OBSERVATIONS AND RECOMMENDATIONS

A. Financial Audit

1. The absence of accounting policy as basis for the estimation of Allowance for Impairment constitutes a departure from the Philippine Financial Reporting Standards (PFRS) 9 – *Financial Instruments* which resulted in the overstatement by undetermined amounts of the Receivables, Loans receivable, Installment contracts receivable, Advances to subsidiaries and associates, and Investment in bonds stated at P826.448 million, P1.046 billion, P273.571 million, P22.497 million, and P2.375 billion, respectively, in the financial statements (FS) as at December 31, 2021.

1.1 Paragraphs 5.5.1 and 5.5.3 of PFRS 9 state that:

> *Under the impairment approach in PFRS 9 it is no longer necessary for a credit event to have occurred before credit losses are recognized. Instead, an entity always accounts for expected credit losses, and changes in those expected credit losses. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition and, consequently, more timely information is provided about expected credit losses.*
>
> An entity shall *recognize a loss allowance for expected credit losses on a financial asset that is measured in accordance with paragraphs 4.1.2 or 4.1.2A, a lease receivable, a contract asset or a loan commitment and a financial guarantee contract to which the impairment requirements apply in accordance with paragraphs 2.1*(g), 4.2.1(c) or 4.2.1(d).
>
> *Xxx*
>
> *Subject to paragraphs 5.5.13–5.5.16, at each reporting date, an entity shall measure the loss allowance for a financial instrument at an amount equal to the lifetime expected credit losses if the credit risk on that financial instrument has increased significantly since initial recognition.*

1.2 Moreover, paragraph 5.5.9 of PFRS 9 states that:

> *<u>At each reporting date, an entity shall assess whether the credit risk on a financial instrument has increased significantly since initial recognition</u>. When making the assessment, an entity shall use the change in the <u>risk of a default</u> occurring over the expected life of the financial instrument instead of the change in the amount of expected credit losses. To make that assessment, an entity shall compare the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and consider reasonable and supportable information, that is available without*

undue cost or effort, that is indicative of significant increases in credit risk since initial recognition. (Underscoring ours)

1.3 Paragraph 15 of Philippine Accounting Standards (PAS) 1, – *Presentation of FS* states:

Financial statements shall present fairly the financial position, financial performance and cash flows of an entity. Fair presentation requires the faithful representation of the effects of transactions, other events, and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the Framework.

1.4 The amendments in PFRS 9 sets the criteria using the expected credit loss (ECL) method in measuring the impairment loss of financial assets that meet the classification requirement of the standard under paragraph 4.1.2 or financial assets measured at amortized cost (AC), under paragraph 4.1.2A or financial assets measured at Fair Value Through Other Comprehensive Income (FVOCI), lease receivable, contract asset or loan commitment and financial guarantee. However, our audit of the financial assets of the AFPRSBS revealed that the Management was not able to adopt an accounting policy that uses the concept of the ECL which resulted in an inadequate/ non-provision for impairment loss on its various receivables and investment in bonds.

1.5 As at December 31, 2021, the AFP Retirement and Separation Benefits System (AFPRSBS) has outstanding receivables as presented in Table 1.

Table 1 - Total Outstanding Receivables
As at December 31, 2021

Account	Balance	Allowance for doubtful accounts (ADA)	Balance, net of ADA
Receivables	P 826,447,585	P 77,934,371	P 748,513,214
Loans receivable	1,045,997,643	243,573,222	802,424,421
Installment contracts receivable	273,571,293	88,644,387	184,926,906
Advances to subsidiaries and associates	22,496,527	16,416,120	6,080,407
	P 2,168,513,048	**P 426,568,100**	**P 1,741,944,948**

1.6 Also, our validation of the above receivables disclosed that majority of these accounts have been outstanding and dormant for over 10 to 30 years due to the borrowers' inability to settle their obligations. The borrowers' consistent default means significant credit risk that indicates high probability of non-collection and loss. Under the ECL method, the entity is already required to measure the loss allowance equal to the lifetime expected losses given the current state of the accounts. However, the Management was not able to apply the requirements of PFRS 9, thus, the allowance for impairment is inadequate.

1.7 Furthermore, the Management was not able to measure the impairment on its investments in bonds and commercial papers account which are classified and measured at AC. Under PFRS 9, financial assets at AC and at FVOCI are also required to be assessed to determine if the asset is credit-impaired that impacts its estimated future cash flows. As at December 31, 2021, the Management has not provided allowance for impairment on its fixed income instruments that amounted to P2.375 billion, to wit:

Table 2 - Investment in Bonds and Commercial Papers
As at December 31, 2021

Account	Balance
Investment in treasury bonds	P 824,596,790
Investment in retail treasury bonds	1,050,000,000
Investment in long-term commercial papers	500,000,000
	P 2,374,596,790

1.8 The non-provision of impairment loss for investment in bonds is not in consonance with the ECL model under PFRS 9 wherein there is no clear exemption set in the standard. It only discussed that an entity should always account for ECL and changes in those credit losses even before an objective evidence of impairment becomes apparent.

1.9 Moreover, PFRS 9 requires a forward-looking information in measuring impairment loss on financial assets/instruments with the aim of providing timely and more useful information to the users of the FS about the entity's ECL.

1.10 Foregoing considered, the inadequate/non-provision of allowance for impairment loss for both Receivables and Investment in bonds accounts is contrary to the concept of prudence which requires entities to use caution when making judgments to properly value its assets and liabilities and to avoid the misstatements of the accounts' balances. The absence of accounting policy as basis for the estimation of allowance for impairment in accordance with PFRS 9 constitutes a departure from the said Standard which resulted in the overstatement by undetermined amounts of the Receivables, Loans receivables, Installment contracts receivable, Advances to subsidiaries and associates, and Investment in bonds stated at P826.448 million, P1.046 billion, P273.571 million, P22.497 million, and P2.375 billion, respectively, thus, affecting the fair presentation of the FS.

1.11 **We recommended that Management:**

a. **Revisit the procedure/s implemented in the estimation of 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 the FS.

1.12 The Management will review the accounts and consider providing allowances for those with no provision for allowances yet, and will be presented to the Board of Liquidators (BOL) for approval.

2. The correctness and fair presentation of the balance of the Investments in Real Estate account in the FS with net carrying value of P1.730 billion as at December 31, 2021 could not be ascertained due to: a) unreconciled variances between the total land area per records and actual inventory of Transfer Certificates of Title (TCTs) of 2,448,871 square meters (sqm) or equivalent to net amount of P768.743 million; and b) unrecorded seven (7) projects/properties consisting of 120 TCTs in the books.

2.1 This is a reiteration of prior years' (PYs) audit observation as embodied in the CY 2018 and CY 2020 Annual Audit Reports (AARs) due to the partial implementation of the recommendations by Management.

Variance of 2,448,871 sqm or P768.743 million between the recorded total land area and actual TCTs

2.2 Paragraph 2.23 of the revised CFFR provides that comparability, verifiability, timeliness, and understandability are qualitative characteristics that enhance the usefulness of information that is relevant and faithfully represented.

2.3 Likewise, Section 112 of Presidential Decree (PD) No. 1445 or *the State Audit Code of the Philippines* provides that:

> *Each government agency shall record its financial transactions and operations conformably with generally accepted accounting principles and in accordance with pertinent laws and regulations.*

2.4 In addition, Sections 111 and 114 of the same law require that accounts should be kept in such detail for the agency's needs and at the same time be adequate to furnish the information needed by fiscal or control agencies of the government. These include the maintenance of subsidiary ledger (SL). Also, internal control dictates that an entity should maintain adequate records and systems for all aspects of its business including the maintenance of hard copies of individual SLs that will support the general ledger (GL) control account at any given period.

2.5 The AFPRSBS' Investments in Real Estate refers to landbanking assets or underdeveloped land properties which are not supposed to be available for sale. The net carrying value of the said account as at December 31, 2021, amounting to P1.730 billion are presented in Table 3.

Table 3 – Breakdown of Investment in Real Estate
As at December 31, 2021

Account title	Balance as at 12/31/2021
Investments in real estate, landbanking assets	P 1,771,255,737
Allowance for decline in value of investment in real estate	(41,559,544)
Net carrying value	**P 1,729,696,193**

2.6 For CY 2021, the same exceptions were noted vis-a-vis the PYs audit observations that cast doubt on the reliability of the presented balance of the Investments in Real Estate account in the statement of financial position. The net variance in land area of 2,508,790 sqm between the actual TCT and the AFPRSBS' records which were first observed in CY 2018 audit are still not fully reconciled as at December 31, 2021.

2.7 Inquiry with the Management revealed that only 2.39 per cent of the net variance of 2,508,790 sqm or four out of the 29 projects were reconciled in CY 2021.

