**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 started its 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 AFPRSBS was not able to discharge its mandate originally set out in PD No. 361. Thus, Executive Order (EO) Nos. 590 and 590A were issued on 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. On April 8, 2016, Memorandum Order (MO) No. 90, s. 2016, was issued directing the abolition of the AFPRSBS, privatization of its subsidiaries and for other purposes. The said MO repealed or modified all other issuances that are inconsistent with it.

Upon issuance of MO No. 90, the AFPRSBS Board of Directors acted as its Board of Liquidators (BOL), subject to oversight by the Governance Commission for GOCCs (GCG). The BOL consists of nine (9) regular members who were all 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 AFPRSBS. The President/CEO, as well as the EVP/COO, take charge of the day-to-day affairs of the organization.

The GCG shall be assisted by a Technical Working Group (TWG) composed of representatives from the Department of National Defense, Department of Finance, Department of Budget and Management, Privatization Management Office, the AFPRSBS, and the AFP.

The implementation of Accelerated Refund of MCs was approved by the BOL on June 13, 2018. Consequently, it was approved by the GCG En Banc, subject to several conditions, per letter from GCG dated September 7, 2018. Policies and procedures for the implementation of the Accelerated Refund Program were established in coordination with AFP Units. This covers the refund of contribution to an estimated 105,200 members for a period of three (3) years. The AFPRSBS commenced the pay-out of Accelerated Refund in January 2019, thus, effectively stopping the granting of Advance Refund Loans. The GCG clarified in its letter dated March 29, 2019 that the three-year period to liquidate a dissolved corporation can be extended until the liquidation is fully completed. As at December 31, 2022, a total of P12.395 billion in principal and interests was refunded to 114,000 members/claimants.

The AFPRSBS has several subsidiaries which are identified as either closed or have ceased operations as at December 31, 2022, except for Monterrosa Development Corporation (MDC).

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.

As at December 31, 2022, the AFPRSBS has 54 regular, 32 casual, 6 contractual and 21 project-hired employees or a total workforce of 113 personnel.

The AFPRSBS’s Corporate Operating Budget (COB) for Calendar Year (CY) 2022 and CY 2021 were approved per BR Nos. 01-2022 and 04-2020 dated January 27, 2022 and December 4, 2020, respectively. The COB and budget utilization are as follows (in million pesos):

|  |  |  |
| --- | --- | --- |
| **Particulars** | **Approved budget** | **Utilization** |
| **2022** | **2021** | **2022** | **2021** |
| Personnel services | 71.703 | 70.414 | 62.205 | 63.070 |
| Maintenance and other operating expenses | 265.239 | 221.398 | 29.467 | 30.564 |
| Capital expenditures | 10.806 | 3.806 | 0.365 | 1.022 |
| **Total** | **347.748** | **295.618** | **92.037** | **94.656** |

**FINANCIAL HIGHLIGHTS (In Philippine Peso)**

1. **Comparative Consolidated Financial Position**

| **Particulars** | **2022** | **2021** | **Increase (Decrease)** |
| --- | --- | --- | --- |
| Assets | 12,817,285,492 | 13,596,889,418 | (779,603,926) |
| Liabilities | 2,971,870,295 | 4,216,945,045 | (1,245,074,750) |
| Fund equity | 9,845,415,197 | 9,379,944,373 | 465,470,824 |

1. **Comparative Consolidated Results of Operations**

|  |  |  |  |
| --- | --- | --- | --- |
| **Particulars** | **2022** | **2021** | **Increase (Decrease)** |
| Income | 826,378,102 | 479,936,995 | 346,441,107 |
| Expenses | 498,943,464 | 220,512,757 | 278,430,707 |
| Other comprehensive loss | 376,259 | 956,758 | (580,499) |
| Total comprehensive income | 327,058,379 | 258,467,480 | 68,590,899 |

**SCOPE OF AUDIT**

Our audit covered the examination, on a test basis, of the accounts and transactions of the AFPRSBS and its subsidiary (collectively referred as the Group) for the period January 1 to December 31, 2022, in accordance with International Standards of Supreme Audit Institutions to enable us to express an opinion on the fairness of presentation of the consolidated financial statements (FSs) for the years ended December 31, 2022 and 2021. 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 an adverse opinion on the fairness of presentation of the consolidated financial statements of the Group as at December 31, 2022 and 2021 due to the following:

