EXECUTIVE SUMMARY

INTRODUCTION

The Armed Forces of the Philippines Retirement and Separation Benefits System (AFPRSBS 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 bonds, corporate loans, consumer/member 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 System was not able to discharge its mandate originally set out in PD No. 361 because it has not paid a single peso for retirement benefits of the retiring AFP personnel. All payments of retirement benefits to AFP military personnel, before and after the promulgation of its Charter, have been made from the regular annual appropriation of AFP as set out in the General Appropriation Act (GAA). Thus, Executive Order (EO) Nos. 590 and 590A were issued in December 15, 2006 and January 31, 2007, respectively, mandating the deactivation of the AFPRSBS and directing the transfer of its assets in trust to a government financial institution (GFI).

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 Board of Trustees (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; 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 (NEDA) 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 (TWG) composed of representatives from the Department of National Defense (DND), Department of Finance (DOF), Department of Budget and Management (DBM), Privatization Management Office (PMO), 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 (BR) No. SPL-01-2016. In the same meeting, the BOL also approved the continuance of the implementation of the Advance Refund Program to retiring military personnel with approved Order 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.

The Board of Liquidators (BOL), consisting of 9 regular and 1 alternate members, is the policy making body of the System. All members were appointed by the AFP Chief of Staff who also appointed the President/Chief Executive Officer (CEO) and the Executive Vice President (EVP)/Chief Operating Officer (COO) of the System. The President/CEO, as well as the EVP/COO, takes charge of the day to day affairs of the organization.

As at December 31, 2020, the System has 58 regular, 36 casual, 4 contractual and 14 project-hired employees or a total workforce of 112 personnel.

The System's Corporate Operating Budget (COB) for CY 2020 and CY 2019 were approved per Board Resolution Nos. 06-2019 and 01-2019 dated December 4, 2019 and February 21, 2019, respectively. The COB and budget utilization are as follows (in millions):

Particulars	**Approved Budget**		**Utilization**	
	2020	**2019**	**2020**	**2019**
Personnel services	73.125	73.613	63.679	65.003
Maintenance and other operating expenses	241.024	225.574	22.347	33.909
Capital expenditures	1.593	0.613	0.668	0.098
Total	**315.742**	**299.800**	**86.694**	**99.010**

FINANCIAL HIGHLIGHTS (In Philippine Peso)

I. Comparative Financial Position

Particulars	2020	2019	Increase (Decrease)
Assets	15,867,056,365	18,914,957,246	(3,047,900,881)
Liabilities	6,818,639,896	10,470,904,464	(3,652,264,568)
Fund equity	9,048,416,469	8,444,052,782	604,363,687

II. Comparative Results of Operations

Particulars	2020	2019	Increase (Decrease)
Income	592,796,695	730,506,898	(137,710,203)
Expenses	86,240,915	98,911,301	(12,670,386)
Other comprehensive income/(loss)	(4,746,868)	19,899,039	(24,645,907)
Total comprehensive income	501,808,912	651,494,636	(149,685,724)

SCOPE OF AUDIT

Our audits covered the examination, on a test basis, of the accounts and transactions of the System for the period January 1 to December 31, 2020 in accordance with International Standards of Supreme Audit Institutions to enable us to express an opinion on the fairness of presentation of the financial statements for the years ended December 31, 2020 and 2019. Also, we conducted our audit to assess compliance with pertinent laws, rules and regulations, as well as adherence to prescribed policies and procedures.

AUDITOR'S REPORT

We rendered a qualified opinion on the fairness of presentation of the financial statements of the System 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;

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 AUDIT OBSERVATION AND RECOMMENDATIONS

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, 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.

Other audit observations together with the recommendations are discussed in Part II of this Report.

SUMMARY OF AUDIT SUSPENSIONS, DISALLOWANCES AND CHARGES

As at December 31, 2020, the balance of audit disallowances amounted to P248,529,715, while there are no balances for audit suspensions and charges.

STATUS OF IMPLEMENTATION OF PRIOR YEARS' AUDIT RECOMMENDATIONS

Out of the 58 audit recommendations embodied in the CY 2019 Annual Audit Report, 12 were fully implemented, 35 were partially implemented, 5 were not implemented and 6 were reconsidered. Of the partially and unimplemented recommendations, 13 were reiterated in Part II of this Report. The details are presented in Part III of this Report.