## 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. Under Section 3 of the said MO, the System was directed 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 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 the 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 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, 2021, the System has 56 regular, 35 casual, 5 contractual and 21 project-hired employees or a total workforce of 117 personnel.

The System's Corporate Operating Budget (COB) for CY 2021 and CY 2020 were approved per BR Nos. 04-2020 and 06-2019 dated December 4, 2020 and December 4, 2019, respectively. The COB and budget utilization are as follows (in millions):

| Particulars | Approved budget | | Utilization | |
|---|---|---|---|---|
| | 2021 | 2020 | 2021 | 2020 |
| Personnel services | 70.414 | 73.125 | 63.070 | 63.678 |
| Maintenance and other operating expenses | 221.398 | 241.024 | 30.193 | 22.562 |
| Capital expenditures | 3.806 | 1.593 | 1.022 | 0.668 |
| **Total** | **295.618** | **315.742** | **94.285** | **86.908** |

## FINANCIAL HIGHLIGHTS (In Philippine Peso)

### I. Comparative Financial Position

| Particulars | 2021 | 2020 | Increase (Decrease) |
|---|---|---|---|
| Assets | 13,596,742,457 | 15,867,056,365 | (2,270,313,908) |

*(forward)*

| Particulars | 2021 | 2020 | Increase (Decrease) |
|---|---|---|---|
| Liabilities | 4,216,648,331 | 6,818,639,896 | (2,601,991,565) |
| Fund equity | 9,380,094,126 | 9,048,416,469 | 331,677,657 |

### II. Comparative Results of Operations

| Particulars | 2021 | 2020 | Increase (Decrease) |
|---|---|---|---|
| Income | 352,686,836 | 592,796,695 | (240,109,859) |
| Expenses | 93,262,598 | 86,240,915 | 7,021,683 |
| Other comprehensive loss | 956,758 | 4,746,868 | (3,790,110) |
| Total comprehensive income | 258,467,480 | 501,808,912 | (243,341,432) |

## 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, 2021, 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 (FSs) for the years ended December 31, 2021 and 2020. 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 OPINION

We rendered a qualified opinion on the fairness of presentation of the FSs 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 (SLs) 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 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.

*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

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 in the FS 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.

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

## SUMMARY OF AUDIT SUSPENSIONS, DISALLOWANCES AND CHARGES

As at December 31, 2021, the balance of audit disallowances amounted to P247,866,050, while there are no balances for audit suspensions and charges.

## STATUS OF IMPLEMENTATION OF PRIOR YEARS' AUDIT RECOMMENDATIONS

Out of the 68 audit recommendations embodied in the CY 2020 Annual Audit Report, 25 were fully implemented, 29 were partially implemented, seven were not implemented and seven were reconsidered. Of the partially and unimplemented recommendations, 13 were reiterated in Part II and the details are presented in Part III both of this Report.