

EXECUTIVE SUMMARY

INTRODUCTION

The Armed Forces of the Philippines Retirement and Separation Benefits System (AFP-RSBS or the "System" for brevity) was created by virtue of Presidential Decree (PD) No. 361 dated December 30, 1973 and started its operations in 1976. The System was established as a funding mechanism to ensure the continuous payment of retirement and separation benefits to the members of the AFP. To strengthen the System, certain provisions of PD No. 361 pertaining to membership and rate of contributions were amended by PD No. 1656 dated December 21, 1979 and PD No. 1909 dated March 22, 1984.

The System is engaged in various business operations which include the management of funds invested in the stock market, money market, government and corporate bonds, corporate loans, real estate properties and equity holdings in subsidiaries and associates. It also has interests and participation in real estate projects involving the development and construction of commercial and subdivision projects, memorial parks, golf courses, and, for some, in partnership with reputable real estate developers. In the course of its lending operations, the System also acquires through foreclosure proceedings and dacion en pago arrangements, mortgaged real estate properties as payment for the full or partial settlement of the loan obligations of its borrowers. The inventory of developed lots, condominium units and acquired assets are being offered for sale to the military personnel and to the public as well to recoup its principal investments.

The Board of Trustees (BOT), consisting of 11 members, is the policy making body of the System. The President/Chief Executive Officer as well as the Executive Vice President/Chief Operating Officer takes charge of the day to day affairs of the organization. As at December 31, 2016, the AFPRSBS has 77 regular employees and 41 casual/contractual personnel or a total workforce of 118 personnel.

On April 8, 2016, Memorandum Order (MO) No. 90, s. 2016 was issued by the Office of the President of the Philippines directing the abolition of the System, privatization of its subsidiaries, and for other purposes. The System was directed under Section 3 of the said MO to: (a) cease collecting members' contributions and accrual of interest thereon upon effectivity of the Order; (b) maintain such number of personnel necessary to wind-down its corporate affairs and cease the hiring of new personnel unless approved by the Governance Commission for Government Owned and Controlled Corporations (GCG); (c) collect all indebtedness due to the System; (d) continue a Corporate Operating Budget; (e) for its BOT to act as Board of Liquidators (BOL); (f) enter into contracts for the purpose of selling all its real estate assets, golf and country club shares; manage, preserve and maintain its buildings, facilities and equipment in line with the winding down activities; complete deliverables to subdivisions, and turn over completed subdivisions, and maintenance and preservation of existing projects and properties; (g) pursue activities necessary to perfect ownership of its real estate assets; (h) continue, abrogate, and/or re-negotiate existing Joint Venture (JV) Agreements/Contracts, subject to the revised National Economic and Development Authority JV Guidelines; and (i) maintain full power to sue and file complaints for the protection of the rights and interests of the corporation.

To implement the provisions of MO No. 90, the GCG shall be assisted by a Technical Working Group composed of representatives from the Department of National Defense, Department of Finance, Department of Budget and Management, Privatization Management Office, the System, and the AFP.

On April 19, 2016, pursuant to the above MO, the System's BOT already convened as BOL. The BOL approved in that meeting the stoppage of the collection of five per cent members' contributions and the accrual of interest on members' contributions effective March 31, 2016 as per Board Resolution No. SPL-01-2016. In the same meeting, the BOL also approved the continuance of the implementation of discounting of refund of Advance Refund Program to retiring military personnel with approved Order of Retirement from the AFP until the final closure of the System.

The registered business and office address of the System is at No. 424 Capinpin Avenue, Camp General Emilio Aguinaldo, Quezon City, Metro Manila, Philippines. It has no other offices within and outside the Philippines, except for a Satellite Office in Iloilo City.

FINANCIAL HIGHLIGHTS (In Philippine Peso)

I. Comparative Financial Position

Particulars	2016	2015	Increase (Decrease)
Assets	16,635,024,639	16,834,051,531	(199,026,892)
Liabilities	15,434,254,849	15,977,317,090	(543,062,241)
Fund equity	1,200,769,790	856,734,441	344,035,349

II. Comparative Results of Operations

Particulars	2016	2015	Increase (Decrease)
Income	581,440,463	444,003,569	137,436,894
Expenses	360,437,697	811,303,781	(450,866,084)
Other comprehensive income (loss)	552,347	(6,386,441)	6,938,788
Total comprehensive income	221,555,113	(373,686,653)	595,241,766

III. Comparative Corporate Operating Budget

The System's Cash Flow Budget or the Corporate Operating Budget for CY 2016 and CY 2015 which were approved per Board Resolution Nos. 01-2016 and 01-2015 dated January 12, 2016 and February 5, 2015 are broken down as follows:

Particulars	Approved Budget		Utilization		Variance	
	2016	2015	2016	2015	2016	2015
			(in million pesos)			
Personnel services	246.403	105.270	90.005	77.202	156.398	28.068
Maintenance and other operating expenses	136.793	50.778	100.892	30.207	35.901	20.571
Capital expenditures	3.592	5.504	0.464	0.853	3.128	4.651
Total	386.788	161.552	191.361	108.262	195.427	53.290

SCOPE OF AUDIT

Our audits covered the examination, on a test basis, of the accounts and operations of the System for the years ended December 31, 2016 and 2015. Our audits were aimed at ascertaining the fairness of the presentation of the financial statements in accordance with the Philippine Financial Reporting Standards, and were also made to assess the propriety of the financial transactions and compliance of the System with prescribed laws, rules and regulations.

INDEPENDENT AUDITOR'S REPORT

We rendered an adverse opinion on the fairness of presentation of the financial statements of the System for the years ended December 31, 2016 and 2015 in view of the overstatement of the total assets as at year-end by P2.474 billion in 2016 and P2.488 billion in 2015 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 deficiencies noted in the Property and Equipment (PE) account; and (c) the existence of negative/abnormal items in some schedules, the unposted balances to individual ledger of borrowers, and several accounts with no supporting 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 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.

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 sales 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.

OTHER SIGNIFICANT AUDIT OBSERVATIONS AND RECOMMENDATIONS

1. Cash in Bank amounting to P8.956 million was not confirmed by the bank and cannot be accounted for as of December 31, 2016, contrary to Sections 63 and 74 of PD No. 1445.

1.1 We recommended that Management:

- a. Coordinate with the Bank for the reproduction of documents for the withdrawal of P8.956 million; and
- b. Require the responsible official to account for and produce the said amount, and file appropriate charges in case of failure to do so.

2. The System's limited working capital of P888 million may result in its inability to refund in lump sum the total contributions including earned interest to the officer or

enlisted personnel upon separation or retirement from military service under Section 4 of PD No. 361 as amended by PD Nos. 1656 and 1909 or upon liquidation of the System due to the issuance of MO No. 90 dated April 8, 2016 whichever comes first, since the related accumulated members' contributions payable as at December 31, 2016 amounts to P10.886 billion.

2.1 We recommended that Management:

- a. Continuously work towards conversion of the majority of the investments in real estate, acquired assets into cash and investments in government marketable securities which are easily convertible to cash; and
- b. Pursue collections of all indebtedness due to the System so that it can return to the soldiers/members their contributions upon liquidation of the System or upon retirement/separation whichever comes first.

The other audit observations together with the recommendations are discussed in Part II of this report.

STATUS OF IMPLEMENTATION OF PRIOR YEARS' AUDIT RECOMMENDATIONS

Out of the 205 audit recommendations embodied in the prior years' Annual Audit Report, 130 were implemented, hence, no longer included in this report; 57 were partially implemented and 18 were not implemented. Details are presented in Part III of this report.