**EXECUTIVE SUMMARY**

**INTRODUCTION**

The Armed Forces of the Philippines Retirement and Separation Benefits System (AFPRSBS 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 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 PD 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 (EO) 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 (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 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 MO 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 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 (BR) 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.

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 at December 31, 2019, the System has 63 regular, 37 casual, three contractual, and 12 project-hired employees or a total workforce of 115 personnel.

**FINANCIAL HIGHLIGHTS (In Philippine Peso)**

1. **Comparative Financial Position**

| **Particulars** | **2019** | **2018**  **(As restated)** | **Increase (Decrease)** |
| --- | --- | --- | --- |
| Assets | 18,914,957,246 | 21,521,137,802 | (2,606,180,556) |
| Liabilities | 10,470,904,464 | 13,728,579,656 | (3,257,675,192) |
| Fund equity | 8,444,052,782 | 7,792,558,146 | 651,494,636 |

1. **Comparative Results of Operations**

|  |  |  |  |
| --- | --- | --- | --- |
| **Particulars** | **2019** | **2018**  **(As restated)** | **Increase (Decrease)** |
| Income | 730,506,898 | 5,861,282,587 | (5,130,775,689) |
| Expenses | (98,911,301) | (134,880,628) | (35,969,327) |
| Other comprehensive income | 19,899,039 | (7,343,319) | 27,242,358 |
| Total comprehensive income | 651,494,636 | 5,719,058,640 | (5,067,564,004) |

1. **Comparative Corporate Operating Budget**

The System’s Cash Flow Budget or the Corporate Operating Budget for CY 2019 and CY 2018 were approved per Board Resolution Nos. 01-2019 and 04-2017 dated February 21, 2019 and December 15, 2017, respectively. Budget utilization is shown as follows (in millions):

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Particulars** | **Approved Budget** | | **Utilization** | | **Variance** | |
| **2019** | **2018** | **2019** | **2018** | **2019** | **2018** |
| Personnel services | 73.613 | 81.271 | 65.003 | 101.899 | 8.610 | (20.628) |
| Maintenance and other operating expenses | 225.574 | 123.801 | 33.909 | 32.714 | 191.665 | 91.087 |
| Capital expenditures | 0.613 | 3.414 | 0.098 | 0.318 | 0.515 | 3.096 |
| **Total** | **299.800** | **208.486** | **99.010** | **134.931** | **200.790** | **73.555** |

**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, 2019 and 2018. Our audits were aimed to ascertain the fairness of the presentation of the financial statements in accordance with the provision of 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 a disclaimer of opinion on the fairness of presentation of the System’s financial statements for the years ended December 31, 2019 and 2018, in view of the non-submission of schedules to support the balances of the receivable accounts amounting to ­P244.145 million for CY 2019 and P216.987 million for CY 2018; other asset accounts amounting to P28.533 million for CY 2019 and P29.667 million for CY 2018; allowance for doubtful accounts amounting to P308.357 million both for CYs 2019 and 2018; accounts payable, accrued expenses and other liability accounts amounting to P1.048 billion for CY 2019 and P1.050 billion for CY 2018 and equity accounts amounting to P8.244 billion for CY 2019 and P7.604 billion for CY 2018. Further, the members’ contributions payable account amounting to P7.268 billion for CY 2019 and P9.603 billion for CY 2018 and estimated liability on members’ contributions earnings account, amounting to P2.294 billion for CY 2019 and P3.216 billion for CY 2018, have no updated subsidiary ledgers.Because of the status of the accounting records, we were not able to apply alternative audit procedure to obtain sufficient evidence on the correctness of the balances of the affected accounts and determine whether any adjustments to these accounts were necessary.

For the above audit observations which caused the issuance of a disclaimer of opinion, we recommended that Management make a timetable for the preparation of schedules and reconciliation of the said schedules with the controlling accounts to determine the correct and reliable account balances and strictly comply with the established timetable, and as a result of reconciliation, effect the necessary adjustments in the books for fair presentation of the accounts in the financial statements.

**OTHER SIGNIFICANT AUDIT OBSERVATION AND RECOMMENDATIONS**

1. The unreconciled balances of Member’s Contributions (MC) and Estimated liability on MC earnings account, amounting to P7.268 billion and P2.294 billion, respectively, representing collections of capital contribution and earnings on members’ capital contribution, respectively, have no updated subsidiary ledgers (SLs), thereby rendering doubtful the accuracy and correctness of presentation of members’ data in the SLs, contrary to Paragraph 15 of Philippine Accounting Standards (PAS) 1, Section 111 of Presidential Decree (PD) No. 1445 and Office of the President’s issuances, particularly, Executive Order (EO) Nos. 590 and 590-A and Memorandum Order (MO) No. 90 series of 2016.

We reiterated our CY 2018 recommendation that Management update and reconcile the SLs of the Integrated Financial Management System (IFMS) with the books of accounts maintained by the Accounting Department in preparation for the transfer of the records of MC to the Government Financial Institution (GFI) Trustee in accordance with EO Nos. 590 and 590-A, as amended by MO No. 90.

We further recommended that Management continue the disposal of individual residential units, in addition to the bonds and commercial papers, to fully cover the obligation to refund members’ contributions and interests thereon.

1. Dormant Accounts Receivable as at December 31, 2019 totaling to P955.148 million have remained outstanding for 11 to more than 20 years, thus, deprives the System of funds for its accelerated refund and payment of other obligations, contrary to Commission on Audit (COA) Circular No. 2016-005.

We recommended and Management agreed to:

* + 1. Exhaust all available remedies to collect all long outstanding/dormant/past due accounts and ensure proper documentation of accounts and coordination of concerned Agencies;
    2. Devise other options and if warranted, resort to legal means to enforce settlement of accounts including those pertaining to prior years without request for write-off;
    3. Document all efforts to collect the dormant accounts; and
    4. When all efforts have failed, request the COA for write-off as provided for under COA Circular No. 2016-005 dated December 19, 2016.

1. The System did not exercise due diligence in the examination of the title and documents presented by the former owner in connection with the acquisition of the 150 hectares agricultural lot. Further, it did not consider the possible disadvantages amounting to P284.237 million on the swapping of shares of stocks between Monterossa Development Corporation (MDC) and an AFPRSBS’ subsidiary realty corporation in 1999, thus, unfavorable to the Members of the System and is inconsistent with Section 2 of PD No. 1445.

We recommended that Management:

* + 1. Submit all BOT’s directives, decisions, minutes of meeting and preliminaries to establish the true intention of the swap;
    2. Make the officers directly and indirectly involved in the corporates swap liable for the loss of P284.237 million; and
    3. Prepare the necessary accounting of the sales price of the 120 condominium units and the interest from 1999 to present to expedite the execution of judgment in case it becomes final and executory.

1. The System did not register the certificate of sale of the foreclosed properties from the real estate corporation thereby depriving it of economic benefits including but not limited to receiving rental income and consolidation of title under its name contrary to the Section 6 of Act No. 3135 and Article 428 of the Civil Code.

We recommended and Management agreed to pay the deficiency tax assessments and cause the registration of certificate of sale with the Registry of Deeds.

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 50 audit recommendations embodied in the CY 2018 Annual Audit Report, 11 were fully implemented, 27 were partially implemented, nine were not implemented and three were reconsidered. Out of the nine unimplemented recommendations, six were reiterated in Part II of this Report. Details are presented in Part III of this Report.