**EXECUTIVE SUMMARY**

**INTRODUCTION**

The Armed Forces of the Philippines Retirement and Separation Benefits System (AFP-RSBS or the “System” for brevity) was created by virtue of Presidential Decree (PD) No. 361 dated December 30, 1973 and started its operations in 1976. The System 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 System, 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 System 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 System 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 Liquidators (BOL), consisting of 11 members, is the policy making body of the System. The President/Chief Executive Officer as well as the Executive Vice President/Chief Operating Officer takes charge of the day to day affairs of the organization. As at December 31, 2017, the System has 73 regular employees and 43 casual/contractual personnel and 6 project-hired or a total workforce of 118 personnel.

On April 8, 2016, Memorandum Order (MO) No. 90, s. 2016 was issued by the Office of the President of the Philippines directing the abolition of the System, privatization of its subsidiaries, and for other purposes. The System was directed under Section 3 of the said MO to: (a) cease collecting members’ contributions and accrual of interest thereon upon effectivity of the Order; (b) maintain such number of personnel necessary to wind-down its corporate affairs and cease the hiring of new personnel unless approved by the Governance Commission for Government Owned and Controlled Corporations (GCG); (c) collect all indebtedness due to the System; (d) continue a Corporate Operating Budget; (e) for its BOT to act as Board of Liquidators (BOL); (f) enter into contracts for the purpose of selling all its real estate assets, golf and country club shares; manage, preserve and maintain its buildings, facilities and equipment in line with the winding down activities; complete deliverables to subdivisions, and turn over completed subdivisions, and maintenance and preservation of existing projects and properties; (g) pursue activities necessary to perfect ownership of its real estate assets; (h) continue, abrogate, and/or re-negotiate existing Joint Venture (JV) Agreements/Contracts, subject to the revised National Economic and Development Authority JV Guidelines; and (i) maintain full power to sue and file complaints for the protection of the rights and interests of the corporation.

To implement the provisions of MO No. 90, the GCG shall be assisted by a Technical Working Group composed of representatives from the Department of National Defense, Department of Finance, Department of Budget and Management, Privatization Management Office, the System, and the AFP.

On April 19, 2016, pursuant to the above MO, the System’s BOT already convened as BOL. The BOL approved in that meeting the stoppage of the collection of five per cent members’ contributions and the accrual of interest on members’ contributions effective March 31, 2016 as per Board Resolution No. SPL-01-2016. In the same meeting, the BOL also approved the continuance of the implementation of discounting of refund of Advance Refund Program to retiring military personnel with approved Oder of Retirement from the AFP until the final closure of the System.

The registered business and office address of the System 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.

**FINANCIAL HIGHLIGHTS (In Philippine Peso)**

1. Comparative Financial Position

|  |  |  |  |
| --- | --- | --- | --- |
| **Particulars** | **2017** | **2016** | **Increase (Decrease)** |
| Assets | 16,186,385,563 | 16,635,024,639 | (448,639,076) |
| Liabilities | 14,578,848,461 | 15,436,808,508 | 857,960,047 |
| Fund equity | 1,607,537,102 | 1,198,216,131 | 409,320,971 |

1. Comparative Results of Operations

|  |  |  |  |
| --- | --- | --- | --- |
| **Particulars** | **2017** | **2016** | **Increase (Decrease)** |
| Income | 521,641,520 | 579,885,587 | (58,244,067) |
| Expenses | 114,646,504 | 361,436,479 | (246,789,975) |
| Other comprehensive income | 2,325,955 | 552,347 | 1,773,608 |
| Total comprehensive income | 409,320,971 | 219,001,455 | 190,319,516 |

1. Comparative Corporate Operating Budget

The System’s Cash Flow Budget or the Corporate Operating Budget for CY 2017 and CY 2016 which were approved per Board Resolution Nos. 08-2016 and 01-2016 dated December 23, 2016 and January 12, 2016 are broken down as follows:

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Particulars** | **Approved Budget** | | **Utilization** | | **Variance** | |
| **2017** | **2016** | **2017** | **2016** | **2017** | **2016** |
| **(in million pesos)** | | | | | |
| Personnel services | 95.229 | 246.403 | 84.879 | 90.005 | 10.350 | 156.398 |
| Maintenance and other operating expenses | 136.261 | 136.793 | 29.767 | 100.892 | 106.494 | 35.901 |
| Capital expenditures | 3.186 | 3.592 | .209 | 0.464 | 2.977 | 3.128 |
| **Total** | **234.676** | **386.788** | **114.855** | **191.361** | **119.821** | **195.427** |

