

EXECUTIVE SUMMARY

INTRODUCTION

The Armed Forces of the Philippines Retirement and Separation Benefits System (AFPRSBS) was created by virtue of Presidential Decree (PD) No. 361 dated December 30, 1973 and started its operations in 1976. The AFPRSBS 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 AFPRSBS, 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 AFPRSBS was not able to discharge its mandate originally set out in PD No. 361. Thus, Executive Order (EO) Nos. 590 and 590A were issued on 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. On April 8, 2016, Memorandum Order (MO) No. 90, s. 2016, was issued directing the abolition of the AFPRSBS, privatization of its subsidiaries and for other purposes. The said MO repealed or modified all other issuances that are inconsistent with it.

Upon issuance of MO No. 90, the AFPRSBS Board of Directors acted as its Board of Liquidators (BOL), subject to oversight by the Governance Commission for GOCCs (GCG). The BOL consists of nine (9) regular members who were all appointed by the AFP Chief of Staff who also appointed the President/Chief Executive Officer (CEO) and the Executive Vice President (EVP)/Chief Operating Officer (COO) of the AFPRSBS. The President/CEO, as well as the EVP/COO, take charge of the day-to-day affairs of the organization.

The GCG shall be assisted by a Technical Working Group (TWG) composed of representatives from the Department of National Defense, Department of Finance, Department of Budget and Management, Privatization Management Office, the AFPRSBS, and the AFP.

The implementation of Accelerated Refund of MCs was approved by the BOL on June 13, 2018. Consequently, it was approved by the GCG En Banc, subject to several conditions, per letter from GCG dated September 7, 2018. Policies and procedures for the implementation of the Accelerated Refund Program were established in coordination with AFP Units. This covers the refund of contribution to an estimated 105,200 members for a period of three (3) years. The AFPRSBS commenced the pay-out of Accelerated Refund in January 2019, thus, effectively stopping the granting of Advance Refund Loans. The GCG clarified in its letter dated March 29, 2019 that the three-year period to liquidate a dissolved corporation can be extended until the liquidation is fully completed. As at December 31, 2023, a total of P12.481 billion in principal and interests was refunded to 115,727 members/claimants.

The AFPRSBS has several subsidiaries which are identified as either closed or have ceased operations as at December 31, 2023.

The registered business and office address of the AFPRSBS 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.

As at December 31, 2023, the AFPRSBS has 50 regular, 26 casuals, nine (9) contractual and 13 project-hired employees or a total workforce of 98 personnel.

The AFPRSBS's Corporate Operating Budget (COB) for Calendar Year (CY) 2023 and CY 2022 were approved per BR Nos. 01-2023 and 01-2022 dated February 9, 2023 and January 27, 2022, respectively. The COB and budget utilization are as follows (in million pesos):

Particulars	Approved budget		Utilization	
	2023	2022	2023	2022 As restated
Personnel services	71.926	71.703	75.177	62.172
Maintenance and other operating expenses	269.022	265.239	94.414	29.538
Capital expenditures	2.500	10.806	1.878	6.463
Total	343.448	347.748	171.469	98.173

FINANCIAL HIGHLIGHTS (In Philippine Peso)

I. Comparative Financial Position

Particulars	2023	2022 As restated	Increase (Decrease)
Assets	14,639,997,483	14,394,495,903	245,501,580
Liabilities	2,670,302,251	2,765,399,362	(95,097,111)
Fund equity	11,969,695,232	11,629,096,541	340,598,691

II. Comparative Results of Operations

Particulars	2023	2022 As restated	Increase (Decrease)
Income	576,687,968	2,637,169,962	(2,060,481,994)
Expenses	233,980,812	517,960,235	(283,979,423)
Other comprehensive loss	2,108,465	376,259	1,732,206
Total comprehensive income	340,598,691	2,118,833,468	(1,778,234,777)

SCOPE OF AUDIT

Our audit covered the examination, on a test basis, of the accounts and transactions of the AFPRSBS for the period January 1 to December 31, 2023, in accordance with International Standards of Supreme Audit Institutions to enable us to express an opinion on the fairness of presentation of the financial statements (FSs) for the years ended December 31, 2023 and 2022. Also, we conducted our audit to assess compliance with pertinent laws, rules and regulations, as well as adherence to prescribed policies and procedures.

AUDITOR'S OPINION

We rendered an adverse opinion on the fairness of the presentation of the financial statements of the AFPRSBS as at December 31, 2023 and 2022 due to non-compliance with the liquidation basis of accounting in the preparation of financial statements despite its adoption as disclosed in Note 2 to the financial statements. Such basis requires that the assets must be presented and measured at their estimated realizable values and liabilities at their settlement amounts, and must be appropriately disclosed in the Notes to the Financial Statements. Such non-compliance that have pervasive effects to the AFPRSBS' financial statements are manifested in the:

- Non-classification of its non-current assets to current assets amounting to P4.978 billion and P4.873 billion as at December 31, 2023 and 2022, respectively, and its non-current liabilities to current liabilities amounting to P237.299 million and P277.033 million as at December 31, 2023 and 2022, respectively.
- Non-compliance with the forward-looking expected losses as prescribed under PFRS 9 – Financial Instruments in the provisioning of impairment loss on financial assets on Loans and Receivables stated at P2.786 billion and P3.073 billion, Lease Receivables of P244.953 million and P228.750 million, Other Receivables of P1.157 billion and P559.826 million; and Investment in Bonds of P2.297 billion and P2.349 billion, as at December 31, 2023 and 2022, respectively.
- Non-valuation of properties and/or assets with total carrying amounts of P5.880 billion and P5.575 billion as at December 31, 2023 and 2022, respectively, to their estimated realizable values; and liabilities amounting to P237.299 million and P277.033 million as at December 31, 2023 and 2022, respectively, to their estimated settlement amounts.