2.8 The remaining variance of 2,448,871 sqm or a total net amount of P768.743 million is still being reconciled by the Management. The accuracy of the Management's records could not be ascertained unless the unresolved issues are fully clarified, justified and adjusted accordingly in their books. The details of the remaining variances for reconciliation are presented in Table 4.

Table 4 – Variance between the Recorded and Actual Inventory of TCTs
As at December 31, 2021

	Project name	Total area per books (sqm/plots) (A)	Total area per TCTs net of sold lots sqm (B)	Variance (sqm) (C) = (A – B)	Cost per sqm/plot (D)	Equivalent amount of variance (net) (C x D)
1.	Benjamin 9, Pampanga	227,808	63,894	(163,914)	P 537.9330	P (88,174,749.76)
2.	Ciudad Verde	50,268	67,479	17,211	1,955.8292	33,661,776.36
3.	Eastridge Golf Course and Subdivision I	74,570	0	(74,570)	1,009.4354	(75,273,597.78)
4.	North Matrixville Subdivision	100	2,584	2,484	472.4300	1,173,516.12
5.	The Orchard Project	3,630	34,561	30,931	47.4722	1,468,362.62
6.	Riviera Project-Residential	201,826	526,134	324,308	891.2906	289,052,671.90
7.	Riviera Project-Commercial	85,255	78,024	(7,231)	1,144.4352	(8,275,410.93)
8.	SLSS – Phase I	765	2,334	1,569	1,015.4634	1,593,262.07
9.	SLSS – Phase I-C/ IC-A	18,499	26,445	7,946	1,179.2147	9,370,040.01
10.	SLSS – Phase I-E	264	330	66	2,600.7576	171,650.00
11.	Villa Toledo -TH	445	5,112	4,667	1,300.0000	6,067,100.00
12.	Villa Caceres	1,545	8,879	7,334	3,141.6964	23,041,201.40
13.	Mount Zion Memorial	24,173	156,811	132,638	14,119.1295	1,872,733,098.62
14.	Sta. Rosa Homes Subdivision	201	980	779	3,090.6129	2,407,587.45
15.	San Mateo Housing Project*	0	17,795	17,795	n/a	0

(forward)

Project name	Total area per books (sqm/plots) (A)	Total area per TCTs net of sold lots sqm (B)	Variance (sqm) (C) = (A – B)	Cost per sqm/plot (D)	Equivalent amount of variance (net) (C x D)
16. Village East III Subdivision	57,017	0	(57,017)	506.7225	(28,891,796.78)
17. Morong, Bataan	10,041	10,041	0	167	0
18. Calamba (Inner lots)	659,872	659,872	0	428	0
19. Calamba (Tanauan)	1,615,133	588,678	(1,026,455)	272.9394	(280,160,011.83)
20. Eastridge Golf Course and Subdivision II	503,018	0	(503,018)	209.4475	(105,355,862.56)
21. General Santos City	49,421	34,191	(15,230)	11,373.1885	(173,213,660.86)
22. Green Meadows Iloilo (Phase 1)	13,198	125,536	112,338	1,316.8104	147,927,846.72
23. Green Meadows Iloilo (Phase 1A)	22,970	1,580	(21,390)	2,213.1635	(47,339,567.27)
24. Riviera	2,453,733	1,318,686	(1,135,047)	665.4478	(755,314,529.05)
25. San Lorenzo	435,997	330,932	(105,065)	551.3373	(57,926,253.42)
Total	**6,509,749**	**4,060,878**	**(2,448,871)**		**P 768,742,673.04**

*No available cost per inventory

Seven (7) Projects/Properties consisting of 120 TCTs are not recorded in the books of the AFPRSBS

2.9 As disclosed in the PYs AARs, out of the 62 land development projects for Real Estate and Acquired Assets, there are still seven projects/properties consisting of 120 TCTs which remain unrecorded in the books as at December 31, 2021, as presented in Table 5. Although Management was able to transfer and register three (3) TCTs in the name of AFPRSBS during the year, they remain unrecorded in the books.

Table 5 – Schedule of Unrecorded/Recorded Projects/Properties
As at December 31, 2021

Project	No. of TCTs	Registered owner	
		AFPRSBS	others
1. Anaped Estate, Inc.	2	0	2
2. Congressional Property	2	2	0
3. Iloilo Certificate Land Transfer	14	0	14
4. Isla Philcons Holdings	22	0	22
5. Philcons Finance	78	0	78
6. Superior Pharmacy, Inc.	1	0	1
7. Terra Fortuna	1	1	0
Total	**120**	**3**	**117**

2.10 The Audit Team emphasized that the reconciliation and correction of records of the inventory of real estate will convert the AFPRSBS' financial reports to more useful and relevant financial information in order to determine whether the assets of the AFPRSBS will be sufficient to cover all its existing payables at the time of its liquidation.

2.11 Foregoing considered, the unreconciled variance totaling 2,448,871 sqm with equivalent cost of P768.743 million, between the total land area per books and physical inventory of TCTs, and the seven unrecorded projects/properties consisting of 120 TCTs cast doubt on the correctness and fair presentation of the Investment in Real Estate account in the FS as at December 31, 2021.

2.12 **We reiterated with modifications our PYs recommendations that Management:**

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.

2.13 The Management commented that it is continuously reconciling the variances noted by the Audit Team.

2.14 The System is doubling its efforts to reconcile the discrepancies. Adjustments will be made in the books for the unrecorded transactions that may be found out.

2.15 As a rejoinder, the importance and urgency to act on the audit observations and recommendations have to be emphasized. This observation was first raised during the CY 2018 audit, and yet the reconciliation has only started in CY 2022, hence, variances are still not yet fully reconciled to date.

3. The accuracy and fair presentation of the Members' Contributions (MC) Payable and Estimated Liability on Earnings of MC accounts in the FS amounting to P2.295 billion and P941.072 million, respectively, as at December 31, 2021, could not be established due to the presence of unreconciled amount of P596.622 million between the GL and SL balances. Likewise, the unreconciled amount was not supported with schedules and/or complete list of members with outstanding balance.

3.1 This is a reiteration of PYs audit observations as embodied in the AARs for CYs 2018, 2019, and 2020 due to the non-implementation of the recommendations by Management.

3.2 Paragraph 15 of PAS 1 on fair presentation and compliance with PFRS states that:

Financial statements shall present fairly the financial position, financial performance and cash flows of an entity. Fair presentation requires the faithful representation of the effects of transactions, *other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the Framework. Xxx.*

3.3 PD No. 361 (s. 1973) established the AFPRSBS and gave it the mandate to provide a self-reliant funding scheme and continuous financial support to the AFP retirement system. In 2003, it was established by the *Feliciano Commission Report* that AFPRSBS was “fundamentally flawed” and had not discharged its mandate. Hence, Executive Order (EO) No. 590 (s. 2006), as amended by EO No. 590-A (s. 2007) were issued mandating the deactivation of AFPRSBS, including its winding down and liquidation, but the same were not fully implemented.

3.4 Further, on April 8, 2016, Memorandum Order (MO) No. 90 was issued to direct the abolition, winding down and liquidation of the AFPRSBS. The cessation of collecting MCs and accrual of interest and the refund of AFPRSBS members’ contributions as they fall due, are among the main purpose of MO 90.

3.5 On April 19, 2016, pursuant to the same MO, the AFPRSBS’ Board of Trustees (BOT) convened as the BOL. The BOL issued Board Resolution No. SPL-01-2016 which approved the stoppage of the collection of five per cent members’ contributions and the accrual of interest on members’ contributions effective March 31, 2016.

3.6 As at December 31, 2021, the balances of the MC Payable and Estimated Liability on Earnings of MCs accounts in the FS amounted to P2.295 billion and P941.072 million, respectively. The MC Payable account represents the total accumulated MC to be refunded by the AFPRSBS to its members upon their retirement, separation, or discharge from active service, while the Estimated Liability on Earnings of MC refers to the interest earned from the said contributions. Furthermore, all MC Payable and Estimated Liability on Earnings of MC were classified as current liability in consonance with AFPRSBS plan of paying all the remaining members by CY 2022.

3.7 The total amount of P3.236 billion for the two accounts represents 77 per cent of the P4.217 billion total liabilities of the AFPRSBS as at December 31, 2021.

3.8 In maintaining the MC payable and estimated earnings on MC accounts, every member of the AFPRSBS has an SL card where his/her contributions and corresponding earned interest are posted. However, the Accounting Department (AD) was not able to provide the Audit Team of said ledgers of members, instead, the AD submitted a list extracted from the Integrated Financial Management System (IFMS) as at July 2015 which is still under reconciliation with the balance of the MC payable per books. As at report date, the AD is continuously reconciling the data retrieved from the IFMS simultaneous with the processing of the member’s refund by the Membership Department (MD). According to them, once they can ascertain the correctness of the balance of each member’s account, they will be able to compute the total contributions including the estimated interest on MC earnings.

