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 (P.D.) 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 P.D. No. 361 pertaining to membership and rate of contributions were amended by P.D. No. 1656 dated December 21, 1979 and P.D. 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 bonds, corporate loans, consumer/member 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 System was not able to discharge its mandate originally set out in P.D. No. 361 because it has not paid a single peso for retirement benefits of the retiring AFP personnel. All payments of retirement benefits to AFP military personnel, before and after the promulgation of its Charter, have been made from the regular annual appropriation of AFP as set out in the General Appropriation Act (GAA). Thus, Executive Order (E.O.) Nos. 590 and 590A were issued in December 15, 2006 and January 31, 2007, respectively, mandating the deactivation of the AFPRSBS and directing the transfer of its assets in trust to a government financial institution (GFI).

On April 8, 2016, Memorandum Order (M.O.) 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 M.O. 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 Board of Trustees (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; 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 (NEDA) 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 M.O. No. 90, the GCG shall be assisted by a Technical Working Group (TWG) composed of representatives from the Department of National Defense (DND), Department of Finance (DOF), Department of Budget and Management (DBM), Privatization Management Office (PMO), the System, and the AFP.

On April 19, 2016, pursuant to the above M.O., 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 (B.R.) No. SPL-01-2016. In the same meeting, the BOL also approved the continuance of the implementation of the Advance Refund Program to retiring military personnel with approved Order of Retirement from the AFP until the final closure of the System.

In 2018, seven real estate properties were successfully bidded-out. The AFPRSBS BOL approved the award of sale of Green Meadows Iloilo; Lot 1979-I, Sta. Rosa, Laguna; Lot 1981-A, Sta. Rosa, Laguna; Lots 6B/6C/6D, Aseana City and Lot 6E, Aseana City on March 22, 2018 to the highest complying bidders with a total selling price of P6.396 billion.

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.

The BOL, originally consisting of 11 active or retired members but currently having nine members and two seats vacancy due to resignation, is the policy making body of the System. Each was appointed by the AFP Chief of Staff who also appointed the President/Chief Executive Officer (CEO) of the System. The President/CEO as well as the Executive Vice President/Chief Operating Officer takes charge of the day to day affairs of the organization. In a letter request for the DND dated March 31, 2019, the System requested for authority not to fill up the position vacated by the representative from the retired AFP Officers and AFP Enlisted Personnel but still pending approval. As of December 31, 2018, the System has 73 regular employees and 43 casual/contractual personnel and four project-hired employees or a total workforce of 120 personnel.

FINANCIAL HIGHLIGHTS (In Philippine Peso)

I. Comparative Financial Position

Particulars	2018	2017	Increase (Decrease)
Assets	21,521,137,802	16,641,862,789	4,879,275,013
Liabilities	13,750,944,908	14,568,363,283	(817,418,375)
Fund equity	7,770,192,894	2,073,499,506	5,696,693,388

II. Comparative Results of Operations

Particulars	2018	2017	Increase (Decrease)
Income	5,838,649,011	999,994,827	4,838,654,184
Expenses	134,612,304	115,249,400	19,362,904
Other comprehensive income	(7,343,319)	(9,462,052)	2,118,733
Total comprehensive income	5,696,693,388	875,283,375	4,821,410,013

III. Comparative Corporate Operating Budget

The System's Cash Flow Budget or the Corporate Operating Budget for CY 2018 and CY 2017 were approved per Board Resolution Nos. 04-2017 and 08-2016 dated December 15, 2017 and December 23, 2016, respectively. Budget utilization is shown as follows (in millions):

Particulars	Approved Budget		Utilization		Variance	
	2018	2017	2018	2017	2018	2017
Personnel services	81.271	95.229	101.899	84.879	(20.628)	10.350
Maintenance and other operating expenses	123.801	136.261	32.714	29.767	91.087	106.494
Capital expenditures	3.414	3.186	0.318	0.209	3.096	2.977
Total	**208.486**	**234.676**	**134.613**	**114.855**	**73.873**	**119.821**

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, 2018 and 2017. 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, 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, 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 IFMS with the books of accounts in preparation for the transfer of the records of MCs to the 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.

OTHER SIGNIFICANT AUDIT OBSERVATION AND RECOMMENDATIONS

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 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 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 recommendations are discussed in Part II of this report.

STATUS OF IMPLEMENTATION OF PRIOR YEARS' AUDIT RECOMMENDATIONS

Out of the 58 audit recommendations embodied in the CY 2017 Annual Audit Report, 11 were fully implemented, 28 were partially implemented, 13 were not implemented and six were reconsidered. Out of the 13 unimplemented recommendations, five were reiterated. Details are presented in Part III of this report.