EXECUTIVE SUMMARY

INTRODUCTION

The Armed Forces of the Philippines Retirement and Separation Benefits System (AFPRSBS) was created by virtue of Presidential Decree (PD) No. 361 dated December 30, 1973, and it started operations in 1976. The AFPRSBS was established as a funding mechanism to ensure the continuous payment of retirement and separation benefits to the members of the AFP. To strengthen the AFPRSBS, certain provisions of PD No. 361 pertaining to membership and rate of contributions were amended by PD No. 1656 dated December 21, 1979 and PD No. 1909 dated March 22, 1984.

The registered business and office address of the AFPRSBS is at No. 424 Capinpin Avenue, Camp General Emilio Aguinaldo, Quezon City, Metro Manila, Philippines. It has no other offices within and outside the Philippines, except for a Satellite Office in Iloilo City.

The AFPRSBS is engaged in various business operations which include the management of funds invested in the stock market, money market, government and corporate bonds, corporate loans, real estate properties and equity holdings in subsidiaries and associates. It also has interests and participation in real estate projects involving the development and construction of commercial and subdivision projects, memorial parks, golf courses, and, for some, in partnership with reputable real estate developers. In the course of its lending operations, the AFPRSBS also acquires through foreclosure proceedings and dacion en pago arrangements, mortgaged real estate properties as payment for the full or partial settlement of the loan obligations of its borrowers. The inventory of developed lots, condominium units and acquired assets are being offered for sale to the military personnel and to the public as well to recoup its principal investments.

The Board of Trustees, consisting of 11 members, is the policy making body of the AFPRSBS. The President/Chief Executive Officer as well as the Executive Vice President/Chief Operating Officer take charge of the day to day affairs of the organization. As at December 31, 2015, the AFPRSBS has 84 regular employees and 49 casual/contractual/project-hired personnel or a total workforce of 133 personnel.

The AFPRSBS Revenue, Expense, Capital Outlay and Cash Flow Budget (Corporate Operating Budget) for CY 2015 approved per Board Resolution No. 01-2015 dated February 5, 2015 amounted to P161,552,349 broken down as follows:

Particulars	Approved Budget	Utilization	Variance
Personnel services	105,269,947	77,202,186	28,067,761
Maintenance and operating expenses	50,778,102	30,206,653	20,571,449
Capital expenditures	5,504,300	852,701	4,651,599
Total	**161,552,349**	**108,261,540**	**53,290,809**

FINANCIAL HIGHLIGHTS (In Philippine Peso)

I. Comparative Financial Position

Particulars	2015	2014	Increase (Decrease)
Assets	16,834,051,531	15,810,032,300	1,024,019,231
Liabilities	5,230,112,444	4,855,383,251	374,729,193
Fund equity	11,603,939,087	10,954,649,049	649,290,038

II. Comparative Results of Operations

Particulars	2015	2014	Increase (Decrease)
Gross income	444,003,569	335,449,020	108,554,549
Investment and operating expenses	66,181,452	67,197,013	(1,015,561)
General and administrative expenses	101,522,289	107,137,254	(5,614,965)
Total expenses	167,703,741	174,334,267	(6,630,526)
Net income	276,299,828	161,114,753	115,185,075

SCOPE OF AUDIT

Our audits covered the examination, on a test basis, of the accounts and operations of the AFPRSBS for the years ended December 31, 2015 and 2014. Our audits were aimed at ascertaining the fairness of the presentation of the financial statements in accordance with the Philippine Financial Reporting Standards, and were also made to assess the propriety of the financial transactions and compliance of the AFPRSBS with prescribed laws, rules and regulations.

