



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

Corporate Government Sector
Cluster 2 – Social Security Services and Housing

May 31, 2017

The Board of Trustees

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

COA-BSIS FILE COPY

6/16/17
ATTY PO CANJO G. BORTA
Board Secretary

Gentlemen:

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 transactions of the AFP Retirement and Separations Benefit System (AFPRSBS) for the years ended December 31, 2016 and 2015.

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

The Auditor rendered an adverse opinion on the fairness of presentation of the financial statements of the AFPRSBS for the years 2016 and 2015 in view of the overstatement of the total assets by P2.474 billion in 2016 and P2.488 billion in 2015, 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-reconciliation of the property and equipment (PE) account; and (c) the negative/abnormal items in some schedules, the unposted balances to individual ledger of borrowers, and several accounts with no schedules.

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

For the 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 of those subsidiaries and affiliates that are already closed and submit them to COA for

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 the Securities and Exchange Commission.

For the Property and Equipment

- a. Require the Inventory Committee to account for and classify the items included in the Report on the Physical Count of Property, Plant and Equipment (RPCPPE) according to the category used by the Controllershship Department (CD);
- b. Require the CD to provide for the list of assets that represent the amount presented in the PE and its Allowance for depreciation accounts;
- c. Reconcile the RPCPPE and the updated records per CD; and
- d. Adjust accordingly the results of reconciliation.

For the Investment in Real Estate and Installment Contract Receivable

- a. Include in the schedule of Investment in Real Estate (IRE) controlling account of the CD the number of lots available for sale in square meters to support the balances booked under the IRE account and facilitate the reconciliation of the inventory list available for sale reported with Property Management Department or Account Management Department and at the same time come up with an updated cost of sale schedule;
- b. Prioritize the preparation of subsidiary ledger (SL) schedules and aging for all accounts and reconcile the schedules and the balances of the accounts to come up with correct and reliable account balances;
- c. Identify the cause of the negative/abnormal items in the SL including a review and analysis of the validity of the items; and
- d. Make the necessary adjustments for fair presentation of the accounts in the financial statements.

We, however, emphasized the following notes to financial statements:

- Note 2 to the financial statements in relation to Note 23 stating that on April 8, 2016, Memorandum Order No. 90, s. 2016 was issued by the Office of the President of the Philippines directing the abolition of the AFPRSBS, privatization of its subsidiaries, among others;
- Note 2 in relation to Note 13 stating that the disposal of some of the IRE – Landbanking assets worth P3.287 billion and P3.295 billion as at December 31, 2016 and 2015, respectively is hindered by the unavailability of the titles in the name of the System and some legal cases and presence of illegal tenants on some of the raw lands that were acquired; and
- Note 30 relative to the adjustments on the Retained Earnings account representing various income from lending operations and real estate operations and other expenses amounting to P16.623 million for CY 2015 and P122.480 million for CY 2016 as presented in the Statement of Changes in Equity, which should have been

presented both as adjustments of the beginning balance of the Retained Earnings for CY 2015 and/or adjustments of the CY 2015 affected balances pursuant to the pertinent accounting standards on the presentation and treatment of prior years' errors/adjustments.

The other audit observations together with the recommended courses of action which were discussed by the Audit Team with concerned Management officials and staff during the exit conference conducted on March 30, 2017 are discussed in detail in Part II of the report.

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.

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
The Presidential Management Staff, Office of the President
The UP Law Center
The National Library



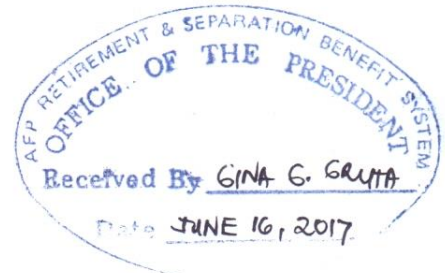
Republic of the Philippines
COMMISSION ON AUDIT
Commonwealth Ave., Quezon City

Corporate Government Sector
Cluster 2 – Social Security Services and Housing

May 31, 2017

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

COA-ESIS FILE COPY



Gentlemen:

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 transactions of the AFP Retirement and Separations Benefit System (AFPRSBS) for the years ended December 31, 2016 and 2015.

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

The Auditor rendered an adverse opinion on the fairness of presentation of the financial statements of the AFPRSBS for the years 2016 and 2015 in view of the overstatement of the total assets by P2.474 billion in 2016 and P2.488 billion in 2015, 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-reconciliation of the property and equipment (PE) account; and (c) the negative/abnormal items in some schedules, the unposted balances to individual ledger of borrowers, and several accounts with no schedules.

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

For the 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 of those subsidiaries and affiliates that are already closed and submit them to COA for

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 the Securities and Exchange Commission.

For the Property and Equipment

- a. Require the Inventory Committee to account for and classify the items included in the Report on the Physical Count of Property, Plant and Equipment (RPCPPE) according to the category used by the Controllership Department (CD);
- b. Require the CD to provide for the list of assets that represent the amount presented in the PE and its Allowance for depreciation accounts;
- c. Reconcile the RPCPPE and the updated records per CD; and
- d. Adjust accordingly the results of reconciliation.

For the Investment in Real Estate and Installment Contract Receivable

- a. Include in the schedule of Investment in Real Estate (IRE) controlling account of the CD the number of lots available for sale in square meters to support the balances booked under the IRE account and facilitate the reconciliation of the inventory list available for sale reported with Property Management Department or Account Management Department and at the same time come up with an updated cost of sale schedule;
- b. Prioritize the preparation of subsidiary ledger (SL) schedules and aging for all accounts and reconcile the schedules and the balances of the accounts to come up with correct and reliable account balances;
- c. Identify the cause of the negative/abnormal items in the SL including a review and analysis of the validity of the items; and
- d. Make the necessary adjustments for fair presentation of the accounts in the financial statements.

We, however, emphasized the following notes to financial statements:

- Note 2 to the financial statements in relation to Note 23 stating that on April 8, 2016, Memorandum Order No. 90, s. 2016 was issued by the Office of the President of the Philippines directing the abolition of the AFPRSBS, privatization of its subsidiaries, among others;
- Note 2 in relation to Note 13 stating that the disposal of some of the IRE – Landbanking assets worth P3.287 billion and P3.295 billion as at December 31, 2016 and 2015, respectively is hindered by the unavailability of the titles in the name of the System and some legal cases and presence of illegal tenants on some of the raw lands that were acquired; and
- Note 30 relative to the adjustments on the Retained Earnings account representing various income from lending operations and real estate operations and other expenses amounting to P16.623 million for CY 2015 and P122.480 million for CY 2016 as presented in the Statement of Changes in Equity, which should have been presented both as adjustments of the beginning balance of the Retained Earnings for

CY 2015 and/or adjustments of the CY 2015 affected balances pursuant to the pertinent accounting standards on the presentation and treatment of prior years' errors/adjustments.

The other audit observations together with the recommended courses of action which were discussed by the Audit Team with concerned Management officials and staff during the exit conference conducted on March 30, 2017 are discussed in detail 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
The Presidential Management Staff, Office of the President
The UP Law Center
The National Library

As of

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)