

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 The said MO repealed or modified all other issuances that are inconsistent with it.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.

However, on May 27, 2024, the AFPRSBS BOL approved the retirement and/or separation of all its employees, granting benefits in accordance with MO No. 90, s. 2016. Consequently, the BOL resolved to reorganize the AFPRSBS and established a Liquidation Team (LT), consisting of an Administrator and 63 Contract of Service (COS) personnel, to oversee and manage the remaining affairs of the AFPRSBS.

The registered business and office address of the AFPRSBS is at No. 424 Capinpin Avenue, Camp General Emilio Aguinaldo, Quezon City. It has no other offices within and outside the Philippines, except for a satellite office located at No. 70, Commission Civil Street corner Lincoln Street, Jaro, Iloilo City. The operations of the satellite office, however, will be terminated effective May 31, 2025.

The AFPRSBS's Corporate Operating Budget (COB) for Calendar Year (CY) 2024 and CY 2023 were approved per BR Nos. 01-2024 and 01-2023 dated April 11, 2024 and February 9, 2023, respectively. The COB and budget utilization are as follows (in million pesos):

Particulars	Approved budget		Utilization	
	2024	2023	2024	2023
Personnel services	67.008	71.926	102.817	75.177
Maintenance and other operating expenses	233.615	269.022	120.524	94.414
Capital expenditures	2.800	2.500	1.126	1.878
Total	303.423	343.448	224.467	171.469

FINANCIAL HIGHLIGHTS (In Philippine Peso)

I. Comparative Financial Position

Particulars	2024	2023 As restated	Increase (Decrease)
Assets	14,971,655,197	14,639,997,483	331,657,714
Liabilities	2,637,360,467	2,707,554,382	(70,193,915)
Fund equity	12,334,294,730	11,932,443,101	401,851,629

II. Comparative Results of Operations

Particulars	2024	2023 As restated	Increase (Decrease)
Income	727,440,407	565,819,257	161,621,150
Expenses	325,371,362	234,690,209	90,681,153
Other comprehensive loss	(217,416)	(2,108,465)	1,891,049
Comprehensive income	401,851,629	329,020,583	72,831,046

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, 2024, 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, 2024 and 2023. 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, 2024 and 2023 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 net realizable values and liabilities at their estimated 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:

- a. Non-valuation of properties and/or assets with total carrying amounts of P8.268 billion and P8.177 billion as at December 31, 2024 and 2023, respectively, to their estimated net realizable values; and liabilities amounting to P248.684 million and P237.299 million as at December 31, 2024 and 2023, respectively, to their estimated settlement amounts; and
- b. Non-classification of its non-current assets to current assets amounting to P5.633 billion and P4.978 billion as at December 31, 2024 and 2023, respectively, and its non-current liabilities to current liabilities amounting to P248.684 million and P237.299 million as at December 31, 2024 and 2023, respectively.

We likewise included the following as bases 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.

- a. Non-recognition of obligation for the unpaid membership dues to the Riviera Golf Club, Inc. (RGCI), as a result of the Supreme Court's (SC) decision nullifying the AFPRSBS' exemption to pay the said membership dues that understated the Payables and Expenses accounts and overstated the Retained Earnings account all by undetermined amounts.
- b. The recognition, classification, and disclosure on the investments in four golf and country clubs amounting to P999.722 million and P1.003 billion as Inventories as at December 31, 2024 and 2023, respectively, despite retaining voting rights, instead of Investments, affect the fair presentation of both the Inventories and Investments accounts in the financial statements.
- c. There are unreconciled variances of P531.001 million and P600.270 million as at December 31, 2024 and 2023, respectively, between the General Ledger (GL) and Subsidiary Ledger (SL) balances of Members' Contribution (MCs) Payable and absence of details on the Estimated Liability on Earnings of MCs accounts.
- d. There are unreconciled variances of 183,592 square meters with an equivalent cost of P242.628 million as at December 31, 2024 and 415,573 square meters of raw lands with an equivalent cost of P383.637 million as at December 31, 2023 between the total land area per Transfer Certificates of Title (TCT) and those recorded in the 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. Present the assets at estimated net realizable values and the liabilities at reasonably estimated settlement amounts;

- b. Classify all non-current assets and non-current liabilities under current to reflect the liquidation and winding down status of AFPRSBS operations;
- c. Provide appropriate disclosures on the accounts in the Notes to FS pursuant to the liquidation basis of accounting; and
- d. Expedite the appraisal process to avoid further delays in the proper valuation and presentation of the accounts in the FS.

