



REPUBLIC OF THE PHILIPPINES
COMMISSION ON AUDIT
Commonwealth Avenue, Quezon City

CORPORATE GOVERNMENT AUDIT SECTOR
CLUSTER 2 – SOCIAL SECURITY
OFFICE OF THE DIRECTOR

May 18, 2023

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 (PD) 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) and its subsidiary (referred as the Group) for the years ended December 31, 2022 and 2021.

The report consists of the Independent Auditor's Report, Audited Consolidated Financial Statements, 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 consolidated financial statements of the Group for the years ended December 31, 2022 and 2021 due to the following:

- a. The continued presentation and measurement of the assets, liabilities, equity and income and expenses accounts on a going concern assumption despite the imminent liquidation of the AFPRSBS is not in accordance with the Philippine Accounting Standard (PAS) 1 – *Presentation of Financial Statements* and the Conceptual Framework for Financial Reporting (CFFR). Memorandum Order (MO) No. 90, series of 2016, directs the abolition of AFPRSBS and privatization of its subsidiaries.
- b. The non-consolidation in the financial statements of AFPRSBS of its other subsidiaries where it has investments totaling P1.116 billion resulted in the non-elimination of all the parent and subsidiary reciprocal account balances which is not in accordance with PFRS 10-*Consolidated Financial Statements*. Only the financial statements of Monterrosa Development Corporation were consolidated with the financial statements of AFPRSBS.
- c. The Allowance for Impairment computed using a method other than that provided under PFRS 9 – *Financial Instruments* resulted in the overstatement by undetermined amounts of the Receivables stated at P859.370 million in CY 2022 and P826.448 million in CY 2021; Loans Receivable stated at P1.091 billion in CY 2022 and P1.046 billion in CY 2021; Installment Contract Receivable stated at P325.778 million in CY 2022 and P273.571 million in CY 2021; and Investment in Bonds stated at P2.349 billion in CY 2022 and P2.375 billion in CY 2021.

- d. There were noted variances in some accounts which remain unreconciled. There is a variance of P116.560 million and P596.622 million as at December 31, 2022 and 2021, respectively, between the general ledger (GL) and Integrated Financial Management System subsidiary ledger (SL) balances of the Members' Contributions (MC) Payable and Estimated Liability on MC Earnings accounts. Also, there is a variance of 146,010 square meters of raw lands with equivalent cost of P84.442 million as at December 31, 2022 and 2,448,871 square meters with equivalent cost of P768.743 million as at December 31, 2021 between the total land area per Transfer Certificates of Title and those recorded in the Real Estate Inventories and Landbanking Assets accounts.

For the above observations that caused the issuance of an adverse opinion, we recommended that Management:

On the going concern assumption used in the preparation of financial statements

- a. Prepare the FS and its comparative period using the liquidation basis of accounting; and
- b. Make appropriate disclosures in the Notes to FS taking into consideration the provisions under Paragraph 25 of PAS 1.

On the non-consolidation of FSs of AFPRSBS and all of its subsidiaries

- a. Prepare the consolidated FS to include the assets, liabilities, and results of operations of all the subsidiaries in compliance with the provisions of PFRS 10;
- b. Eliminate all parent and subsidiary reciprocal account balances during the process of consolidation to ensure accurate presentation of the affected accounts in the FS;
- c. Conduct an inventory of the assets of the subsidiaries with investment costs totaling P1.116 billion;
- d. Prepare/update the corresponding FS of the aforesaid subsidiaries; and
- e. Take actions to officially dissolve the non-operating/closed subsidiaries' corporate life and liquidate the assets accordingly.

On the Allowance for Impairment computed using a method other than that required under PFRS 9 – Financial Instruments

- a. Provide allowance for impairment for the AFPRSBS' financial assets based on ECL; and
- b. Secure Board's approval to set up any additional provisions to recognize the said impairment on financial assets.

On the unreconciled amount between the GL and SL balances of the MC Payable and Estimated Liability on Earnings of MC accounts

- a. Reconcile the Integrated Financial Management System SLs with the books of accounts/GL maintained by the Accounting Department in preparation for the transfer of

MC records to the Government Financial Institution Trustee in accordance with EO Nos. 590 and 590-A, as amended by MO No. 90; and

- b. 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.

On the net variance between the recorded total land area and actual inventory of TCTs

- a. Reconcile the remaining variances between the total land area per physical inventory of TCTs with those recorded under the Landbanking assets account to ensure correctness of the account balance;
- b. Prioritize the submission of the updated reconciliation pertaining to Landbanking assets account for the Audit Team to validate and verify the nature of the remaining variance totaling P84.442 million;
- c. Record in the books of the AFPRSBS the listed/identified assets based on the result of the reconciliation that are duly supported with proofs of ownership; and
- d. Derecognize from the books of the AFPRSBS, the unpaid property purchased from Bulaong Enterprises, unless ownership or real rights could already be established.

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 16, 2023, are discussed in detail in Part II of the report.

In a letter of even date, we requested the President and Chief Executive Officer of AFPRSBS to take appropriate actions on the recommendations contained in the report and to inform this Commission of the actions taken thereon within 60 days from the date of receipt.

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

MA. LISA P. INGUILLO
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



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**CORPORATE GOVERNMENT AUDIT SECTOR
CLUSTER 2 – SOCIAL SECURITY
OFFICE OF THE DIRECTOR**

May 18, 2023

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 President Legaspi:

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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 16, 2023, 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 as Annex A) 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:

Ma. Lisa P. Inguillo

MA. LISA P. INGUILLO
Director IV

Copy furnished:

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The Vice President

The Speaker of the House of Representatives

The Chairperson – Senate Finance Committee

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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 2022 and Prior Years
 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) Implemented (I), or (b) Not Implemented (NI)