



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 the AFP Retirement and Separation Benefits System (AFPRSBS), which comprise the statements of financial position as at December 31, 2015 and 2014, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the years 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 audits. We conducted our audits in accordance with Philippine Public Sector Standards on Auditing. 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 risk 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 a basis for our adverse audit opinion.

Basis for Adverse Opinion

The total assets of AFPRSBS as at year-end is overstated by P2.625 billion in 2015 and P2.522 billion in 2014, primarily due to: (a) the non-consolidation of its financial statements and that of its subsidiaries and failure to eliminate the reciprocal accounts; (b) the non-recognition of sales despite full payment of the required down payment; and (c) the non-recognition and non-accrual of rental income. Consequently, as at December 31, 2015 and 2014, the liabilities were overstated and understated by P10.631 billion and P3.486 million, respectively, while the equity accounts were overstated by P13.256 billion and P2.525 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 do not present fairly the financial position of the AFPRSBS as at December 31, 2015 and 2014, and its financial performance and its cash flows for the years then ended in accordance with the Philippine Financial Reporting Standards.

Emphasis of Matter

We draw attention to Note 2 to the financial statements stating in part that Executive Order (EO) Nos. 590 and 590-A were issued deactivating the AFPRSBS effective December 31, 2006 but were not implemented, thus, causing the continuous depletion of the Retained Earnings as a result of the payment of the mandated six percent interest on Members' Contributions (MCs). Likewise, the Governance Commission on Government-Owned or Controlled Corporation issued Memorandum Circular No. 2-13-26 dated November 18, 2014 classifying the AFPRSBS as non-operational/inactive corporation.

Subsequently, as stated in Note 31, Memorandum Order (MO) No. 90 dated April 8, 2016 was issued directing the abolition of the AFPRSBS and the privatization of its subsidiaries, among others. Pursuant to said MO, the AFPRSBS Board of Trustees convened as Board of Liquidators on April 19, 2016 and approved in that meeting the stoppage of the collection of the five percent MCs and the accrual of interest thereon effective March 31, 2016 as per Board Resolution No. SPL -01-2016.

We also draw attention to Note 2 in relation to Note 11 stating that the disposal of some of the Investment in Real Estate – Landbanking assets worth P3.295 billion and P3.282 billion as at December 31, 2015 and 2014, respectively is hindered by the unavailability of the titles in the name of the AFPRSBS, some legal cases and the presence of illegal tenants on some of the raw lands that were acquired. As a result, the projected profits and returns from these ventures may not be fully realized and that the related effects of adverse conditions, if any, will be reported in the financial statements as they become known and measurable. We were, therefore, unable to conduct a detailed audit of the account. Our opinion is not modified in respect of these matters.

Report on Other Legal and Regulatory Requirements

Our audits were 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 and is not a required part of the basic financial statements. Such supplementary information is the responsibility of Management of AFPRSBS. Because of the significance of the matter described in the Basis 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


ATTY. ROMARICO D. FULGENCIO
Supervising Auditor

April 14, 2016