



Republic of the Philippines  
**COMMISSION ON AUDIT**  
Commonwealth Ave., Quezon City

**Corporate Government Sector**  
Cluster 2 – Social Security Services and Housing

June 22, 2016

**COL. NORMAN C. LEGASPI (RET)**  
President and Chief Executive Officer  
AFP Retirement and Separation Benefits System  
424 Capinpin Avenue, Camp General Emilio Aguinaldo  
Quezon City

**Dear Sir:**

Pursuant to Section 2, Article IX-D of the Philippine Constitution and Section 43 of Presidential Decree No. 1445, otherwise known as the Government Auditing Code of the Philippines, we transmit herewith our report on the results of the audit of the accounts and operations of the AFP Retirement and Separations Benefit System (AFPRSBS) for the year ended December 31, 2015 and 2014.

The report consists of the Independent Auditor's Report, the Audited Financial Statements, the Observations and Recommendations, and the Status of Implementation of Prior Year's Audit Recommendations.

The Auditor rendered an adverse opinion on the fairness of presentation of the financial statements of the AFPRSBS for the years 2015 and 2014 in view of the overstatement of the total assets by P2.625 billion in 2015 and P2.522 billion in 2014, primarily due to: a) the non-consolidation of its financial statements and that of its subsidiaries and failure to eliminate the reciprocal accounts; b) the non-recognition of sales despite full payment of the required down payment; and c) the non-recognition and non-accrual of rental income. Consequently, as at December 31, 2015 and 2014, the liabilities were overstated and understated by P10.631 billion and P3.486 million, respectively, while the equity accounts were overstated by P13.256 billion and P2.525 billion, respectively.

For the above mentioned audit observations, which caused the issuance of an adverse opinion, we reiterated our prior years' recommendations that Management:

*For the System's investment in shares of stocks*

- a. Prepare the consolidated financial statements to include the assets, liabilities and results of operation of its subsidiaries;
- b. Eliminate all parent and subsidiary reciprocal account balances during the process of consolidation; and
- c. Prepare the Statement of Affairs and Statement of Realization and Liquidation and submit them for COA audit until all its assets are realized; all its liabilities are settled; and the concerned subsidiaries and affiliates are fully liquidated/dissolved in accordance with the pertinent rules and regulations of SEC in compliance with EO 590, as amended.

*For the Installment Contract Receivable (ICR) and Investment in Real Estate (RE) and the recognition of Buyers' Deposits (BD)*

d. Establish and maintain necessary control activities to ensure proper recording of real estate sale transactions, including but not limited to:

- Recognizing real estate sales when payments are received by Marketing Manager and other agents/brokers and the corresponding due from said Marketing Manager and agents/brokers until they are remitted to the AFPRSBS;
- Enforcing compliance by the Marketing Manager and other agents/brokers to timely report sales for proper recording and remit payments from buyers within the period specified in the Marketing Agreement including contractually agreed penalties on late remittances; and
- Performing sales cut-off tests and monthly reconciliations of sales summaries and records to discover any error in the reports submitted by the Marketing Manager/agents and brokers.

*For the non-recognition and non-accrual of Rental income*

e. Fully adopt the straight-line basis of recognizing rental income from operating leases as mandated by Philippine Accounting Standards (PAS) 17 - Leases; and

f. Produce/retrieve the details of the rental income for 2012 and 2013 and then establish the effect of the non-compliance with PAS 17 – Leases in said years on the year-end balance of Accounts Receivable – Trade, Lessees account.

We further recommended that Management:

*For the ICR and BD*

a. Stop crediting the BD accounts for monthly amortization payments by buyers and instead post the same directly to their respective ICR buyers' subsidiary ledgers ;

b. Prioritize the posting of the monthly amortizations to their respective ICR buyers' ledgers; create new ones if there are none yet. In the meantime, transfer the amount noted to a contra-ICR account to properly report the BD and ICR balances; and

c. Investigate and reconcile the negative balances noted in the BD and adjust the accounts, where warranted.

*For the Members' Contributions (MCs)*

d. Reclassify the MCs from equity account to a liability account to show the AFPRSBS' liquidity and solvency in meeting short and long-term obligations; and

e. Present the interest on MCs as part of the expenditures incurred by the AFPRSBS in the Statement of Comprehensive Income and present the adjusted income or loss.

The other audit observations together with the recommended courses of action which were discussed by the Audit Team with the concerned Management officials and staff during the exit conference conducted on March 31, 2016 are discussed in Part II of the report.



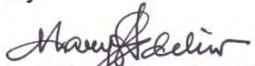
We respectfully request that the recommendations contained in Part II of the report be implemented and that this Commission be informed of the actions taken thereon by accomplishing the Agency Action Plan and Status of Implementation Form (copy attached) and returning the same to us within 60 days from the date of receipt hereof.

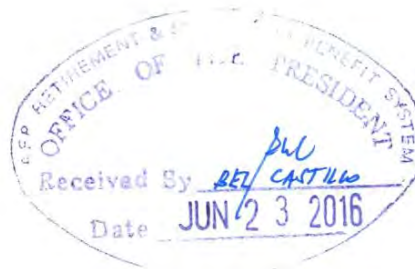
We acknowledge the support and cooperation that the Management extended to the Audit Team, thus facilitating the completion of the report.

Very truly yours,

**COMMISSION ON AUDIT**

By:

  
**MARY S. ADELINO**  
Director IV



**Copy furnished:**

The President of the Republic of the Philippines  
The Vice President  
The Speaker of the House of Representatives  
The Chairperson – Senate Finance Committee  
The Chairperson – Appropriations Committee  
The Secretary of the Department of Budget and Management  
The Governance Commission for Government Owned or Controlled Corporations  
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**The Board of Trustees**

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

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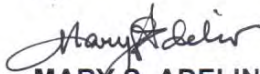
In a letter of even date, we respectfully requested the President and Chief Executive Officer of AFPRSBS that the recommendations contained in Part II of the report be implemented and that this Commission be informed of the actions taken thereon by accomplishing the Agency Action Plan and Status of Implementation Form (copy attached) and returning the same to us within 60 days from the date of receipt hereof.

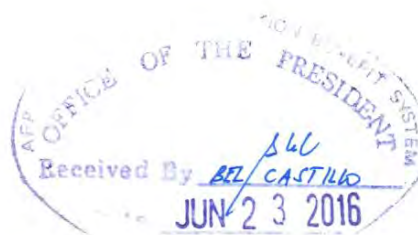
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**AFP – RETIREMENT AND SEPARATION BENEFITS SYSTEM**  
**424 Capinpin Avenue, Camp General Emilio Aguinaldo, Quezon City, Metro Manila**

**AGENCY ACTION PLAN and STATUS OF IMPLEMENTATION**  
**Audit Observations and Recommendations**  
**For the Calendar Year 2015**  
**As of \_\_\_\_\_**

Ref.	Audit Observations	Audit Recommendations	Agency Action Plan				Status of Implementation	Reason for Partial/Delay/Non-Implementation, if applicable	Action Taken/Action to be Taken
			Action Plan	Person/Dept. Responsible	Target Implementation Date				
					From	To			

Agency sign-off:

\_\_\_\_\_  
 Name and Position of Agency Officer

\_\_\_\_\_  
 Date

Note: Status of Implementation may either be (a) Fully Implemented (FI), (b) Ongoing (O), (c) Not Implemented (NI), (d) Partially Implemented (PI), or (e) Delayed (D)