



**REPUBLIC OF THE PHILIPPINES
COMMISSION ON AUDIT
CORPORATE GOVERNMENT SECTOR
CLUSTER I – BANKING AND CREDIT**

INDEPENDENT AUDITOR’S REPORT

THE MONETARY BOARD
Bangko Sentral ng Pilipinas
Manila

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Bangko Sentral ng Pilipinas (BSP) and its subsidiary, which comprise the consolidated balance sheets as at 31 December 2018 and 2017, consolidated income statements, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated cash flow statements for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the BSP as at 31 December 2018 and 2017, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with applicable Philippine Financial Reporting Standards (PFRS).

Basis for Opinion

We conducted our audit 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 consolidated Financial Statements section of our report. We are independent of the BSP in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in the Philippine Public Sector, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter

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.

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with RA No. 7653 and applicable 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 BSP’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 BSP or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the BSP’s financial reporting process.

Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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:

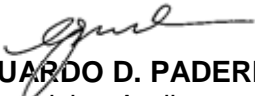
- Identify and assess the risk of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of 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 BSP's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Evaluate the overall presentation, structure and content of the consolidated 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.

Report on Other Regulatory Requirements

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental information in Note 40.3 to the 2018 consolidated financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the consolidated financial statements. Such supplementary information is the responsibility of management and has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

COMMISSION ON AUDIT


EDUARDO D. PADERNAL
Supervising Auditor

21 June 2019