



Republic of the Philippines
COMMISSION ON AUDIT
Commonwealth Avenue, Quezon City, Philippines
Corporate Government Sector
Cluster 2 – Social Security Services and Housing
Office of the Cluster Director

April 23, 2019

The Board of Liquidators

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

Gentlemen:

Pursuant to Section 2, Article IX-D of the Philippine Constitution and Section 43 of Presidential Decree (P.D.) 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 Armed Forces of the Philippines Retirement and Separation Benefits System (AFPRSBS) for the years ended December 31, 2018 and 2017.

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 System for the years ended December 31, 2018 and 2017 in view of the unreconciled balances of Members' Contributions (MC) and Estimated liability on MC earnings account, amounting to P9.603 billion and P3.216 billion, respectively, in CY 2018 and P10.244 billion and P3.488 billion, respectively, in CY 2017 representing collections of capital contribution and earnings on members' capital contribution, respectively, have no updated subsidiary ledgers (SLs), contrary to Paragraph 15 of Philippine Accounting Standard (PAS) 1, Section 111 of P.D. No. 1445, Executive Order (E.O.) Nos. 590 and 590-A and Memorandum Order (M.O.) No. 90, thereby affecting the accuracy and correctness of presentation of members' data in the SLs and ultimately affecting the accuracy of members' retirement/separation claim.

For the above mentioned audit observation which caused the issuance of an adverse opinion, we reiterated our prior years' recommendation that Management require the Accounting Department (AD) to update and reconcile the SLs of the Integrated Financial Management System (IFMS) with the books of accounts in preparation for the transfer of the records of MCs to the Government Financial Institution (GFI) Trustee in accordance with E.O. Nos. 590 and 590-A, as amended by M.O. No. 90.

We further recommended that Management ensure that the correct amount of capital contribution and the earnings thereon are refunded to the members. As the custodian of soldiers' contributions, every single centavo collected must be accounted for and returned to the soldiers.

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

1. The difference between the inventory of Transfer Certificates of Title (TCTs) and recorded real estate per books amounting to P651.925 million and the presence of negative/abnormal balance in some accounts amounting to P555.620 million cast doubt on the propriety and reliability of the account balance as of December 31, 2018, contrary to the Philippine Conceptual Framework for Financial Reporting (PCFFR) 2018 and Section 112 of P.D. No. 1445.

We reiterated our previous year's recommendations that Management:

- a. Require the department/division concerned to expedite the process of consolidating the titles in favor of the System to safeguard its ownership and facilitate its easy disposal in pursuance to its winding down and liquidation plan; and
- b. Identify the cause of the negative/abnormal balance in the General Ledger (GL) including a review and analysis of the validity of the items.

We further recommended that Management require the AD to:

- a. Reconcile the listed TCTs with the recorded Investment in real estate to ensure ownership and correctness of the account balance; and
 - b. Record in the books all the listed assets that are supported with proofs of ownership to correct the understatement of the said account.
2. Several TCTs relating to Installment Contract Receivable (ICR) and ICR-Past Due accounts were not found in the System's custody during the conduct of inventory, thus, the installment payables of buyers to the System are unsecured and is contrary to the policy of AFPRSBS.

We reiterated our previous year's recommendation and Management agreed to strictly comply with the AFPRSBS' policy by ensuring that buyers' SLs are verified, any discrepancy resolved, and fully paid buyers' SL removed in the ICR general control account, before the release of the TCTs are authorized pursuant to the provisions of Chapter 2, Section 111 of P.D. No. 1445.

We further recommended that Management establish whether the TCTs of real properties subject of ICR are released to the buyer without full settlement of account and determine the persons liable for the release of the TCTs.

3. The System's financial statements (FS) and that of its subsidiaries where it has invested a total of P1.729 billion were not consolidated. Likewise, the investment account is erroneously accounted under equity method resulting in the inaccurate presentation of the entities' financial position and dividend income by P583.000 million and P2.500 million, respectively, and overstatement of income from its share in income from equity investment by P5.473 million, contrary to Paragraphs 10 and 12 of PAS 27.

We reiterated our previous years' recommendations that Management:

- a. Prepare the consolidated financial statements to include the assets, liabilities and results of operations of its subsidiaries in compliance with the provisions of PAS 27;

- b. 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 Commission on Audit (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; and
- c. Require the responsible officials to account for and prepare the System's subsidiaries and affiliates financial statements, otherwise, failure by the officials and employees to comply to such shall be subject to administrative disciplinary action under Section 127 of P.D. No. 1445.

We further recommended that Management require the AD to properly account and adjust the Investment in subsidiaries for fair presentation of the accounts in the FS.

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 28, 2019, 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 Parts II and III of the report be implemented and that this Commission be informed of the actions taken thereon 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:

MA. LISA P. INGUILLO

Director III

Officer-in-charge

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



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Cluster 2 – Social Security Services and Housing
Office of the Cluster Director

April 23, 2019

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

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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 28, 2019, 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

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MA. LISA P. INGUILLO

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Officer-in-charge

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The Vice President

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The Secretary of the Department of Budget and Management

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The Presidential Management Staff, Office of the President

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The National Library

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 2018
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)