3.9 The individual SLs of the members in the IFMS contain all their monthly contributions except for some observed unposted contributions of which records are still being traced/validated against the printed Remittance Lists. While there is an individual SL for each member in the IFMS, the computerized system does not provide for a facility to generate reports pertaining to outstanding MC. Thus, in CY 2015, an expert was hired to extract the members' individual ledger from the IFMS and converted it into an excel file, and it was found out that there was a variance between the balances per books and balances per IFMS of the MC Payable account.

Unreconciled amount of P596.622 million between the GL and IFMS SL balances pertaining to the MC payable account

3.10 As at December 31, 2021, the unreconciled variance between the GL and the extracted balances of the MC Payable account from the IFMS was reduced to P596.622 million from P4.914 billion on July 31, 2015, as shown in Table 6.

Table 6 - Status of the CY 2015 Reconciliation of books/GL Balances with IFMS SL Balances of the MC account
As at December 21, 2021

Calendar Year	Per books/GL	Per IFMS SL	Variance
December 31, 2021	P 10,844,040,316	P 11,440,662,372	P 596,622,056
July 31, 2015	P 10,866,091,376	P 15,780,353,369	P4,914,261,993

3.11 To date, the continuous updating of the accounts is being performed by the AFPRSBS to determine the accurate amount of refund of MC including the interest earned thereon.

Absence of schedules and/or list of members with outstanding balances

3.12 The Audit Team also noted that there are no supporting schedules provided for the details of the MC payable and Estimated liability on MC earnings accounts. Inquiry with the AD revealed that the December 31, 2021, balance represents the running balance of the two accounts after deducting the payments to members who were able to process their refund during the period. However, the AD was not able to provide the details as to whom the remaining balance of the MC payable and Estimated Liability on MC earnings accounts are still due. Consequently, the Audit Team was not able to verify whether the balance of the two mentioned accounts as presented in the statement of financial position as at December 31, 2021, are correct, hence, the existence, completeness, and rights and obligations assertions pertaining to the two accounts cannot be ascertained.

3.13 In addition, according to the AD, the variance in MC is still unreconciled despite the lapse of almost seven years from the time it was discovered due to the following:

a. Some members who were already refunded of their contributions are still included in the list, such as those who were refunded in CYs 2012 and 2013 via manual processing due to the crash of the IFMS2 in CY 2012;

b. Some members have duplicate records whose refunds were based on the consolidated record, but the other record was not deleted/cleansed. Hence, the contributions on the said record remain outstanding;

c. Some members have two different assigned serial numbers (SN), hence, even if the refund is already made to such members, their other records of different SN will remain open/outstanding; and

d. Lack of adequate manpower who will focus solely on reconciliation.

3.14 On the other hand, the Management mentioned that their priority at this time is to refund first all the contributions to members and later work on the reconciliation of members' accounts in order not to hamper the repayment process being made while the reconciliation is ongoing.

3.15 While we recognize Management's effort of reconciling the P4.914 billion noted variances in the CY 2015 audit which was reduced to P596.622 million as at report date, the said amount remains substantial. It is to be emphasized that the AFPRSBS' responsibility to have a complete, updated, and accurate SLs of the MC payable and Estimated liability on MC earnings accounts are indispensable because these are the bases in the computation of the members' refund of their contributions and interest earned. Failure to do so may result in under or overpayment of refunds and may adversely affect the timely refund of the benefits that will consequently prolong the liquidation process of the AFPRSBS.

3.16 Thus, the non-reconciliation of the variance of P596.622 million between the balances per GL and IFMS SL of the MC Payable and Estimated Liability on Earnings of MC accounts amounting to P2.295 billion and P941.072 million, respectively, and the absence of schedules and/or list of members with outstanding balances affected the accuracy and fair presentation of these accounts in the FS as at December 31, 2021.

3.17 **We reiterated our PYs recommendation that Management reconcile the IFMS SLs with the books of accounts/GL maintained by the AD in preparation for the transfer of MC records to the Government Financial Institution (GFI) Trustee in accordance with EO Nos. 590 and 590-A, as amended by MO No. 90.**

3.18 **We further recommended that Management 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.**

3.19 The Management commented that the Audit Team was provided with the working file of the reconciliation which contains the list of the members with outstanding contributions as at July 31, 2015, in the amount of P11.441 billion which remained unreconciled by P596.622 million as at December 31, 2021. The remaining discrepancy represents 12 per cent of the original discrepancy of P4.914 billion as a result of the continuous reconciliation efforts of the AFPRSBS.

3.20 Moreover, the above-mentioned working file is supposed to answer for the requirement of a schedule showing the details of the remaining MC payable. As there is still an unreconciled amount of P596.622 million, the schedule cannot be totally relied upon yet. The reconciliation aims to establish the list of members with outstanding contributions as at December 31, 2022.

3.21 Furthermore, the Management ensures that it will continuously reconcile the balance of MC account per books with the SL available in the IFMS 2 and will double its effort to accelerate the progress of the reconciliation.

3.22 As a rejoinder, we would like to emphasize that prior to the refund of all contributions and interests to the members, the amount to be refunded should have already been validated and determined. This will provide the Management with a reliable information to support the recorded interests on MC and ensure that the AFPRSBS has enough funds to refund the contributions and the reasonable interests thereon. In this regard, we maintain our recommendation that Management expedite the reconciliation of the IFMS SLs with the books of accounts maintained by the AD.

3.23 Likewise, the amount in the working file submitted to the Audit Team which supposedly supports the ending balance of the MC account as at December 31, 2021 does not tally with the amount shown in the statement of financial position as at the same date; hence, the ending balance of the MC account could still not be determined.

3.24 Moreover, based on the analysis made by the Audit Team on the working file submitted, fully paid members are still included in the list and there are noticeable errors such as posted amount under the date column or vice versa, there were also postdated recordings of refunds i.e. 2029, duplicate records of members due to different SNs, etc. Hence, even when alternative audit procedure was undertaken by the Audit Team to verify the correctness of the outstanding balance of MC account by filterring the lists of fully paid members the same was not attained. Likewise, no schedule pertaining to the estimated liability on MC earnings accounts was provided. We would like to emphasize the importance of accounting schedules, showing the details of an account as these will support the balances presented in the FS. Thus, we reiterate our recommendation that Management prepare a 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.

4. **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.**

4.1 This is a reiteration of PYs audit observation as embodied in the CY 2020 and 2018 AAR due to the non-implementation of the recommendations presented by the Audit Team.

4.2 PFRS 10 – *Consolidated Financial Statements* sets the requirements for the preparation and presentation of consolidated FS, requiring entities to consolidate entities it controls provides:

Paragraph 4 requires an entity that is a parent to present consolidated financial statements except if it meets all of the following conditions:

a. It is a wholly-owned subsidiary or is a partially-owned subsidiary of another entity and all its other owners, including those not otherwise entitled to vote, have been informed about, and do not object to, the parent not presenting consolidated financial statements;

b. Its debt or equity instruments are not traded in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets);

c. It did not file, nor is it in the process of filing, its financial statements with a securities commission or other regulatory organization for the purpose of issuing any class of instruments in a public market; and

d. Its ultimate or any intermediate parent produces consolidated financial statements that are available for public use and comply with PFRSs.

Paragraphs 19 and 21 requires a parent to prepare consolidated financial statements using uniform accounting policies for like transactions and other events in similar circumstances and that in preparing consolidated financial statements, a parent shall:

a. Combine like items of assets, liabilities, equity, income, expenses and cash flows of the parent with those of its subsidiaries;

b. Offset (eliminate) the carrying amount of the parent's investment in each subsidiary and the parent's portion of equity of each subsidiary; and *c. Eliminate in full intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between entities of the group.*

Paragraph 21 further provides that the financial statements of the parent and its subsidiaries used in the preparation of the consolidated financial statements shall have the same reporting date. When the end of the reporting period of the parent is different from that of a subsidiary, the subsidiary prepares, for consolidation purposes, additional financial information as of the same date as the financial statements of the parent to enable the parent to consolidate the financial information of the subsidiary, unless it is impracticable to do so.

If it is impracticable to do so, the parent shall consolidate the financial information of the subsidiary using the most recent financial statements of the subsidiary adjusted for the effects of significant transactions or events that occur between the date of those financial statements and the date of the consolidated financial statements. In any case, the difference between the date of the subsidiary's financial statements and that of the consolidated financial statements shall be no more than three months.

4.3 As at December 31, 2021, the AFPRSBS has a total investment of P1.723 billion in stocks of its subsidiaries and affiliates/controlled entities wherein the corresponding FS were not consolidated with the FS of AFPRSBS due to the non-submission of related reports from most of its subsidiaries which are already non-operating, while others are either subject to liquidation and/or for disposal. The details are presented in Table 7.