INDEPENDENT AUDITOR'S REPORT

We rendered an adverse opinion on the fairness of presentation of the financial statements of the AFPRSBS for the years ended December 31, 2015 and 2014 in view of the overstatement of the total assets as at year-end by P2.625 billion in 2015 and P2.522 billion in 2014, primarily due to: (a) the non-consolidation of the financial statements of the AFPRSBS and that of its subsidiaries and failure to eliminate the reciprocal accounts; (b) the non-recognition of sales despite full payment of the required down payment; and (c) the non-recognition and non-accrual of rental income. Consequently, as at December 31, 2015 and 2014, the liabilities were overstated and understated by P10.631 billion and P3.486 million, respectively, while the equity accounts were overstated by P13.256 billion and P2.525 billion, respectively.

For the above mentioned audit observations which caused the issuance of an adverse opinion, we reiterated our prior years' recommendations that Management:

For the Investment in Shares of Stocks

a. Prepare the consolidated financial statements to include the assets, liabilities and results of operation of its subsidiaries;

b. Eliminate all parent and subsidiary reciprocal account balances during the process of consolidation; and

c. Prepare the Statement of Affairs and Statement of Realization and Liquidation and submit them for COA Audit until all its assets are realized; all its liabilities are settled; and the concerned subsidiaries and affiliates are fully liquidated/dissolved in accordance with the pertinent rules and regulations of SEC in compliance with Executive Order (EO) No. 590, as amended.

For the Installment Contract Receivable (ICR) and Investment in Real Estate (RE) and the recognition of Buyers' Deposit (BD)

d. Establish and maintain necessary control activities to ensure proper recording of real estate sale transactions, including but not limited to:

i. Recognizing the real estate sales when payments are received by the Marketing Manager and other agents/brokers and the corresponding due from said Marketing Manager and agents/brokers until they are remitted to the AFPRSBS;

ii. Enforcing compliance by the Marketing Manager and other agents/brokers to timely report sales for proper recording and remit payments from buyers within the period specified in the Marketing Agreement including contractually agreed penalties on late remittances; and

iii. Performing sales cut-off tests and monthly reconciliations of sales summaries and records to discover any error in the reports submitted by the Marketing Manager/agents and brokers.

For the non-recognition and non-accrual of Rental Income

e. Fully adopt the straight-line basis of recognizing rental income from operating leases as mandated by Philippine Accounting Standards (PAS) 17 – Leases; and

f. Produce/retrieve the details of the rental income for 2012 and 2013 and then establish the effect of the non-compliance with PAS 17 – Leases in said years on the year-end balance of Accounts Receivable – Trade, Lessees account.

Aside from preparing and recording the necessary adjusting entries to correct the deficiencies noted to fairly present the financial statements in accordance with the pertinent accounting and reporting standards, we further recommended that Management:

For the ICR and BD

a. Stop crediting the BD accounts for monthly amortization payments by buyers and instead post the same directly to their respective ICR buyers' subsidiary ledgers (SLs);

b. Prioritize the posting of the monthly amortizations to their respective ICR buyers' ledgers; create new ones if there are none yet. In the meantime, transfer the amount noted to a contra-ICR account to properly report the BD and ICR balances; and

c. Investigate and reconcile the negative balances noted in the BD and adjust the accounts, where warranted.

For the Members' Contributions (MCs)

d. Reclassify the MCs from equity account to a liability account to show the AFPRSBS' liquidity and solvency in meeting short and long-term obligations; and

e. Present the interest on MCs as part of the expenditures incurred by the AFPRSBS in the Statement of Comprehensive Income and present the adjusted income or loss.

OTHER SIGNIFICANT AUDIT OBSERVATIONS AND RECOMMENDATIONS

1. The balances of MCs amounting to P11.565 billion and the interest on MCs of P3.925 billion cannot be relied upon due to the unreconciled difference of P4.914 billion with the SLs maintained by the Integrated Financial Management System (IFMS). The absence of reliable members' individual SLs will not facilitate the return of the payment of the member's claim upon implementation of EO Nos. 590, 590-A and Memorandum Order (MO) No. 90.

