**Republic of the Philippines**

**COMMISSION ON AUDIT**

**Commonwealth Avenue, Quezon City, Philippines**

# **Corporate Government Sector**

## Cluster 2 – Social Security Services and Housing

Office of the Cluster Director

August 20, 2020

### The Board of Liquidators

AFP Retirement and Separation Benefits System

424 Capinpin Avenue, Camp General Emilio Aguinaldo

Quezon 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 Armed Forces of the Philippines Retirement and Separation Benefits System (AFPRSBS) for the years ended December 31, 2019 and 2018.

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

The Auditor rendered a disclaimer of opinion on the fairness of presentation of the financial statements of the System for the years ended December 31, 2019 and 2018 in view of the non-submission of schedules to support the balances of the receivable accounts amounting to ­P244.145 million for CY 2019 and P216.987 million for CY 2018; other asset accounts amounting to P28.533 million for CY 2019 and P29.667 million for CY 2018; allowance for doubtful accounts amounting to P308.357 million both for CYs 2019 and 2018; accounts payable, accrued expenses and other liability accounts amounting to P1.048 billion for CY 2019 and P1.050 billion for CY 2018 and equity accounts amounting to P8.244 billion for CY 2019 and P7.604 billion for CY 2018. Further, the members’ contributions payable account amounting to P7.268 billion for CY 2019 and P9.603 billion for CY 2018 and estimated liability on members’ contributions earnings account, amounting to P2.294 billion for CY 2019 and P3.216 billion for CY 2018, have no updated subsidiary ledgers.Because of the status of the accounting records, we were not able to apply alternative audit procedure to obtain sufficient evidence on the correctness of the balances of the affected accounts and determine whether any adjustments to these accounts were necessary.

For the above observations that caused the issuance of a disclaimer of opinion, we recommended that Management make a timetable for the preparation of schedules and reconciliation of the said schedules with the controlling accounts to determine the correct and reliable account balances and strictly comply with the established timetable, and as a result of reconciliation, effect the necessary adjustments in the books for fair presentation of the accounts in the financial statements.

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

1. The unreconciled balances of Member’s Contributions (MC) and Estimated liability on MC earnings account, amounting to P7.268 billion and P2.294 billion, respectively, representing collections of capital contribution and earnings on members’ capital contribution, respectively, have no updated subsidiary ledgers (SLs), thereby affecting the accuracy and correctness of presentation of members’ data in the SLs contrary to Paragraph 15 of Philippine Accounting Standards (PAS) 1, Section 111 of PD No. 1445, and Office of the President’s issuances, particularly, Executive Order (EO) Nos. 590 and 590-A and Memorandum Order (MO) No. 90 series of 2016.

We reiterated our CY 2018 recommendation that Management update and reconcile the SLs of the Integrated Financial Management System (IFMS) with the books of accounts maintained by the Accounting Department in preparation for the transfer of the records of MC to the Government Financial Institution (GFI) Trustee in accordance with EO Nos. 590 and 590-A, as amended by MO No. 90.

We further recommended that Management continue the disposal of individual residential units, in addition to the bonds and commercial papers, to fully cover the obligation to refund members’ contributions and interests thereon.

1. Dormant Accounts Receivable as at December 31, 2019 totaling to P955.148 million have remained outstanding for 11 to more than 20 years, thus, deprives the System of funds for its accelerated refund and payment of other obligations, contrary to Commission on Audit (COA) Circular No. 2016-005.

We recommended and Management agreed to:

* + 1. Exhaust all available remedies to collect all long outstanding/dormant/past due accounts and ensure proper documentation of accounts and coordination of concerned Agencies;
		2. Devise other options and if warranted, resort to legal means to enforce settlement of accounts including those pertaining to prior years without request for write-off;
		3. Document all efforts to collect the dormant accounts; and
		4. When all efforts have failed, request the COA for write-off as provided for under COA Circular No. 2016-005 dated December 19, 2016.
1. The System did not exercise due diligence in the examination of the title and documents presented by the former owner in connection with the acquisition of the 150 hectares agricultural lot. Further, it did not consider the possible disadvantages amounting to P284.237 million on the swapping of shares of stocks between Monterrosa Development Corporation (MDC) and an AFPRSBS’ subsidiary realty corporation in 1999, thus, unfavorable to the Members of the System and is inconsistent with Section 2 of PD No. 1445.

We recommended that Management:

* + 1. Submit all BOT’s directives, decisions, minutes of meeting and preliminaries to establish the true intention of the swap;
		2. Make the officers directly and indirectly involved in the corporates swap liable for the loss of P284.237 million; and
		3. Prepare the necessary accounting of the sales price of the 120 condominium units and the interest from 1999 to present to expedite the execution of judgment in case it becomes final and executory.
1. The System did not register the certificate of sale of the foreclosed properties from the real estate corporation thereby depriving it of economic benefits including but not limited to receiving rental income and consolidation of title under its name contrary to the Section 6 of Act No. 3135 and Article 428 of the Civil Code.

We recommended and Management agreed to pay the deficiency tax assessments and cause the registration of certificate of sale with the Registry of Deeds.

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 June 10, 2020, 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 AFPRSBS 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**

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

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**COMMISSION ON AUDIT**

**Commonwealth Avenue, Quezon City, Philippines**

# **Corporate Government Sector**

## Cluster 2 – Social Security Services and Housing

Office of the Cluster Director

August 20, 2020

### COL. NORMAN C. LEGASPI (Ret)

President and Chief Executive Officer

AFP Retirement and Separation Benefits System

424 Capinpin Avenue, Camp General Emilio Aguinaldo

Quezon City

**Dear Col. Legaspi:**

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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 June 10, 2020, are discussed in detail in Part II of the report.

We respectfully request that the recommendations contained in Parts II and III of the report be implemented and that this Commission be informed of the actions taken thereon by accomplishing the Agency Action Plan and Status of Implementation Form (copy attached as Annex A) and returning the same to us within 60 days from the date of receipt hereof.

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**

Director IV

**Copy furnished:**

The President of the Republic of the Philippines

The Vice President

The Speaker of the House of Representatives

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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

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The National Library

Annex A

AFP – RETIREMENT AND SEPARATION BENEFITS SYSTEM

424 Capinpin Avenue, Camp General Emilio Aguinaldo, Quezon City, Metro Manila

AGENCY ACTION PLAN and STATUS OF IMPLEMENTATION

Audit Observations and Recommendations

For the Calendar Year 2019

As of \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

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| --- | --- | --- | --- | --- | --- | --- |
| Ref. | AuditObservations | AuditRecommendations | Agency Action Plan | StatusofImplementation | Reason for Partial/Delay/Non-Implementation,if applicable | Action Taken/Action to be Taken |
| Action Plan | Person/Dept.Responsible | Target ImplementationDate |
| From | To |
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Agency sign-off:

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 Name and Position of Agency Officer Date

Note: Status of Implementation may either be (a) Fully Implemented (FI, (b) Ongoing (O), (c) Not Implemented (NI), (d) Partially Implemented (PI), or (e) Delayed (D)