Table 7 - Schedule of AFPRSBS's Subsidiaries and Affiliates/ Controlled Entities
As at December 31, 2021

Subsidiaries and affiliates/ controlled entities	**Percentage of ownership**	**Status of operation** (Per AFPRSBS)	**Cost of investment**
Monterrosa Development Corporation (MDC)	100.00	Active	P 873,927,445
Resources Investment House (RIH)	100.00	Ceased operations in 2004	102,123,549
Matrix Realty Development Corporation	100.00	Ceased operations in 2005	35,931,250
Fashion Link Corporation	100.00	Ceased operations in 1998	20,100,000
Globan Fruits and Development Corporation	100.00	Ceased operations in 2003	10,000,000
RSBS Enterprises, Inc.	100.00	Ceased operations in 2004	2,500,000
RSBS Land, Inc. (RLI)	100.00	Ceased operations in 2004	994,170
Veterans Electronics Communications, Inc.	90.65	Ceased operations in 1999	126,738,598
(forward)			

Subsidiaries and affiliates/ controlled entities	Percentage of ownership	Status of operation (Per AFPRSBS)	Cost of investment
Goodfit Manufacturing Corporation	79.99	Ceased operations in 2004	25,556,920
General Satellite Communications, Inc.	62.00	Never operated/for write off	2,906,238
Bay Resources Development Corporation (BRADCO)	50.00	Active	402,000,000
AFP Theater Enterprises, Inc. (ATEI)	50.00	Ceased operations on December 31, 2021	120,000,000
Total			**P 1,722,778,170**

4.4 Listed in Table 8 are the remaining five subsidiaries with existing value as at December 31, 2021, and are still subject for preparation of FS.

Table 8 – Subsidiaries with Existing Value Which are Still Subject for Preparation of FS
As at December 31, 2021

Subsidiaries and affiliates/controlled entities	Percentage of ownership	Cost of investment	Carrying value as at December 31, 2021*
MDC**	100%	P 873,927,445	P 353,721,248
ATEI**	50%	120,000,000	3,102,904
BRADCO	50%	402,000,000	1,138,041,387
RLI	100%	70,000,000	3,094,171
RIH	100%	300,000,000	2,772,455
Total		**P 1,765,927,445**	**P 1,500,732,166**

**Based on the schedule of equity investment as at December 31, 2021*
***Subject for consolidation*

4.5 Although there are only five subsidiaries with existing value, all these entities are still subject for consolidation until their registration with the Securities and Exchange Commission (SEC) is cancelled and has undergone the process of liquidation. Consolidation is necessary to eliminate inter-company transactions in order to present a more accurate representation of the entities' financial position.

4.6 As disclosed in Note 3.8 to the FS, investments in subsidiaries and associates are presented at carrying amounts equivalent to the percentage of the entities' net assets or equity since the AFPRSBS prepared separate FS from its subsidiaries and associates. The AFPRSBS recognized, in its statements of comprehensive income, its equity shares in the net earnings or losses of subsidiaries and associates since the dates of acquisition. Dividends received were recognized in profit or loss section of the separate FS of the AFPRSBS when the right to receive the dividend has been established.

4.7 In the same note, it was also mentioned that consolidated FS were not prepared as required by PFRS since majority of the audited FS are no longer available as most of the AFPRSBS' subsidiaries were either closed or have ceased operations.

4.8 Further, according to Management, the preparation of annual FS of the non-operational subsidiaries and affiliates/controlled entities is impractical at this point because of the non-availability of the relevant documents and the manpower to conduct such endeavor considering the mandate of MO No. 90, directing the abolition of the AFPRSBS pursuant to EO No. 590 (s. 2006) and EO No. 590-A (s. 2007), mandating the deactivation of AFPRSBS, including its winding down and liquidation. Furthermore, the System may incur additional costs which may affect the ongoing refund of contributions to the members of AFPRSBS.

4.9 However, the above conditions are not among those provided under Paragraph 4 of PFRS 10 that will qualify the AFPRSBS for exemption from presenting the line-by-line consolidation of its FS with the FS of its subsidiaries.

4.10 Moreover, the preparation of Statements of Affairs and Statement of Realization and Liquidation of the non-operating/closed subsidiaries must be pursued based on the principles of accountability and transparency in the management of government funds until their registration with the SEC is cancelled and have undergone the process of liquidation. Likewise, the dissolution of the corporate life and liquidation of the assets of these non-operating/closed subsidiaries must be given consideration as part of the directive of MO No. 90.

4.11 Since the assets, liabilities, and results of operations of its active subsidiaries were not consolidated in the FS of AFPRSBS, the parent and subsidiary reciprocal account was not eliminated. Accordingly, the FS of the AFPRSBS do not present a true and reliable representation of its financial condition and the results of its operations as at and for the year ended December 31, 2021.

4.12 **We reiterated our PYs 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.

4.13 The Management commented that the ATEI has already ceased its operations in December 31, 2021. With this, the AFPRSBS retains its position for non-consolidation of its FS.

4.14 While the Standard requires the consolidation of the FS and eliminate reciprocal accounts, the AFPRSBS has difficulty undertaking the elimination in the absence of the latest FS, trial balance, and corresponding FS schedules of some of the subsidiaries where the reciprocal accounts can be traced.

4.15 As a rejoinder on the non-consolidation of ATEI's FS because it has already ceased operations in December 31, 2021, we noted that the ATEI was able to prepare its CY 2021 FS. Hence, AFPRSBS is still required to consolidate its FSs with those of the ATEI and MDC which are still active and were able to prepare their CY 2021 FS.

5. 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.

5.1 This is a reiteration of the PYs audit observation as embodied in the CY 2020 AAR due to non-implementation of the recommendations by Management.

5.2 Paragraph 15 of PAS 1 – Fair Presentation and compliance with PFRS provides that:

> *Financial statements shall present fairly the financial position, financial performance and cash flows of an entity. Fair presentation requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, revenue and expenses set out in the Conceptual Framework for Financial Reporting.*

5.3 Furthermore, COA Circular No. 2020-006 dated January 31, 2020, provides:

> *Item 6.3 The Property and Accounting Units shall undertake collaborative procedures to ensure that **all PPEs included in the RPCPPE are duly recorded** in their respective records and that the Property Cards (PCs) maintained by the Property Unit and the PPELCS maintained by the Accounting Unit are reconciled. The reconciliation shall be completed within ten (10) days from rendition of the RPCPPE by the Inventory Committee.* (Emphasis supplied)

Unreconciled difference between the GL and RPCPPE in the amount of P55.671 million

5.4 The AFPRSBS' AD maintains the balances of the PE account based on the data or information provided in the SLs that is traceable in the IFMS. Inquiry with Management revealed that a portion of the amount reported in the GL was extracted from the said SL in IFMS as at December 31, 2012, as the reckoning date of settling the account. Moreover, the transactions for the succeeding periods were manually recorded or maintained. As part of the operations of the AFPRSBS, the balances of the respective PE accounts were continuously reconciled by the concerned departments.

5.5 Review of the PE account and comparison made between the RPCPPE and book balances as at December 31, 2021, disclosed a variance of P55.671 million which decreased by 30 per cent or P23.977 million from the CY 2020 variance of P79.648 million. The details of the variances are presented in Table 9.

Table 9 – Total Variance between the RPCPPE and GL balances of PE sub-accounts
CY 2021

Account name	Per GL	Per RPCPPE	Variance
Office machineries and equipment	P 140,090,130	P 88,549,650	P 51,540,480
Buildings/structures	91,429,579	91,429,579	0
Office furniture and fixtures	9,538,206	7,833,449	1,704,757
Transportation/motor vehicles	8,005,518	5,579,500	2,426,018
	P 249,063,433	**P 193,392,178**	**P 55,671,255**

5.6 Management mentioned that one of the reasons for the discrepancies is due to the disposals of unserviceable properties in PYs that were not dropped from the books and the use of the salvage value of P10 in various items of the accounts Office machineries and equipment and Office furniture and fixtures. The Audit Team was informed during the audit that the target date for the completion of the reconciliation is in CY 2021. However, to date, the requested copy of the reconciliation report is not yet submitted to the Audit Team.

5.7 It should be emphasized that the importance of reconciliation is to ensure that the PE in the accounting records exist and that all PE in the RPCPPE are recorded in the books of accounts.

5.8 However, it is impracticable for the Management to reconcile the discrepancies between the records in the books and the RPCPPE, the Management may refer to COA Circular No. 2020-006 which prescribes the guidelines and procedures on inventory taking, recognition of those found at station and disposition for non-existing/missing PE items for the one-time cleansing of PE accounts of government agencies. The procedures, if undertaken, should come up with a reliable amount of the PPE account in the FS.

