



**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

July 14, 2021

**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 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, 2020 and 2019.

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 qualified opinion on the fairness of presentation of the financial statements of the AFPRSBS for the years ended December 31, 2020 and 2019 due to the variance of P745.483 million between the balances in the general ledger and Integrated Financial Management System (IFMS) subsidiary ledgers (SL) of the Members' Contributions (MC) Payable and Estimated Liability on MC Earnings accounts. Likewise, there is a net variance of 2,517,453 square meters of raw lands with equivalent cost of P651.925 million between the total land area per physical inventory of Transfer Certificates of Titles and those recorded in the Investments in Real Estate account. The non-reconciliation of the said variances casts doubt on the correctness and fair presentation of the balances of Members' Contributions (MC) Payable and Estimated Liability on MC Earnings accounts, stated at P4.360 billion and P1.393 billion, respectively, in CY 2020 and P7.268 billion and P2.294 billion, respectively, in CY 2019, and the Investments in Real Estate account stated at P1.730 billion both as at December 31, 2020 and December 31, 2019. The status of the records of AFPRSBS did not permit us to apply alternative audit procedures. Consequently, we were unable to determine whether any adjustments on the balances presented in the financial statements of the above-mentioned accounts were necessary.

For the above observations that caused the issuance of a qualified opinion, we recommended that Management:

*On the variance between the balances in the general ledger and IFMS subsidiary ledgers of the MC Payable and Estimated Liability on MC Earnings accounts*

- a. Reconcile the IFMS SLs with the books of accounts/General Ledger maintained by the Accounting Department in preparation for the transfer of MC records to the Government Financial Institution Trustee in accordance with Executive Order Nos. 590 and 590-A, as amended by Memorandum Order No. 90; and

- b. Submit a quarterly report on the status of reconciliation of the AFPRSBS' IFMS SLs with the books of accounts.

*On the net variance on the total land area per physical inventory of Transfer Certificates of Titles (TCTs) as against those recorded in the Investments in Real Estate account*

- c. Reconcile the noted variance between the total land area per physical inventory of TCTs with those recorded under the Investment in Real Estate account to ensure correctness of the account balance;
- d. Accordingly adjust the books of accounts based on the result of reconciliation; and
- e. Prioritize the submission of the updated reconciliation pertaining to Investments in Real Estate account for the Audit Team to validate and verify the nature of the variance in the land area totaling 2,517,453 square meters.

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

1. Deficiencies were noted in the accounting treatment for transactions related to the foreclosed properties consisting of a parcel of land and 329 units in Royal Plaza Twin Tower amounting to P361 million.

1.a A parcel of land and 329 units in Royal Plaza Twin Tower which were previously foreclosed by the AFPRSBS amounting to P361 million were recorded as part of Loans Receivable-Accounts under Litigation instead of Investment Property, contrary to paragraphs 5 and 16 of Philippine Accounting Standard 40 on Investment Property, understating the Investment Property and Accumulated Depreciation accounts as of December 31, 2020, and depreciation expense account for CY 2020.

1.b The waived penalties amounting to P248.607 million on the restructured commercial loan account were not reinstated despite the borrower's failure to comply with the terms and conditions of the Amendment to Loan Agreement dated December 21, 2001, thus, understating the Loans receivable – Past Due Commercial Loan account and the related income account by the same amount.

We recommended that Management:

- a. Enforce collection of the adjusted balance of commercial loan to the spouses who are key officers of the Corporation in accordance with the Joint and Several Suretyship (JSS);
- b. Pay the deficiency capital gains tax assessments;
- c. Reclassify in the books of the AFPRSBS the foreclosed properties consisting of a parcel of land and 329 units in Royal Plaza Twin Tower amounting to P361 million from Loans Receivable- Accounts under litigation to the Investment Property account;
- d. Provide annual depreciation;
- e. Cause the consolidation of the land title in the name of the AFPRSBS;
- f. Finalize the terms of the amicable settlement with the borrower in relation to the annulment of foreclosure sale filed by the latter against AFPRSBS; and

- g. Provide the Audit Team with a copy of the case filed by the borrower against the AFPRSBS including its current status.
2. Revenue from the sale of real estate properties and real estate rentals amounting to P47.519 million and P131.664 million, respectively, were not subjected to Value-Added Tax (VAT), contrary to the pertinent provisions of the National Internal Revenue Code of 1997, as amended by Republic Act No. 10963 or the Tax Reform for Acceleration and Inclusion, and Revenue Regulation (RR) No. 16-2005, as amended by RR No. 13-2018, thus exposing the AFPRSBS to possible financial and legal consequences.

We reiterated our recommendation in our CY 2014 audit that Management register under the VAT system to comply with pertinent provisions of RA No. 8424, or request for VAT exemption from the BIR for the possible issuance of VAT Exemption Certificate.

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 April 12, 2021, 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*  
**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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Cluster 2 – Social Security Services and Housing  
Office of the Cluster Director

July 14, 2021

**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 President Legaspi:**

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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*

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

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The Presidential Management Staff, Office of the President  
The UP Law Center  
The National Library

**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 2020 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			

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)