



Republic of the Philippines
COMMISSION ON AUDIT
Commonwealth Avenue, Quezon City, Philippines

INDEPENDENT AUDITOR'S REPORT

The Board of Liquidators

AFP Retirement and Separation Benefits System
424 Capinpin Avenue, Camp General Emilio Aguinaldo
Quezon City, Metro Manila

Report on the Audit of the Financial Statements

Qualified Opinion

We have audited the financial statements of AFP Retirement and Separation Benefits System (AFPRSBS), which comprise the statements of financial position as at December 31, 2021 and 2020, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, except for the effects and possible effects of the matters described in the *Bases for Qualified Opinion* section of our report, the accompanying financial statements present fairly, in all material respects, the financial position of AFPRSBS as at December 31, 2021 and 2020, and its financial performance and its cash flows for the years then ended in accordance with the Philippine Financial Reporting Standards (PFRSs).

Bases for Qualified Opinion

The absence of accounting policy as basis for the estimation of Allowance for Impairment constitutes a departure from PFRS 9 – *Financial Instruments* which resulted in the overstatement by undetermined amounts of the Receivables stated at P826.448 million in CY 2021 and P823.854 in CY 2020; Loans Receivable stated at P1.046 billion both in CYs 2021 and 2020; Installment Contract 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 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 subsidiary ledgers 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.

We conducted our audits in accordance with International Standards of Supreme Audit Institutions (ISSAIs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the AFPRSBS in accordance with the Code of Conduct and Ethical Standards for Commission on Audit Officials and Employees (Code of Ethics) together with the ethical requirements that are relevant to our audit of the financial statements in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

Emphasis of Matter

We draw attention to Note 2 to the financial statements in relation to Note 20. On April 19, 2016, the Board of Liquidators (BOL) approved the stoppage of the collection of five (5) per cent members' contributions (MCs) and the accrual of interests thereon effective March 31, 2016 as per Board Resolution (BR) No. SPL-01-2016. 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. As at December 31, 2021, a total of P11.375 billion in principal and interests was refunded to 86,565 members/claimants. We further draw attention to Note 2 to the financial statements which describes that pursuant to Memorandum Order (MO) No. 90, the System continuously engages itself in various business operations necessary to wind down its operations. These include the management of funds and investments in real estate projects and foreclosed assets. In late 2016, the System submitted its Winding Down Plan to the Governance Commission for GOCCs (GCG) which states that the primary objective of the same is to raise P16 billion to refund all the MCs within three years or by December 31, 2019. However, 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.

We further draw attention to Note 33 to the financial statements which describes the uncertainties related to pending cases in several courts involving various claims against the AFPRSBS. Our opinion is not modified in respect of these matters.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with PFRSs, and for such internal control as management

determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the System's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the System or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the System's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISSAIs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control;
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the System's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the System to cease to continue as a going concern; and
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.


We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Report on Other Legal and Regulatory Requirements

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information in Note 32 to the financial statements is presented for the purpose of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such supplementary information is the responsibility of management of AFPRSBS. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements. In our opinion, except for the effects and possible effects of the matters described in the *Bases for Qualified Opinion* section of our report, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

COMMISSION ON AUDIT


CYNTHIA S. VERGARA
Supervising Auditor

April 20, 2022