1. The continued presentation and measurement of the assets, liabilities, equity and income and expenses accounts on a going concern assumption despite the imminent liquidation of the AFPRSBS is not in accordance with the Philippine Accounting Standard (PAS) 1 – *Presentation of Financial Statements* and the Conceptual Framework for Financial Reporting (CFFR). Memorandum Order (MO) No. 90, series of 2016, directs the abolition of AFPRSBS and privatization of its subsidiaries.
2. The non-consolidation in the financial statements of AFPRSBS of its other subsidiaries where it has investments totaling P1.116 billion resulted in the non-elimination of all the parent and subsidiary reciprocal account balances which is not in accordance with PFRS 10-*Consolidated Financial Statements.* Only the financial statements of Monterrosa Development Corporation were consolidated with the financial statements of AFPRSBS.
3. The Allowance for Impairment computed using a method other than that provided under PFRS 9 – *Financial Instruments* resulted in the overstatement by undetermined amounts of the Receivables stated at P859.370 million in CY 2022 and P826.448 million in CY 2021; Loans Receivable stated at P1.091 billion in CY 2022 and P1.046 billion in CY 2021; Installment Contract Receivable stated at P325.778 million in CY 2022 and P273.571 million in CY 2021; and Investment in Bonds stated at P2.349 billion in CY 2022 and P2.375 billion in CY 2021.
4. There were noted variances in some accounts which remain unreconciled. There is a variance of P116.560 million and P596.622 million as at December 31, 2022 and 2021, respectively, between the general ledger (GL) and Integrated Financial Management System subsidiary ledger (SL) balances of the Members’ Contributions (MC) Payable and Estimated Liability on MC Earnings accounts. Also, there is a variance of 146,010 square meters of raw lands with equivalent cost of P84.442 million as at December 31, 2022 and 2,448,871 square meters with equivalent cost of P768.743 million as at December 31, 2021 between the total land area per Transfer Certificates of Title and those recorded in the Real Estate Inventories and Landbanking Assets accounts.

For the above observations that caused the issuance of an adverse opinion, we recommended that Management:

*On the going concern assumption used in the preparation of financial statements*

1. Prepare the FS and its comparative period using the liquidation basis of accounting; and
2. Make appropriate disclosures in the Notes to FS taking into consideration the provisions under Paragraph 25 of PAS 1.

*On the non-consolidation of FSs of AFPRSBS and all of its subsidiaries*

1. Prepare the consolidated FS to include the assets, liabilities, and results of operations of all the subsidiaries in compliance with the provisions of PFRS 10;
2. Eliminate all parent and subsidiary reciprocal account balances during the process of consolidation to ensure accurate presentation of the affected accounts in the FS;
3. Conduct an inventory of the assets of the subsidiaries with investment costs totaling P1.116 billion;
4. Prepare/update the corresponding FS of the aforesaid subsidiaries; and
5. Take actions to officially dissolve the non-operating/closed subsidiaries’ corporate life and liquidate the assets accordingly.

*On the Allowance for Impairment computed using a method other than that required under PFRS 9 – Financial Instruments*

1. Provide allowance for impairment for the AFPRSBS’ financial assets based on ECL; and
2. Secure Board’s approval to set up any additional provisions to recognize the said impairment on financial assets.

*On the unreconciled amount between the GL and SL balances of the MC Payable and Estimated Liability on Earnings of MC accounts*

1. Reconcile the Integrated Financial Management System SLs with the books of accounts/GL maintained by the Accounting Department in preparation for the transfer of MC records to the Government Financial Institution Trustee in accordance with EO Nos. 590 and 590-A, as amended by MO No. 90; and
2. 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.

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

1. Reconcile the remaining variances between the total land area per physical inventory of TCTs with those recorded under the Landbanking assets account to ensure correctness of the account balance;
2. Prioritize the submission of the updated reconciliation pertaining to Landbanking assets account for the Audit Team to validate and verify the nature of the remaining variance totaling P84.442 million;
3. Record in the books of the AFPRSBS the listed/identified assets based on the result of the reconciliation that are duly supported with proofs of ownership; and
4. Derecognize from the books of the AFPRSBS, the unpaid property purchased from Bulaong Enterprises, unless ownership or real rights could already be established.

**SUMMARY OF AUDIT SUSPENSIONS, DISALLOWANCES AND CHARGES**

As at December 31, 2022, the balance of audit disallowances amounted to P251.468 million, while audit suspensions and charges have no balances.

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

Out of the 50 audit recommendations embodied in the CY 2021 Annual Audit Report, 30 were implemented, and the remaining 20 which were not implemented were reiterated in Part II. The details are presented in Part III of this Report.