



REPUBLIC OF THE PHILIPPINES
COMMISSION ON AUDIT
Commonwealth Avenue, Quezon City

**CORPORATE GOVERNMENT AUDIT SECTOR
CLUSTER 2 – SOCIAL SECURITY
OFFICE OF THE CLUSTER DIRECTOR**

June 8, 2022

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, 2021 and 2020.

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 (FS) of the AFPRSBS for the years ended December 31, 2021 and 2020, due to the absence of accounting policy as basis for the estimation of Allowance for Impairment which constitutes a departure from the Philippine Financial Reporting Standard (PFRS) 9 – *Financial Instruments* resulting in the overstatement by undetermined amounts of the Receivables stated at P826.448 million in CY 2021 and P823.854 million in CY 2020; Loans Receivable stated at P1.046 billion in CY 2021 and CY 2020; Installment Contracts Receivable stated at P273.571 million in CY 2021 and P387.086 million in CY 2020; Advances to Subsidiaries and Associates stated at P22.497 million in CY 2021 and P21.942 million in CY 2020; and Investment in Bonds stated at P2.375 billion in CY 2021 and P4.474 billion in CY 2020.

Further, there is a net variance of 2,448,871 square meters of raw lands with equivalent cost of P768.743 million between the total land area per Transfer Certificates of Title (TCT) and those recorded in the Investments in Real Estate account. Likewise, there is a variance of P596.622 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. The non-reconciliation of the said variances casts doubt on the correctness and fair presentation of the balances of Investments in Real Estate account stated at P1.730 billion both as at December 31, 2021 and December 31, 2020, and the MC Payable and Estimated Liability on MC Earnings accounts, stated at P2.295 billion and P941.072 million, respectively, as at December 31, 2021, and of P4.360 billion and P1.393 billion, respectively, as at December 31, 2020. The status of 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 modified opinion, we recommended that Management:

On the absence of accounting policy compliant with PFRS 9 as basis for the estimation of Allowance for Impairment

- a. Revisit the procedures implemented in the estimation of ECL and formulate an enhanced accounting policy to be used and applied by the AFPRSBS as basis in the estimation of ECL for its financial assets in accordance with PFRS 9; and
- b. Prepare an adjusting entry to reflect the correct amount of Allowance for impairment loss based on the updated accounting policy in accordance with PFRS 9, and accordingly, revise the related disclosures in the Notes to FS.

On the net variance between the recorded total land area and actual inventory of TCTs

- a. Require the concerned personnel to prioritize the reconciliation of the noted variances between the total land area per physical inventory of TCTs and per records of the Investments in Real Estate account;
- b. Accordingly, record in the books the listed/identified assets based on the result of the reconciliation that are duly supported with proofs of ownership to adjust the balance of the Investments in Real Estate account; and
- c. Submit to the Audit Team a copy of the updated reconciliation report and adjusting journal entries for validation.

On the variance between the balances per GL and IFMS SLs of the MC Payable and Estimated Liability on MC Earnings accounts

- a. Reconcile the IFMS SLs with the books of accounts/GL maintained by the Accounting Department (AD) in preparation for the transfer of MC records to the GFI Trustee in accordance with EO Nos. 590 and 590-A, as amended by MO No. 90; and
- b. Designate specific personnel who will focus on the reconciliation of accounts including the preparation of the complete schedule and/or list of members with outstanding balances to support the balances of the MC payable and the Estimated liability on MC earnings accounts.

Other significant audit observations and recommendations are as follows:

1. The FS of the AFPRSBS and that of its active subsidiaries where it has invested a total of P993.927 million were not consolidated. Accordingly, the parent and subsidiary reciprocal accounts were not eliminated, contrary to the pertinent provisions of PFRS 10 - Consolidated Financial Statements. Hence, the AFPRSBS FS do not present reliable and accurate financial condition and results of its operations as at and for the year ended December 31, 2021.



We reiterated our previous year's recommendations that Management:

- a. Prepare the consolidated FS to include the assets, liabilities and results of operations of its active subsidiaries in compliance with the provisions of PFRS 10; and
 - b. Eliminate all parent and subsidiary reciprocal account balances during the process of consolidation to ensure accurate presentation of the Investment in Subsidiaries and Associates account in the FS.
2. The faithful representation of the Property and equipment (PE) account balance with a total net book value of P33.688 million as at December 31, 2021 could not be ascertained due to: a) unreconciled difference between the GL and Report on the Physical Count of Property, Plant and Equipment (RPCPPE) in the amount of P55.671 million; and b) unreconciled differences between the GL and SL balances in the amount of P7.479 million.

We reiterated our prior year's recommendations that Management require the:

- a. AD and the General Services Department to reconcile the discrepancy between the accounting records and the RPCPPE, which as at December 31, 2021 amounted to P55.671 million, and prepare and submit a copy of the corresponding report to the Audit Team for its validation; and
- b. AD to:
 - b.1 Reconcile the variances between the GL and the SL balances amounting to P7.479 million as at December 31, 2021 and submit copies of the updated and reconciled SLs and GL to the Audit Team for verification.
 - b.2 Maintain PE Ledger Cards to record the data on acquisition, description, custody, estimated useful life, depreciation, impairment loss, disposal and other information about the PE items.

We further recommended and Management agreed to:

- c. Adhere to the procedural guidelines in COA Circular No. 2020-006 in the conduct of inventory taking and file a request for authority to derecognize non-existing/missing PEs to the COA; and
- d. Effect the necessary adjusting entries, if any, to reflect the correct balance of the PE account in the FS.

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 March 28, 2022, 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:

Ms. Lisa P. Inguillo

COA Signed
2022-06-08
18:16:25

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
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CLUSTER 2 – SOCIAL SECURITY
OFFICE OF THE CLUSTER DIRECTOR

June 8, 2022

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:

Pursuant to Section 2, Article IX-D of the Philippine Constitution and Section 43 of Presidential Decree (P.D.) 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, 2021 and 2020.

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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 modified opinion, we recommended that Management:

On the absence of accounting policy compliant with PFRS 9 as basis for the estimation of Allowance for Impairment

- a. Revisit the procedures implemented in the estimation of Estimated Credit Losses (ECL) and formulate an enhanced accounting policy to be used and applied by the AFPRSBS as basis in the estimation of ECL for its financial assets in accordance with PFRS 9; and
- b. Prepare an adjusting entry to reflect the correct amount of Allowance for impairment loss based on the updated accounting policy in accordance with PFRS 9, and accordingly, revise the related disclosures in the Notes to FS.

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and accurate financial condition and results of its operations as at and for the year ended December 31, 2021.

We reiterated our previous year's recommendations that Management:

- a. Prepare the consolidated FS to include the assets, liabilities and results of operations of its active subsidiaries in compliance with the provisions of PFRS 10; and
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We further recommended and Management agreed to:

- c. Adhere to the procedural guidelines in COA Circular No. 2020-006 in the conduct of inventory taking and file a request for authority to derecognize non-existing/missing PEs to the COA; and
- d. Effect the necessary adjusting entries, if any, to reflect the correct balance of the PE account in the FS.

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 March 28, 2022, 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 COA Signed
2022-06-08
18:16:25

MA. LISA P. INGUILLO

Director IV

Copy furnished:

The President of the Republic of the Philippines
The Vice President
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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 2021 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)

