



Republic of the Philippines
COMMISSION ON AUDIT
Commonwealth Avenue, Quezon City

INDEPENDENT AUDITOR'S REPORT

The Board of Trustees

AFP Retirement and Separation Benefits System
424 Capinpin Avenue, Camp General Emilio Aguinaldo
Quezon City, Metro Manila

Report on the Financial Statements

We have audited the accompanying financial statements of AFP Retirement and Separation Benefits System (AFPRSBS), which comprise the statement of financial position as at 31 December 2014, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Philippine Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Philippine Public Sectors Standards on Auditing (PPSSA). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risks assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide bases for our adverse audit opinion.

Basis for Adverse Opinion

The reported assets by AFPRSBS was overstated by P2.542 billion due to non-consolidation of the financial statements of the System and its subsidiaries and failure to eliminate the reciprocal accounts which overstated the Investment in Stocks by P2.547 billion and Advances to Subsidiaries by P10.828 million contrary to pertinent provisions of Philippine Financial Reporting Standards (PFRS) 10. Moreover, the non-recognition and non-accrual of rental income based on the amount received or to be received from the lessees understated the Accounts Receivable, Trade-Lessees by P7.670 million while the delay in the recognition of real estate transactions and other errors in recording sales understated Installment Contract Receivable by P9.224 million and overstated the Investment in Real Estate by P3.968 million. The error in the amortization of Prepaid Repairs and Maintenance overstated the account by P0.037 million. The Stock Investment account was understated by P0.732 million due to non-deduction of the carrying value from the value of the stocks and the Cash in Bank account was understated by P1.513 million due to unclaimed/stale check not reversed in the books of accounts. Consequently, the said errors in the recognition of assets resulted in the understatement of the liabilities and overstatement of equity accounts by P3.486 million and P2.546 billion, respectively.

Adverse Opinion

In our opinion, because of the significance of the matters discussed in the basis for Adverse Opinion paragraph, the financial statements referred to above do not present fairly, in all material respects, the financial position of the AFP Retirement and Separation Benefits System (AFPRSBS) as at 31 December 2014, and its financial performance and its cash flows for the year then ended in accordance with the Philippine Financial Reporting Standards.

Emphasis of Matter

We emphasize Note 11 on Investment in Real Estate, specifically the System's shares on Riviera Golf and Country Club, Riviera Sports and Country Club and Riviera Landholdings which were not completely recorded and in the absence of documents submitted/presented by the system from which to substantiate the validity and reliability, the audit has not been fully undertaken.

Other Matter

The Governance Commission on Government-Owned or Controlled Corporation per Memorandum Circular No. 2-13-26 dated November 18, 2014 classified the System as Non-Operational/Inactive Corporation. However, the System's networth of P10.955 billion as of December 31, 2014 may not be sufficient to comply with the provisions of Executive Order No. 590, as amended, de-activating the System and directing the transfer of its assets in trust to a Government Financial Institution.

Report on Other Legal and Regulatory Requirements

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information required under Revenue Regulation Nos. 19-2011 and 15-2010 in Note 30 to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue (BIR) and is not a required part of the basic financial statements. Such supplementary information is the responsibility of Management. Because of the significance of the matter described in the Bases for Adverse Opinion paragraph, it is inappropriate to and we do not express an opinion on the supplementary information referred to above.

COMMISSION ON AUDIT



JULIA E. MORENO
Supervising Auditor

25 May 2015