5.9 Based on the guidelines in the said COA Circular, non-existing/missing PEs without available record of accountability shall be derecognized from the books of accounts only upon the grant of specific authority by the COA. Likewise, the Management must identify in the discrepancies noted above which among those properties should be included in the list of non-existing/missing PEs to be prepared. It should be noted that the said Circular is issued only for one-time cleansing of PE account balances.

5.10 In addition, the Audit Team noted that the AFPRSBS does not maintain PPE Ledger Cards (PPELCs) which shall be kept for each PE item, and where the data on description, acquisition, transfer, disposal, and other information about the PE must be recorded.

Unreconciled differences between the GL and SL in the amount of P7.479 million

5.11 The Audit Team also noted that the GL balances of the PE account totaling P249.063 million differed by P7.479 million from the SL balances of P256.543 million. The details of the discrepancies are presented in Table 10.

Table 10 – Discrepancies between GL and SL balances of PE
As at December 31, 2021

Account name	Per GL (At cost)	Per SL (IFMS)	Difference
Office machineries and equipment	P 140,090,130	P 145,430,060	P (5,339,930)
Buildings/structures	91,429,579	91,429,579	0
Office furniture and fixtures	9,538,206	13,911,446	(4,373,240)
Transportation/motor vehicles	8,005,518	5,771,690	2,233,828
	P 249,063,433	**P 256,542,775**	**P (7,479,342)**

5.12 Due to the variances between the RPCPPE and the accounting records, and the unreconciled balances of the GL and SL balances of the PE accounts amounting to P55.671 million and P7.479 million, respectively, both as at December 31, 2021, the reliability, and the fair presentation of the PE accounts in the FS with carrying value of P33.688 million could not be ascertained.

5.13 **We reiterated our PYs recommendations that Management require the:**

a. AD and the General Services Department (GSD) 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; and

b.2 Maintain PPELCs to record the data on acquisition, description, custody, estimated useful life, depreciation, impairment loss, disposal, and other information about the PE items.

5.14 **We further recommended and Management agreed to:**

a. 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

b. Effect the necessary adjusting entries, if any, to reflect the correct balance of the PE account in the FS.

5.15 The AD and GSD have been continuously reconciling the PE account. Several coordination meetings were made to identify the discrepancies noted by the Audit Team between the AD's record and the result of the PE physical count. The concerned units will endeavor to trace/reconcile the remaining P55.671 million discrepancy within the year 2022.

5.16 Further, the AD will continue to trace/reconcile the remaining P7.479 million discrepancy between the SLs and GL balances and the same will be submitted to the Audit Team once schedules are updated and reconciled.

B. Others

6. Regular expenses for fuel and oil amounting to P0.798 million were paid through Petty Cash Fund (PCF) and procurement was not thru public bidding or any of the alternative modes of procurement, contrary to the guidelines set forth in Republic Act (RA) No. 9184 and its 2016 Revised Implementing Rules and Regulation (RIRR).

6.1 RA No. 9184 provides that as a rule, the procuring entities shall adopt public bidding as the general mode of procurement and shall ensure that the procurement program allows sufficient lead time for such public bidding. Alternative methods shall be resorted to only in the highly exceptional cases provided for in the same Act. It further provides under Section 52 that Shopping, one of the alternative methods of procurement, is a method whereby the procuring entity simply requests for the submission of price quotations for readily available off-the-shelf goods or ordinary/regular equipment to be procured directly from suppliers of known qualifications. This method of procurement shall be employed only in any of the following cases:

a. When there is an unforeseen contingency requiring the immediate purchase: Provided, however, that the amount shall not exceed P1,000,000 prescribed in Annex "H" of this IRR; or

b. Procurement of ordinary or regular office supplies and equipment not available in the Procurement Service involving an amount not exceeding P1,000,000 (Annex "H" Threshold Shopping and Small Value Procurement, IRR RA No. 9184): Provided, however, that the procurement does not result in splitting of contracts, as provided in Section 54.1 of this IRR-A: Provided, further, that at least three (3) price quotations from bona fide suppliers be obtained.

6.2 For CY 2021, the AFPRSBS incurred expenses for fuel and oil, which were used in its operations, amounting to P0.798 million. However, the Audit Team noted that procurements of such goods were made through PCF or Revolving Fund of Corporate Services Group (CSG) as summarized in Table 11.

Table 11 – Summary of Gasoline Procurements Paid Through Petty Cash Fund
For CY 2021

	Replenishment of CSG's revolving fund	Amount
1	As at January 19, 2021	P 42,607
2	As at February 4, 2021	38,003
3	As at March 2 and18, 2021	86,421
4	As at April 22, 2021	47,072
5	As at May 6, 26, and 27, 2021	80,277
6	As at June 2, 8, and 22, 2021	82,621
7	As at July 6 and 27, 2021	96,473
8	As at August 24, 2021	25,000
9	As at October 4 and 20, 2021	100,696
10	As at November 8, 11, 23, and 26, 2021	120,412
11	As at December 9, 14, and 21, 2021	78,212
	Total	**P 797,794**

6.3 Moreover, the Audit Team also noted that the AFPRSBS did not conduct public bidding nor resort to any of the alternative modes of procurements in the procurement of fuel and oil as these transactions were not supported with the following documents: a) Purchase Request; b) Request for Quotations; c) Abstract of Quotations d) Purchase Orders; e) Delivery Receipts; e) Inspection and Acceptance Report; and f) Other relevant documentary requirements. Hence, an indication that the AFPRSBS did not actually obtain quotations from at least three (3) bona fide suppliers before the purchase of gasoline was made. Likewise, it was observed that the Management did not include in its Annual Procurement Plan for CY 2021 the procurement of fuel and oil. Rather, these were made on a "piecemeal" or "as the need arises" basis through PCF vouchers or disbursements.

6.4 The above conditions violated the existing rules and regulations of RA No. 9184 as reimbursement and piecemeal procurement through PCF are not included in the alternative methods of procurement. Further, these are regular expenses and should not be paid through PCF. Consequently, these transactions may constitute an irregular expenditure, as these were incurred without adhering to established rules and regulations in relation thereto.

6.5 **We recommended and Management agreed to:**

a. Discontinue the procurement of fuel and oil through Petty Cash Fund; and

b. Strictly observe the proper procedures and appropriate mode of procurement in the purchase of gasoline as prescribed in RA No. 9184 and its RIRR.

7. Contributions withheld from AFPRSBS' employees representing SSS/PhilHealth and HDMF in the aggregate amount of P493,335 and P90,996, respectively, as at December 31, 2021, were not remitted to the respective agencies, thus member beneficiaries may be deprived of the social security benefits, affordable medical care, housing benefits and other privileges that could be derived therefrom.

7.1 Rule 36 of the IRR of RA No. 11199, otherwise known as the Social Security Act of 2018, provides that:

> *Section 1. REMITTANCE OF CONTRIBUTIONS – The contributions imposed under the Social Security Act of 2018 shall be remitted to the SSS within the first ten (10) days of each calendar month following the month for which they are applicable or within such time as the Commission may prescribe.*
>
> *Section 2. TWO PER CENT (2%) PENALTY PER MONTH - Every employer required to deduct and to remit the contribution shall be liable for their payment. If any contribution is not paid to the SSS as prescribed, the delinquent employer shall pay besides the contribution a penalty thereon of two per cent (2%) per month from the date the contribution falls due until paid.*

7.2 Section 11 of RA No. 7875 or *National Health Insurance Act of 2013* also states that:

> *Xx. Remittance of contribution shall be mandatory for all members. It shall be made to Philhealth offices or any of the accredited collecting agents. Failure to timely remit the appropriate premium contribution shall be subject to interest and penalties as prescribed by the Corporation without prejudice to other applicable penalties herein provided*

7.3 Section 3 of Rule VII of the RA No. 9679 or the HDMF Law of 2009 provides the following:

> *All employees shall remit to the Fund their contributions and the contributions of their covered employees as well as the latter's loan amortizations or payments to the Fund as provided for under Section 2 of this Rule, when applicable, within fifteen (15) days from the date the same were collected xxx.*
>
> *Every employer required to set aside and remit such contributions as prescribed under RA No. 9679 and these Rules shall be liable for their payment, and non-payment thereof shall further subject the employer to a penalty of three per cent (3%) per month of the amounts payable from the date the contributions fall due until paid.*

7.4 Review of the respective payable accounts for the payment of employee's mandatory contributions to SSS, PhilHealth and HDMF disclosed an unremitted balance of P584,332 representing unreconciled/unremitted premiums and/or contributions as at December 31, 2021, as shown in Table 12.