1.1 Aside from adjusting the accounts, we recommended that Management update and reconcile the SLs of the IFMS with the books of accounts maintained by the CD in preparation for the transfer of the records of MCs to the Government Financial Institution Trustee in accordance with EO Nos. 590 and 590-A, as amended by MO No. 90.

2. The validity, accuracy and reliability of the recorded Investment in RE – Landbanking totaling to P3.295 billion representing 49 per cent of the total Investment in RE of P6.727 billion as at December 31, 2015 cannot be ascertained as to ownership, thereby, adversely affecting the ability of the AFPRSBS to implement the realization of its assets to comply with EO Nos. 590, as amended.

2.1 We recommended that Management complete the documentation of all landbanking properties of the AFPRSBS to facilitate the implementation of the plan to immediately sell/dispose these real estate properties to qualified buyers, and avail of the income that may be derived from the proceeds of the sale and ultimately implement the realization of assets as mandated by EO No. 590, as amended.

3. A Joint Venture (JV) partner has unremitted collections and/or unreported sales cancellations amounting to P74.560 million under a JV Agreement. The recorded balance of ICR Past Due and Retained Earnings was understated by P20.702 million as at December 31, 2015.

3.1 We recommended that Management:

a. Require the JV partner to produce a report highlighting the remaining outstanding ICR balances as of December 31, 2015 complete with all buyers' information, total payments made by buyers from January 1, 2000 until December 31, 2015 and all cancellations of contracts to sell;

b. Demand copies of bank statements/passbooks for all relevant periods pertaining to the mutually agreed account by the JV partner and the AFPRSBS which is under the signature of both;

c. Investigate/reconcile the unaccounted difference of P74.560 million and the understatement of ICR Past Due and Retained Earnings of P20.702 million and depending upon the result of such examination:

i. Adjust the books and records to reflect cancellations made by buyers and any other discrepancies noted; and/or

ii. Demand from the JV partner any unremitted collections with the appropriate penalties, interests and/or sanctions;

d. Ensure, thereafter, the effective monitoring of the remaining accounts and the timely remittance and reporting by the JV partner of amounts due to the AFPRSBS; and

e. Institute proper legal action against the JV partner should it withhold the requested documents without legal and reasonable grounds.

4. The amount of P45.657 million was withdrawn from the account of the AFPRSBS in one of its depositary banks in the fulfillment of a writ of execution on garnishment without the necessary filing of money claims with the Commission on Audit (COA) contrary to Sections 4 and 26 of PD No. 1445 and COA Circular No. 2001-002 citing Supreme Court Administrative Circular No. 10-2000 issued on October 25, 2000.

4.1 We recommended that Management pursue legal remedies available in order to recover the P45.657 million withdrawn from the subject bank account without filing the necessary money claims with COA.

5. Cash in bank (CIB) account balances per books as at December 31, 2015 are P15.472 million and P18.352 million more than the balances confirmed by the depository banks and other financial institutions, and the Investible Fund Report (IFR) balances maintained by the Treasury Department (TD), respectively, while the IFR balances were

P2.880 million less than the confirmed balances. Bank reconciliation is not regularly done contrary to sound internal control procedures, thereby casting doubt on the accuracy of the CIB balances totaling to P104.030 million as at December 31, 2015.

5.1 We recommended that Management:

a. Prepare regular monthly BRS for all bank accounts to determine the causes of the discrepancies between the book and the bank balances to reflect accurate account balances;

b. Reconcile the CIB account of CD and TD on a monthly basis and determine causes for unreconciled amounts; and

c. File appropriate charges in case of loss and adjust the book balances, where necessary.

STATUS OF IMPLEMENTATION OF PRIOR YEARS' AUDIT RECOMMENDATIONS

Out of the 193 audit recommendations embodied in the prior year's Annual Audit Report, 36 were implemented, hence no longer included in this report; 66 were not implemented, 91 were partially implemented, 90 of which were reiterated in this report, while 35 similar observations were combined to shorten presentation.