



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

**INDEPENDENT AUDITOR'S REPORT**

**The Board of Liquidators**

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

**Report on the Audit of the Financial Statements**

*Adverse Opinion*

We have audited the financial statements of AFP Retirement and Separation Benefits System (AFPRSBS), which comprise the statements of financial position as at December 31, 2018 and 2017, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and notes to financial statements, including a summary of significant accounting policies and other explanatory information.

In our opinion, because of the significance of the matters discussed in the Basis for Adverse Opinion paragraph, the accompanying financial statements do not present fairly the financial position of the System as at December 31, 2018 and 2017, and its financial performance and cash flows for the years then ended, and notes to financial statements, in accordance with Philippine Financial Reporting Standards (PFRSs).

*Basis for Adverse Opinion*

The unreconciled balances of Members' Contributions (MC) and Estimated liability on MC earnings account, amounting to P9.603 billion and P3.216 billion, respectively, in CY 2018 and P10.244 billion and P3.488 billion, respectively, in CY 2017 representing collections of capital contribution and earnings on members' capital contribution, respectively, have no updated subsidiary ledgers (SL), contrary to Paragraph 15 of Philippine Accounting Standard (PAS) 1, Section 111 of Presidential Decree (P.D.) No. 1445, Executive Order (E.O.) Nos. 590 and 590-A and Memorandum Order (M.O.) No. 90, thereby affecting the accuracy and correctness of presentation of members' data in the SLs and ultimately affecting the accuracy of members' retirement/separation claim.

We conducted our audit in accordance with International Standards of Supreme Audit Institutions (ISSAIs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the AFPRSBS in accordance with the Code of Ethics for Government Auditors in the Philippines (Code of Ethics) together with the ethical requirements that are relevant to our audit of the financial statements in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our adverse opinion.

### *Emphasis of Matter*

We draw attention to Note 2 to the financial statements in relation to Notes 7 and 20 stating that on April 8, 2016, M.O. No. 90, s. 2016 was issued by the Office of the President of the Philippines directing the abolition of the AFPRSBS, and privatization of its subsidiaries, among others. On April 19, 2016, pursuant to the M.O., the System's Board of Trustees (BOT) convened as Board of Liquidators (BOL). The BOL approved the stoppage of the collection of the five per cent MC and the accrual of interest on MC effective March 31, 2016 as per Board Resolution No. SPL-01-2016. 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 System. In November 2018, however, the BOL approved the recommendation of Management to stop the Advance Refund Program effective December 28, 2018 due to the implementation of the Accelerated Refund. This covers the refund of contribution to an estimated 105,200 members for a period of three years based on length of service, in descending order (first in, first out).

We also draw attention to Note 2 in relation to Note 15 stating that the disposal of some of the Investment in Real Estate – Landbanking assets worth P1.772 billion and P6.522 billion as at December 31, 2018 and 2017, respectively, is hindered by the unavailability of the titles in the name of the System, some existing 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. The related effects of the 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. Our opinion is not qualified in respect of these matters.

### *Responsibilities of Management and Those Charged with Governance for the Financial Statements*

Management is responsible for the preparation and fair presentation of the financial statements in accordance with PFRSs, 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.

In preparing the financial statements, management is responsible for assessing the System's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the System or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the System's financial reporting process.

### *Auditors' Responsibilities for the Audit of the Financial Statements*

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually

or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISSAIs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- Obtain an understanding of internal control relevant to the audit 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 System's internal control;
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the System's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the System to cease to continue as a going concern; and
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

#### *Other Matter*

In our report dated April 18, 2018, we expressed an opinion that the 2017 financial statements did not fairly present the financial position, financial performance and cash flows of the System in accordance with the PFRS because of three departures from such standards. The total assets of AFPRSBS as at December 31, 2017 is overstated by P2.328 billion due to: (a) the non-consolidation of the financial statements of the System and that of its subsidiaries and failure to eliminate the reciprocal accounts; (b)

the unrecorded waived penalty of a foreclosed property; and (c) the difference between the general ledger (GL) and the SL balances, and the difference between the report of physical count of the property, plant and equipment and accounting records. We reconsidered Management's explanation as to the non-consolidation of financial statements of closed subsidiaries that have no more assets. The remaining net assets of active subsidiaries not consolidated with the System's financial statements is immaterial in relation to the amount as stated in Observation No. 4, Part II of this report. In addition, as stated in Note 33.2 of Part I and Item 2.a of Part III of this report, the System recorded waived penalty of a foreclosed property in CY 2017. Likewise, the difference between GL and SL for property, plant and equipment accounts could not be considered as an overstatement. Accordingly, our present opinion on the restated financial statements, as presented herein, is different from that expressed in the previous year's report.

### **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 for the year ended December 31, 2018 required by the Bureau of Internal Revenue as disclosed in Note 35 to the financial statements is presented for purposes of additional analysis and is not a required part of the basic financial statements prepared in accordance with PFRSs. Such supplementary information is the responsibility of management. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

### **COMMISSION ON AUDIT**

**ABEGAIL V. PADILLA**  
OIC-Supervising Auditor

March 28, 2019  
Pasay City