Table 12 - Unremitted Amounts Due to SSS, PhilHealth and HDMF
As at December 31, 2021

Account name	Balance as at January 1, 2021	Transactions amounts Withholdings	Remittances	Balance as at December 31, 2021
SSS & Medicare Payable	P 530,584	P 1,710,077	P 1,747,325	P 493,336
Pag-IBIG Fund Payable	116,596	281,300	306,900	90,996
Total	**P 647,180**	**P 1,991,377**	**P 2,054,225**	**P 584,332**

7.5 Our review of the transactions during the year disclosed the following:

a. Unremitted premiums and/or contributions to SSS and PhilHealth in the aggregate amount of P89,437.50 withheld in December 2021 were remitted in January 2022;

b. Unremitted PhilHealth contributions in the amount of P4,839.56 was due to lack of PhilHealth number of a particular personnel. It was also noted that there was an unremitted amount of P832.50 withheld from a deceased employee during the year;

c. A total of P281,300 premiums and/or contributions due to HDMF was withheld and remitted as at December 31, 2021. The balance of P90,996.23 constitute an unreconciled/unremitted amount due to HDMF; and

d. Upon clarification with the AD and based on the submitted schedules, the Audit Team noted that outstanding balance due to SSS, PhilHealth and HDMF in the aggregate amount of P584,332 is due to unremitted contributions incurred in the PYs which remained unreconciled. Transactions for the CY 2021 were properly withheld and remitted to respective agencies.

7.6 Foregoing considered, it is to be noted that since the premiums and/or contributions of the employees are considered mandatory, it should be remitted immediately on or before its due date. Any outstanding amount at year end is usually settled and remitted in January of the subsequent year. However, in the case of AFPRSBS, the amount of P584,332 remained unreconciled/unremitted as at December 31, 2021, which may deprive the member beneficiaries from the availment of the social security benefits, affordable medical care, housing benefits and other privileges that could be derived therefrom. In any case, AFPRSBS must ensure the security and protect the interest of its employees.

7.7 **We recommended and Management agreed to:**

a. Trace and reconcile the balance of the aforesaid accounts to determine the unremitted contributions in PYs;

b. **Immediately remit the respective unremitted contributions to SSS, PhilHealth and HDMF; and**

c. **Ensure that amounts withheld from employees' salaries are promptly remitted to SSS, PhilHealth and HDMF.**

8. **Taxes withheld from employees' compensation, brokers, suppliers, and contractors/consultants in the amount of P2.091 million, P0.974 million, P248,331 and P149,833, respectively, remained unremitted, contrary to Bureau of Internal Revenue (BIR) Revenue Memorandum Circular (RMC) No. 23-2012. Also, undue delay in the remittance of taxes resulted in the accumulation of the Due to BIR account, which may subject the AFPRSBS and the responsible officials to penalties and surcharges. Consequently, the goal of the national government (NG) to promptly collect taxes which is necessary for the allocation of funds for its programs may be affected.**

8.1 BIR RMC No. 23-2012 dated May 8, 2012, reiterates the responsibilities of all government withholding agents, particularly their accountable officers, for the correct withholding of taxes including the penalties that will be imposed for violations thereof.

8.2 Item A (b) of the said RMC enumerates the following government officials/employees of Government Owned or Controlled Corporations (GOCCs) who are personally charged with the duty to correctly withhold taxes and timely remit the same:

a. Head of Office (Officials holding highest position); and
b. Chief Accountant/s or other person/s holding similar positions officially designated as such by the head of office.

8.3 In addition, the following applicable penalties are also enumerated in the same Circular as follows:

Violation	Applicable penalty/ additions to the tax	Legal basis
1. Non-remittance of taxes withheld	a. Collection of the amount withheld but not remitted	Section 251, Tax Code
	b. 20% interest	Section 249, Tax Code
2. Late remittance	a. 25% Surcharges	Section 248, Tax Code
	b. 20% Interest	Section 249, Tax Code

8.4 For CY 2021, review, and verification of AFPRSBS' compliance on withholding of taxes from employees' compensation, brokers, suppliers, and contractors/consultants disclosed that out of the balance of taxes withheld of P4.424 million, the amount of P3.463 million remained unremitted as at December 31, 2021, as presented in Table 13.

Table 13- Unremitted Withholding Taxes
As at December 31, 2021

Account name	Balance as at January 1, 2021	Transaction amounts		Balance as at December 31, 2021	Amount remitted in January 2022	Unremitted amount of withholding tax
		Withholdings	Remittances			
Employees withholding tax payable	P2,911,998	P 3,785,160	P 4,385,721	P 2,311,437	P 220,818	P 2,090,619
Brokers withholding tax payable	1,160,570	861,669	637,731	1,384,508	410,130	974,378
VAT withholding tax, 5%/6%	443,766	1,341,505	1,272,937	512,334	264,003	248,331
Contractors/consultants withholding tax payable	255,383	738,947	779,022	215,309	65,476	149,833
Total	**P4,771,717**	**P 6,727,281**	**P 7,075,411**	**P 4,423,588**	**P 960,427**	**P 3,463,161**

8.5 Based on the schedule of withholding and remittances of taxes submitted by the AD, the transactions for the current year are constantly monitored and religiously remitted on or before they fall due. However, the Audit Team noted that withheld taxes amounting to P3.463 million remain unremitted as at December 31, 2021.

8.6 The Audit Team was informed by the AD that the outstanding balances of taxes payable accounts, which can be attributed to PYs transactions, are still subject for reconciliation.

8.7 The undue delay in the remittance of taxes resulted in the accumulation of the Due to BIR account, thus, may subject the AFPRSBS and the responsible officials to penalties and surcharges.

8.8 Aside from possible penalties that the AFPRSBS may incur due to the delayed/non-remittances, the late remittance of taxes could contribute to the non-attainment of the goal of the NG to promptly collect taxes necessary for the allocation of funds for its programs.

8.9 **We recommended and Management agreed to:**

a. Prioritize the reconciliation of the balances and transactions pertaining to the subject accounts due to the Bureau of Internal Revenue (BIR); and

b. Immediately remit to the BIR all the taxes withheld in compliance with RMC No. 23-2012 dated May 8, 2012, which is consistent with the pertinent provisions of RA No. 8424.

9. Thirteen (13) procurement contracts amounting to P6.942 million awarded by AFPRSBS in CY 2021 (a) were not submitted within the reglementary period of five working days (WDs) from the execution of the contract, contrary to Section 3.1.1 of COA Circular No. 2009-001; and (b) not completely documented, as required under and Section 4.6 of PD No. 1445. Likewise, the procurement of the said contracts is not compliant with the 2016 RIRR of RA No. 9184.

9.1 Section 3.1.1 of the COA Circular No. 2009-001 dated February 12, 2009, provides that:

> ***Within five (5) working days from the execution of a contract*** *by the Government or any of its subdivisions, agencies or instrumentalities, including government-owned and controlled corporations and their subsidiaries, a copy of said contract and each of all the documents forming part thereof by reference or incorporation shall be furnished to the Auditor of the agency concerned. In case of agencies audited on an engagement basis, submission of a copy of the contract and its supporting documents shall be to the Auditor of the mother agency or parent company, as the case may be.* (Emphasis supplied)

Non-submission of contracts within the reglementary period of five WDs from the execution of the contract

9.2 For CY 2021, the AFPRSBS awarded 13 contracts for the procurement of goods and services aggregating P6.942 million to the winning bidders. However, these contracts were not submitted to the Audit Team for review within the reglementary period of five WDs from the execution of the contract. There was an average delay on the submission of contracts of 137 WDs ranged from 16 to 260 WDs as presented in Table 14:

Table 14 – Summary of Contracts Submitted
For CY 2021

No.	Particulars	Contract price	Date of execution of the contract	Date submitted	No. of days delayed
1	Janitorial, Maintenance and Messengerial Service	P 1,849,680	2/22/2021	6/8/2021	67
2	Eighteen (18) Units Laptop Computers	940,464	7/21/2021	2/17/2022	171
3	Construction of Basketball & Tennis Court at Villa Segovia	962,406	No data	Not submitted	N/A
4	Repair of Drainage Lines and Manholes at Villa Segovia	786,066	No data	Not submitted	N/A
5	Rehabilitation of Water Tanks and its Auxiliary Structures at Villa Segovia	743,176	7/27/2021	11/15/2021	70
6	Appraisal Services of AFPRSBS Various Real Estate Properties	422,000	5/17/2021	2/22/2022	219
7	Maintenance & Support Service Agreement for Firewall Appliance - FORTIGATE 300D	330,000	6/21/2021	2/17/2022	193
8	Survey for the Relocation/Monumenting of Various RRE Lots	290,000	7/22/2021	2/17/2022	171
9	Joint Relocation Survey of SLDC Lots 1769, 1770A & 22148, Sta. Rosa	180,000	7/22/2021	2/17/2022	171
10	Total Endpoint Security for One (1) Year Subscription	153,174	2/9/2021	3/11/2021	16
11	Valuation of AFPRSBS Shares in Enchanted Kingdom (EKHI)	140,000	2/4/2021	2/17/2022	260

(forward)

No.	Particulars	Contract price	Date of execution of the contract	Date submitted	No. of days delayed
12	Supply of Purified Drinking Water for AFPRSBS	99,990	12/28/2021	2/17/2022	29
13	Pest and Termite Control Services for AFPRSBS	45,000	Undated	10/1/2021	N/A
	Total	**P 6,941,956**			**137 Ave. WDs**

9.3 Management submitted the copies of the approved/notarized contracts to the Audit Team only during the audit and no contracts were submitted within five working days from their execution, thus timely review, and evaluation of the same were not undertaken.