**SCOPE OF AUDIT**

Our audits covered the examination, on a test basis, of the accounts and operations of the System for the years ended December 31, 2017 and 2016. 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 System 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 System for the years ended December 31, 2017 and 2016 in view of the overstatement of the total assets as at year-end by P2.328 billion in 2017 and P2.474 billion in 2016 due to: (a) the non-consolidation of the financial statements of the System and that of its subsidiaries and failure to eliminate the reciprocal accounts; (b) the unrecorded waived penalty of a foreclosed property; and (c) the difference between the general ledger (GL) and the subsidiary ledger (SL) balances, and the difference between the report of physical count of the property, plant and equipment (RPCPPE) and accounting records.

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 of Subsidiaries*

1. Prepare the consolidated financial statements to include the assets, liabilities and results of operation of its subsidiariesin compliance with the provisions of PFRS 10;
2. Eliminate all parent and subsidiary reciprocal account balances during the process of consolidation; and
3. Prepare the Statement of Affairs and the Statement of Realization and Liquidation of those subsidiaries and affiliates that are already closed and submit them to COA for 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 Securities and Exchange Commission.

Further, we also recommended to require the responsible official to account for and prepare the System’s subsidiaries and affiliates financial statements, otherwise, failure by the officials and employees to comply as such shall be subject to administrative disciplinary action under Section 127 of P.D. No. 1445.

*For the unrecorded foreclosed properties of the System*

* + 1. Adjust accordingly the unrecorded waived penalty to the outstanding past due – commercial loan to the corporation;
    2. Reduce the past due – commercial loan to the corporation account by P361.072 million and record as investment property the newly acquired asset; and
    3. Enforce collection of the adjusted past due balance of the commercial loan against the spouses who are key officers of the corporation in accordance with the JSS.

*For the difference Property and Equipment account balances*

1. Reconcile the difference between the PPE GL and the SL both maintained in the Integrated Financial Management System and manually recorded;
2. Reconcile the RPCPPE with the Accounting records;
3. Reclassify all unserviceable assets to Other Assets account; and
4. Require the Inventory committee to account for and classify the items included in the RPCPPE according to the category used by the AD.

**OTHER SIGNIFICANT AUDIT OBSERVATIONS AND RECOMMENDATIONS**

1. Refund of members’ contributions (MCs) inclusive of interest resulted in an overpayment of P6.007 million for 100 samples amounting to P17.103 million. The payments were based on an incomplete and unreliable records of the System contrary to paragraphs 4.46 and 4.49 of the Conceptual Framework for Financial Reporting, Section 4 of Presidential Decree (PD) 361, as amended by PD 1656, System’s Standard Operating Procedure Nos. 11-92 and MAG-96-05-001 dated 25 February 1992 and 22 April 1996, respectively, and AFPRSBS’ BOT Meeting No. 8 dated 4 November 2010.
   1. We recommended that Management:
2. Provide proof of collection on the remittance of P2.659 million by AFP to the System to ensure the correctness of the refund made to the members or their authorized representative, as the case may be;
3. Recover the excess refund of MCs and the interest paid from concerned members or AFP;
4. Accrue interest on all of its members’ contribution at the time it has been received/collected; and
5. Henceforth, ensure the propriety of the amount to be refunded to members at all times.
6. The existence, validity and accuracy of Cash in Bank accounts totaling to P38.199 million as at December 31, 2017 could not be substantiated due to non-preparation/updating of Bank Reconciliation Statement (BRS) and inclusion of bank account which was already closed thereby resulting to a discrepancy of P9.364 million between bank confirmed amount and GL balance contrary to Sections 63 and 74 of Presidential Decree (PD) No. 1445.
   1. We recommended that Management:
      1. Reconcile the balances of the accounts and make the necessary adjustments in the books; and
      2. Prepare the monthly BRS properly for all bank accounts maintained by the System.

The other audit observations together with the recommendations are discussed in Part II of this report.

**STATUS OF IMPLEMENTATION OF PRIOR YEARS’ AUDIT RECOMMENDATIONS**

Out of the 69 audit recommendations embodied in the prior years’ Annual Audit Report, 42 were implemented, hence, no longer included in this report; 25 were partially implemented and two were not implemented. Details are presented in Part III of this report.