



**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 statements of financial position as at December 31, 2016 and 2015, 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 Sectors 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.

Our audits involve 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 total assets of AFPRSBS as at year-end is overstated by P2.474 billion in 2016 and P2.488 billion in 2015 due to: (a) the non-consolidation of the financial statements of the AFPRSBS and that of its subsidiaries and failure to eliminate the reciprocal accounts; (b) the non-reconciliation of property and equipment account; and (c) the existence of negative/abnormal items in some schedules, the unposted balances to individual ledger of borrowers, and several accounts with no schedules.

#### *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, 2016 and 2015, 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 in relation to Note 23 stating that 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 AFPRSBS, privatization of its subsidiaries, among others. On April 19, 2016, in pursuant to the above MO, the System's BOT already convened as Board of Liquidators (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 No. SPL-01-2016. In the same meeting, the BOL also approved the continuance of the implementation of discounting of refund of Advance Refund Program to retiring military personnel with approved Order of Retirement from the AFP until the final closure of the AFPRSBS.

We also draw attention to Note 2 in relation to Note 13 stating that the disposal of some of the Investment in Real Estate – Landbanking assets worth P3.287 billion and P3.295 billion as at December 31, 2016 and 2015, respectively is hindered by the unavailability of the titles in the name of the System and some legal cases and 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. The related effects of adverse conditions, if any, will be reported in the financial statements as they become known and measurable. Therefore, we were unable to conduct a detailed audit of the account.

We further draw attention to Note 30 relative to the adjustments on the Retained Earnings account representing various income from lending operations and real estate operations and other expenses amounting to P16.623 million for CY 2015 and P122.480 million for CY 2016 as presented in the statement of changes in equity, which should have been presented both as adjustments of the beginning balance of the Retained earnings for CY 2015 and/or adjustments of the CY 2015 affected balances pursuant to

the pertinent provision of the applicable accounting standards on the presentation and treatment of prior years' errors/adjustments. We were not able to determine the exact impact of the said adjustments on the account balances for both years.

### **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 32 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 of AFPRSBS. 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**

  
**Atty. ROMARICO D. FULGENCIO**  
Supervising Auditor

May 30, 2017