9.4 Foregoing considered, the leniency in the implementation of COA Circular No. 2009-001 resulted in the delay of the review and examination of the contracts and its supporting documents.

9.5 **We recommended and Management agreed to strictly comply with the provision of COA Circular No. 2009-001 for the prompt submission of contracts and their supporting documents so that the auditorial, legal and technical reviews can be conducted timely.**

Incomplete documents required under Section 3.1.1 of COA Circular No. 2009-001 vis-a-vis 2016 RIRR of RA 9184

9.6 Audit revealed that most of the submitted procurement contracts are not completely documented, while others show various deficiencies as presented below:

a. The supporting documents attached including copies of the contracts are not duly authenticated contrary to Section 25.3(c) of the 2016 RIRR of RA No. 9184;

b. Two contracts with Approved Budget for the Contract (ABC) above P50,000 are not supported with the Omnibus Sworn Statement, which is one of the documentary requirements for small value procurements;

c. Approval/disapproval of the Head of the Procuring Entity (HoPE) on the Bids and Awards Committee (BAC) Recommendation is not attached, hence, compliance with Section 37.1.2 of the 2016 RIRR of RA No. 9184 cannot be ascertained;

d. The date of Notice of Award (NOA) of two contracts are earlier than the approval by the HoPE on the BAC Recommendation to award the contract contrary to Section 37.1.2. of the 2016 RIRR of RA No. 9184;

e. The contract for the pest and termite control services has no date of execution nor date of notarization; and

f. Contracts have no attached proof of postings of the NOA, Contract and Notice to Proceed (NTP) in the Philippine Government Electronic

Procurement System (PhilGEPS) and AFPRSBS website contrary to Section 37.4.2 of the 2016 RIRR of RA No. 9184.

9.7 In view of the foregoing, the absence of the supporting documents required under COA Circular No. 2009-001 vis-à-vis the 2016 RIRR of RA No. 9184 renders the underlying transactions doubtful which may result in the risk/exposure of the concerned personnel to administrative sanctions provided by law.

9.8 **We recommended that Management:**

a. Submit the signed contracts and supporting documents for the procurement of repair of drainage lines and manholes, and construction of basketball and tennis court; and

b. Strictly comply with the requirements of Section 4.6 of PD No.1445 in relation to COA Circular No. 2009-001 and the provisions of the 2016 RIRR of RA No. 9184 in succeeding procurements.

9.9 The Management commented that the BAC and its Secretariat took note of the COA observation and will comply with the requested documentation for future contracts.

9.10 On the submission of the required lacking supporting documents noted by the Audit Team, the Management has already submitted the signed contracts and supporting documents of the procurement of repair of drainage lines and manholes, and construction of basketball and tennis court.

9.11 As a rejoinder, we would like to emphasize that the submitted signed contracts for the procurement of repair of drainage lines and manholes, and construction of basketball and tennis court dated February 12, 2020 is different from those in the list of awarded contracts submitted by the Management as at December 31, 2021 which the Audit Team used as basis in the observations. The date of the NOA in the said list is December 18, 2021, thus, the contracts to be submitted should be dated later than the date of the NOA.

10. The AFPRSBS' copies of the annual Gender and Development (GAD) Plan and Budget (GPB) and GAD Accomplishment Report (AR) for CY 2021 were not submitted to the COA Audit Team within the reglementary period as required under Section 1.2.5.3 of Philippine Commission on Women (PCW) Memorandum Circular (MC) No. 2020-05 and COA Circular No. 2014-001, thus prompt review of the GAD accomplishments vis-à-vis targeted activities was not conducted.

10.1 Section 1.2.5.3 of PCW MC No. 2020-05 dated September 11, 2020, provides:

> ***PCW-endorsed GPBs shall be authenticated by the Gender Mainstreaming Monitoring System (GMMS)*** *with a QR code.*

Agencies shall print the PCW-endorsed GPB for signature of their agency head, and disseminate the signed copy to their concerned units. ***Agencies*** *shall* ***also furnish their respective Commission on Audit (COA) Audit Team a copy of their signed GPB within 5 working days from its endorsement.*** (Emphasis supplied)

10.2 Moreover, COA Circular No. 2014-001 dated March 18, 2014, states the responsibility of the audited agency to:

Submit a copy of the Annual GAD Plan and Budget (GPB) to the COA Audit Team assigned to the agency within (5) working days from the receipt of the approved plan from the PCW or their mother or central offices as the case maybe. Likewise, a copy of the corresponding ***Accomplishment Report*** *shall be* ***furnished the Audit Team within five (5) working days from the end of January of the preceding year.*** (Emphasis supplied)

10.3 On March 7, 2022, upon the request of the COA Audit Team, the AFPRSBS submitted its Annual GPB for CY 2021 through electronic mail. However, the submitted GPB was not the authenticated PCW-endorsed with QR code from the GMMS.

10.4 The Management disclosed that they have uploaded its GPB for CY 2021 in the PCW-GMMS online in November 2020, however, the PCW requested for an enhancement since it was noted that the GPB is less than five per cent of the required GAD Budget (Personnel Services & Operating Budget). The enhanced GPB for CY 2021 was resubmitted in March 2021 and was acknowledged for endorsement status by the reviewer. After the submission, the AFPRSBS did not receive any communication/notification/confirmation of PCW's endorsement or approval of the GPB for CY 2021. It was only on March 7, 2022 that the Management received a notification through the PCW-GMMS online informing that the submitted GPB for CY 2021 was not endorsed by PCW because the GAD Budget is more than the AFPRSBS' total Personnel Services and Operating Budget. Upon checking/validation, the GAD Committee discovered that there was an error in the uploading of cost.

10.5 It should be emphasized that the required GPB to be submitted by the agencies to the Audit Team is the approved or authenticated PCW-endorsed GPB.

10.6 Management also did not submit to the Audit Team a copy of the corresponding GAD AR on its due date which is on every 5th working day of February.

10.7 As a result, prompt review of these documents was not undertaken, thus, deficiencies that may be noted in the process cannot be communicated to Management promptly.

10.8 **We recommended and Management agreed to:**

a. Coordinate with the PCW on the review and approval of the GPB to be able to secure a copy of the authenticated PCW-endorsed GPB and submit the same to the COA Audit Team for audit; and

b. Adhere to COA Circular No. 2014-001 on the timely submission of the GPB and GAD AR to the COA Audit Team.

11. The AFPRSBS' liquidation and winding down may be prolonged as planned due to the pending transfer of the 1,365 TCTs in the name of AFPRSBS despite acquiring ownership over the assets, contrary to MO No. 90, s. 2016, thus, affecting/delaying the prompt disposal of its properties at the highest recoverable value to raise funds as part of their liquidation plan.

11.1 This is a reiteration of PYs audit observation as embodied in the CY 2018 and CY 2020 AARs due to the partial implementation of the audit recommendations by Management.

11.2 MO No. 90 dated April 8, 2016, directed the abolition of the AFPRSBS, privatization of its subsidiaries and other purposes.

11.3 Likewise, under Section 3 of the same MO, the AFPRSBS Board shall act as BOL, subject to oversight by the Governance Commission and is hereby directed to:

Xxx

d. 4) Refund of AFP-RSBS member's contributions as they fall due;

Xxx

g. Pursue activities necessary to perfect the ownership of its real estate assets such as, but not limited to, Land Use Conversion, Comprehensive Agrarian Reform Program (CARP) Exemption, Reconveyance, Segregation, and Transfer of TCTs;

Xxx

11.4 Land title refers to the legal document conveying ownership to a property. It is the evidence of right of the owner or the extent of his interest, and by which means he can maintain, control and as a rule assert right to exclusive possession and enjoyment of the property. To the purchaser, the only legal truth upon which he must rely is that the land is registered in the name of the seller and that the title under the law is absolute and indefeasible (Registration of Land Titles and Deeds, Narciso Pena, 1982 edition).

