending Company Act.	6	12%