We likewise included the following as basis in modifying the opinion because we were not able to obtain sufficient appropriate evidence to ascertain the accuracy and reliability of the balances of the identified material accounts below. The status of records of AFPRSBS did not permit us to apply alternative audit procedures, thus, we were not able to determine whether any adjustments on the balances of the affected accounts, as presented in the financial statements, were necessary.

- There are unreconciled variances of P600.270 million and P116.560 million as at December 31, 2023 and 2022, respectively, between the General Ledger (GL) and Subsidiary Ledger (SL) balances of Members' Contribution (MCs) Payable and Estimated Liability on Earnings of MCs accounts.
- There are unreconciled variances of 415,573 square meters of raw lands with an equivalent cost of P383.637 million as at December 31, 2023 and 548,564 square meters of raw lands with an equivalent cost of P589.355 million as at December 31, 2022 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 non-compliance with the liquidation basis of accounting in the preparation of FSs

- a. Reclassify all non-current assets and non-current liabilities under current to reflect the liquidation and winding down status of its operations;
- b. Apply in the provisioning of impairment losses on financial assets the forward-looking expected losses as prescribed under PFRS 9 – *Financial Instruments*.
- c. Present the assets at estimated realizable value and the liabilities at reasonably estimated settlement amounts; and
- d. Provide appropriate disclosures on the accounts in the Notes to FS pursuant to the liquidation basis of accounting.

On the variance between the GL and SL balances of the MCs Payable and estimated Liability on earnings of MC accounts

Exert more effort in reconciling the IFMS SLs with the books of accounts/GL maintained by the AD, and in preparing the details of the remaining earned interests that have not yet been refunded to the members, in preparation for the transfer of MCs records to the GFI Trustee, in accordance with EO Nos. 590 and 590-A, as amended by MO No. 90.

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

- a. Establish a clear timeline for the reconciliation process to immediately address the variance between the total land area per physical inventory of TCTs and those recorded under the Real Estate Inventories and Investment in Real Estate-Landbanking Assets accounts;
- b. Submit updated reconciliation pertaining to both Real Estate Inventories and Investment in Real Estate – Landbanking Assets accounts to allow the Audit Team to validate the completeness of the real estate properties of AFPRSBS; and
- c. Derecognize from the books the unpaid property purchased from Bulaong Enterprises, unless ownership or real rights can be established.

The following are the other significant audit observations and recommendations that need immediate action:

1. Pertinent provisions of RA No. 9184, known as the “Government Procurement Reform Act”, and its Revised Implementing Rules and Regulations (RIRR) were not complied with, which prevented transparency, competitiveness, efficiency and economy in the process of procurement for various Programs, Activities, and Projects (PAPs).

We recommended that Management require the BAC Secretariat and the Technical Working Group to:

- a. Strictly conform with the prescribed guidelines of GPPB in the preparation of the APP to specifically indicate the period when each procurement activity will be done and the mode of procurement for every PAP, particularly on the alternative mode to be used;
 - b. Ensure compliance with the schedule of procurement activities specified in the APP to facilitate the efficient conduct of procurement and to avoid delays;
 - c. Ensure that all changes in the APP are consolidated and reflected in the Revised APP for approval by the HoPE, as required under Section 7.4 and Item IV.A of Annex H of the IRR of RA No. 9184;
 - d. Consolidate similar projects/requisitions and adopt competitive bidding or appropriate alternative procurement method;
 - e. Adhere to the conditions provided for resorting to negotiated procurement through emergency cases and SVP pursuant Items V.D.2 and V.D.8 of Annex H of the RIRR of RA No. 9184;
 - f. Ensure timely posting of the NOA, NTP and Contracts in the PhilGEPS within 10 days from issuance thereof; and
 - g. Submit contracts and its complete bidding documents to the Audit Team within five working days from execution thereof.
2. The real estate inventories covered by Contract to Sell amounting to P4.189 million have no corresponding TCTs on file, contrary to Section 111 of PD No. 1445 and Section II.A.2.f of AFPRSBS Policy No. CPO-001-2017, thus, prolonging the transfer of titles to the concerned buyers.

We recommended that Management:

- a. Update the SLs of ISR accounts by identifying those customers tagged as “various accounts”;
- b. Require the AD and the IRMD to reconcile the list of the TCTs released with that of the ISR schedule; and
- c. Ensure that all the individual balances reflected in the ISR have corresponding TCTs to secure buyers’ ownership over the property in case of full payment.

SUMMARY OF AUDIT SUSPENSIONS, DISALLOWANCES AND CHARGES

As at December 31, 2023, the balance of audit disallowances amounted to P251.443 million, while audit suspensions and charges have no balances.

STATUS OF IMPLEMENTATION OF PRIOR YEARS' AUDIT RECOMMENDATIONS

Out of the 57 audit recommendations embodied in the CY 2022 AAR, 33 were implemented, and the remaining 24 were not implemented but reiterated in Part II. The details are presented in Part III of this Report.