11.5 As at December 31, 2021, the Audit Team noted that there are 1,365 TCTs of properties acquired by AFPRSBS with a total amount of P988.855 million that are still in the names of developers or owners as presented in Table 15.

Table 15 – Schedule of TCTs Not Yet Transferred in the Name of AFPRSBS
As at December 31, 2021

Project name	No. of TCTs	Area	Registered owner	Amount
Benjamin 9, Pampanga	663	480,695	Benjamin Const. Equipment, Inc.	P 258,581,705
Eastridge Golf Course	60	38,794	Antipolo Properties, Inc.	39,160,035
and Subdivision I	47	35,821	First Countertrade Inc.	36,158,984
North Matrixville Subdivision	3	273	Name of individuals	128,973
Riviera Project-Residential	1	38,228	Riviera Golf Club, Inc.	34,072,258
Riviera Project-Commercial	4	99,322	Riviera Golf Club, Inc.	113,667,590
SLSS- Phase I	3	239	SLDC/AFPRSBS	242,696
Villa Caceres	69	86,221	AFPRSBS & Moldex Realty, Inc.	270,880,204
Sta. Rosa Homes Subdivision	3	1,005	21st Century Resources and Development Corporation	3,106,066
Village East III Subdivision	440	234,959	Antipolo Properties Inc.	119,059,022
LANDBANKING				
Hermosa, Bataan	2	62,907	Name of individuals	4,252,023
Calamba (inner lots)	7	71,194	Name of individuals	6,383,234
Eastridge Golf Course and Subdivision II	63	492,546	Name of individuals	103,162,534
Total	**1,365**			**P 988,855,324**

11.6 Some of the reasons for the delay in the consolidation of TCTs in favor of the AFPRSBS are as follows:

a. legal issues on ownership;
b. deficiencies in the documentation;
c. encumbrances on the titles; and
d. Deeds of Absolute Sale not notarized.

11.7 It was also noted that Management's review of the said real estate properties to identify the reasons/causes for its failure to transfer the titles in the name of the AFPRSBS is still ongoing, hence, remained unresolved including the legal issues on ownership. The deficiencies in the documentation and the presence of unresolved encumbrances on the titles have further delayed the process of consolidation in favor of the AFPRSBS. In addition, it was also noted that the acquired lots are still registered under the names of the previous owners since they are supported by an un-notarized Deeds of Absolute Sale (DAS).

11.8 The Management explained that they are still in the process of tracking down and reviewing all the related documents to accurately reconcile the variances of individual assets/projects, record the assets, and transfer the titles under the name of AFPRSBS.

11.9 Further inquiry with the Management revealed that their application for the order of conversion from agriculture to residential/commercial classification of the lots/properties and to transfer the title for some properties had been rejected by the Department of Environment and Natural Resources (DENR) since the AFPRSBS is already under liquidation. Nevertheless, the Management said that they will continue to apply until they have secured the necessary approval.

11.10 The Audit Team has already requested for the copies of the communications between the Management and the officials of the DAR and DENR. However, to date, the Management has not yet provided the said documents for evaluation.

11.11 Moreover, as provided in the AFPRSBS's winding down and liquidation plan, the objective is to raise funds of P16 billion to be able to refund all the members' contributions to members. One of the strategies pursued by the AFPRSBS to achieve the objective is to dispose all assets, including real estate, at the highest recoverable value. On November 6, 2017, the Governance Commission for GOCCs approved the divestment of equity shares, such as MDC and SUMSI and real estate properties, such as, lots 6B/6C/6D/6E at Aseana City (Roxas Boulevard, Paranaque City); lots 1979-I and 1981-A (Sta. Rosa City, Laguna); Calubcob property (Silang City, Cavite); and Phase 2 of Green Meadows Iloilo Project. All the Real Estate Projects, except for the Calubcob property, were successfully bid out in CY 2018.

11.12 Further, the AFPRSBS' BOL approved the award of sale of the properties with a total contract price of P6.396 billion on March 22, 2018, to the highest complying bidders. By the end of 2018, the AFPRSBS has sold a total of 171 retail real estate inventories which resulted in the total amount of P203.628 million sales net of discount. In CY 2020, the AFPRSBS also successfully divested its equity shares in SUMSI to PAMANA Water Corporation for P151.780 million, thereby, raising additional funds available for refund to members.

11.13 The foregoing observations on the pending transfer of the 1,365 TCTs continue to hinder and/or delay the consolidation of the said assets, thus, adversely affecting AFPRSBS' interests over these assets and exposing the same to the risk of fraud, dispute, and encroachment by illegal settlers. Ultimately, the abolition of the AFPRSBS as directed by the President of the Philippines under MO No. 90, s. 2016, may not be fully achieved and the payment for retirement benefits of military personnel may not be fully funded.

11.14 Lastly, the Audit Team emphasized that the reconciliation and correction of records of the inventory of real estate will convert the AFPRSBS' financial reports to a more useful and relevant financial information in order to determine whether the assets of the AFPRSBS will be sufficient to cover all its existing payables at the time of its liquidation.

11.15 **We reiterated our PYs recommendations with modifications, that Management:**

a. **Require the department/division concerned to expedite the consolidation process of the titles of the various properties in favor of the AFPRSBS to safeguard its ownership and facilitate its disposal in pursuance to its winding down and liquidation plan; and**

b. **Make a representation and appeal with the DAR/DENR to consider the continuous conversion of the remaining acquired agricultural lands until such time that the issues on the TCTs are properly addressed to facilitate the land transfer to AFPRSBS.**

11.16 The Management commented that the System's liquidation and winding down plan may be prolonged as planned due to the non-transfer of the 1,365 TCTs in the name of AFPRSBS despite acquiring ownership over the assets contrary to MO No. 90 dated April 8, 2016, thus, affecting/ delaying the prompt disposal of its properties at the highest recoverable value and to raise funds as part of their liquidation plan. Nevertheless, it is continuously working on the transfer of titles of the System's properties to its name.

11.17 The System will make representation and appeal with the DAR/DENR to consider the continuous conversion of the remaining acquired agricultural lands of the System.

11.18 As a rejoinder, the Audit Team will check on the progress of the Management's efforts to transfer the titles of various properties to its name to safeguard its ownership and facilitate disposal as well as its communications and appeals to the DAR/DENR for the conversion of the acquired agricultural lands.

12. Status of Suspensions, Disallowances and Charges

12.1. As at year-end, the audit suspensions and charges have no balances, while the audit disallowances amounted to P247,866,050. Details are presented in Table 16.

Table 16 – Status of Suspensions, Disallowance and Charges
As at December 31, 2021

Audit action	Beginning balance 01/01/2021	Amounts		Ending balance 12/31/2021
		Issued	Settled	
Disallowances	P 248,529,715	0	P 663,665	P 247,866,050
	P 248,529,715	**0**	P 663,665	P 247,866,050

12.2. Notice of Disallowance (ND) No. 2010-07-084(1996) on the overpriced land acquisition by the System in the amount of P250,318,200 was affirmed by the Commission Proper (CP) under COA Decision Nos. 2012-188 dated November 5, 2012. Moreover, the Motion for Reconsideration (MR) filed by the System on the COA Decisions was denied under CP En Banc Resolution dated February 27, 2015. Accordingly, Notice of Finality of Decision (NFD) and COA Order of Execution (COE) were issued.

12.3. Subsequently, the Supreme Court (SC) promulgated its Decision under G.R. No. 217948 dated January 12, 2016, on the Petition for Certiorari for the ND on the overpriced land acquisition affirming COA Decision No. 2012-188 dated November 5, 2012. The System has collected a total of P966,439 from the persons liable for the current year, however, a total of P302,774 was added back to the outstanding balance of the ND in compliance with COA Resolution No. 2021-007 dated April 30, 2021, on the suspension of the enforcement of COE, including payment by installment through salary deduction during the period of Enhanced Community Quarantine (ECQ) and Modified Enhanced Community Quarantine (MECQ). Thereby resulting in the net settlement of P663,665 and partially settling the disallowance in a cumulative amount of P3,651,656 as at December 31, 2021. The ND No. 2010-07-084(1996) has unsettled balance of P246,666,544 as at reporting date.

12.4. The details of the other disallowances that were issued in CY 2016 in the total amount of P1,169,507 million includes: (a) disallowances awaiting decision of the CP on gasoline withdrawn from AFP Commissary and Exchange Services (AFPCES) using private vehicles, granting of rice subsidy in excess of the allowable P1,500 per sack, and granting of monthly cell card subsidy to a postpaid plan holder and claims for communication allowance while on official travel amounting to P534,132, P236,656 and P27,720, respectively; (b) granting of cash gift amounting to P325,999; and (c) granting of loyalty award to two AFPRSBS employees amounting to P45,000.