On the non-recognition of obligation for the unpaid membership dues to the Riviera Golf Club, Inc. (RGCI)

- a. Recognize the total unpaid membership fees in the books as at December 31, 2024; and
- b. Expedite the negotiation with the RGCI on the determination of reasonable amount of unpaid membership dues.

On the recognition, classification, and measurement of the investments in four golf and country clubs as Inventories

- a. Reclassify and recognize the club shares acquired from Riviera Sports and Country Club Inc. and RGCI as Investments in Associates, pursuant to Paragraphs 3, 5, 6, and 10 of PAS 28;
- b. Reclassify and recognize the club shares acquired from Eastridge Golf Club Inc and Orchard Golf and Country Club Inc as Financial Assets at FVPL, pursuant to Paragraph 4 of PFRS 9; and
- c. Provide the appropriate disclosures in the Notes to FS in accordance with the reclassification.

On the variance between the GL and SL balances of the MCs Payable and Estimated Liability on Earnings of MCs

- a. Exert more effort in reconciling the Integrated Financial Management System SLs with the books of accounts/GL maintained by the Accounting Department, and in preparing the details of the 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; and
- b. Strengthen its internal control over the accounting of MCs transactions, including enhanced verification processes, and improved coordination with relevant agencies to facilitate a more efficient reconciliation.

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

- a. Conduct a comprehensive reconciliation of the land area per records against the actual inventory of TCTs;

- b. Identify and investigate the cause of the variance to determine whether it stems from record-keeping errors, missing documentation, or unrecorded transactions;
- c. Establish a clear timeline to immediately address the identified cause of variance between the total land area per physical inventory of TCTs and those recorded under the Inventories-Others and Investment in Real Estate-Landbanking Assets accounts; and
- d. Submit an updated reconciliation pertaining to both Inventories-Others and Investment in Real Estate – Landbanking Assets to allow the Audit Team to validate the completeness of the real estate properties of AFPRSBS.

OTHER SIGNIFICANT AUDIT OBSERVATIONS AND RECOMMENDATIONS

1. The BOL approved the separation of all 79 AFPRSBS employees without retaining the personnel necessary to effectively wind down its corporate affairs, resulting in hiring 63 COS personnel to perform essential liquidation activities, in violation of Section 3(b) and (i) of MO No. 90 and Commission on Audit-Department of Budget and Management (COA-DBM) Joint Circular No. 2, series of 2020, Section 4(5) of PD No. 1445, thus, exposing the AFPRSBS to legal and financial risks, including potential irregularities in the disposal of funds and/or property, loss of accountability in preserving, managing, and disposing its remaining assets, and ultimately, prolonging its abolition and liquidation.

We recommended that Management:

- a. Strictly comply with Section 3(b) and (i) of MO No. 90 on maintaining sufficient number of qualified personnel to perform liquidation activities;
 - b. Take immediate action to rectify the improper designation of COS personnel as signatories for various AFPRSBS transactions;
 - c. Expedite the request to the GCG for the regularization of nine personnel to fill critical positions in the LT; and
 - d. Propose the designation of the members of the BOL as authorized signatories in the disbursement and/or investment transactions. Otherwise, postpone or suspend the placement of funds in Money Market Placements and fund transfer transactions until the GCG approves the regularization of the nine personnel.
2. The designated Accountable Officer responsible for the treasury operations was reemployed under COS status, which eventually led to the cancellation of its fidelity bond protection upon separation from service, contrary to Section 3 (b) of MO No. 90, Section 101 of PD No. 1445 and Paragraphs 4.1.1, 4.11 and 7.3 of Treasury Circular (TC) No. 02-2019, thus, losing accountability for funds and, exposing the AFPRSBS to the risk of not being indemnified in cases of loss, fraud, dishonesty or irregularity.

We recommended that Management:

- a. Transfer to the Administrator the accountability for the treasury operations while the request for regularization of the nine COS personnel is pending with the GCG;
- b. Follow-up the status of the letter to the GCG seeking guidance for the regularization of the nine COS personnel; and
- c. Secure a fidelity bond from the Bureau of the Treasury under the account of the Administrator or its designated regular officer pursuant to TC No. 02-2019.

SUMMARY OF AUDIT SUSPENSIONS, DISALLOWANCES AND CHARGES

As at December 31, 2024, 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 44 audit recommendations embodied in the CY 2023 AAR, 24 were implemented, 20 were not implemented, of which one was closed and eight were reiterated in Part II. The details are presented in Part III of this Report.