



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

Corporate Government Sector
Cluster 2 – Social Security Services and Housing

May 31, 2018

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

Office of the President	
Tel. No. 9118562; Tele fax No. 9118218	
Received by:	Michael
Date:	6/4/2018 Time: 2:35
Control No.:	

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, 2017 and 2016.

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

The Auditor rendered an adverse opinion on the fairness of presentation of the financial statements of the System for the years ended December 31, 2017 and 2016 in view of the overstatement of the total assets as at year-end by P2.328 billion in 2017 and P2.474 billion in 2016 due to: (a) the non-consolidation of the financial statements of the System and that of its subsidiaries and failure to eliminate the reciprocal accounts; (b) the unrecorded waived penalty of a foreclosed property; and (c) the difference between the general ledger (GL) and the subsidiary ledger (SL) balances, and the difference between the report of physical count of the property, plant and equipment (RPCPPE) and accounting records.

For the above observations, we reiterated our prior years' recommendations that Management:

For the Investment in Shares of Stocks of Subsidiaries

- a. Prepare the consolidated financial statements to include the assets, liabilities and results of operation of its subsidiaries in compliance with the provisions of PFRS 10;
- b. Eliminate all parent and subsidiary reciprocal account balances during the process of consolidation; and
- c. Prepare the Statement of Affairs and the 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

Further, we also recommended to require the responsible official to account for and prepare the System's subsidiaries and affiliates financial statements, otherwise, failure by the officials and employees to comply as such shall be subject to administrative disciplinary action under Section 127 of P.D. No. 1445.

For the unrecorded foreclosed properties of the System

- a. Adjust accordingly the unrecorded waived penalty to the outstanding past due – commercial loan to the corporation;
- b. Reduce the past due – commercial loan to the corporation account by P361.072 million and record as investment property the newly acquired asset; and
- c. Enforce collection of the adjusted past due balance of the commercial loan against the spouses who are key officers of the corporation in accordance with the Joint and Several Suretyship.

For the difference of Property and Equipment account balances

- a. Reconcile the difference between the PPE GL and the SL both maintained in the Integrated Financial Management System and manually recorded;
- b. Reconcile the RPCPPE with the Accounting records;
- c. Reclassify all unserviceable assets to Other assets account; and
- d. Require the Inventory committee to account for and classify the items included in the RPCPPE according to the category used by the Accounting Department.

We also 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; and
- Note 2 in relation to Note 13 stating that the disposal of some of the Investment in real estate – Landbanking assets worth P3.295 billion and P3.287 billion as at December 31, 2017 and 2016, 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.

The other significant observations and the corresponding recommendations that need immediate action include:

The refund of members' contributions (MCs) inclusive of interest resulted in an overpayment of P6.007 million for 100 samples amounting to P17.103 million. The payments were based on an incomplete and unreliable records of the System contrary to paragraphs 4.46 and 4.49 of the Conceptual Framework for Financial Reporting, Section 4 of Presidential Decree (PD) 361, as amended by PD 1656, System's Standard Operating Procedure Nos. 11-92 and MAG-96-05-001 dated 25 February 1992 and 22 April 1996, respectively, and AFPRSBS' BOT Meeting No. 8 dated 4 November 2010.

For said observation, we recommended that Management:

- a. Provide proof of collection on the remittance of P2.659 million by AFP to the System to ensure the correctness of the refund made to the members or their authorized representative, as the case may be;
- b. Recover the excess refund of MCs and the interest paid from concerned members or AFP;
- c. Accrue interest on all of its members' contribution at the time it has been received/collected; and
- d. Henceforth, ensure the propriety of the amount to be refunded to members at all times.

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 April 18, 2018, are discussed in detail in Part II of the report.


We respectfully request that the recommendations contained in Parts II and III 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



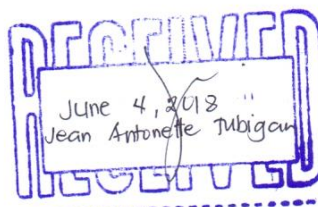
Republic of the Philippines
COMMISSION ON AUDIT
Commonwealth Ave., Quezon City

Corporate Government Sector
Cluster 2 – Social Security Services and Housing

May 31, 2018

The Board of Liquidators

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



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- c. Prepare the Statement of Affairs and the 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 Securities and Exchange Commission.

Further, we also recommended to require the responsible official to account for and prepare the System's subsidiaries and affiliates financial statements, otherwise, failure by the officials and employees to comply as such shall be subject to administrative disciplinary action under Section 127 of P.D. No. 1445.

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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 Parts II and III 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
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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

AGENCY ACTION PLAN and STATUS OF IMPLEMENTATION

Audit Observations and Recommendations

For the Calendar Year 2017

As of

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Agency sign-off:

Name and Position of Agency Officer	Date
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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)