



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

Qualified Opinion

We have audited the financial statements of AFP Retirement and Separation Benefits System (AFPRSBS or the System), which comprise the statements of financial position as at December 31, 2020 and 2019, 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.

In our opinion, except for the possible effects of the matters described in the *Bases for Qualified Opinion* paragraph, the accompanying financial statements present fairly, in all material respects, the financial position of the System as at December 31, 2020 and 2019, and its financial performance and cash flows for the years then ended in accordance with Philippine Financial Reporting Standards (PFRSs).

Bases for Qualified Opinion

There is a variance of P745.483 million between the balances in the general ledger and Integrated Financial Management System subsidiary ledgers of the Members' Contributions (MC) Payable and Estimated Liability on MC Earnings accounts. Likewise, there is a net variance of 2,517,453 square meters of raw lands with equivalent cost of P651.925 million between the total land area per physical inventory of Transfer Certificates of Title and those recorded in the Investments in Real Estate account. The non-reconciliation of the said variances casts doubt on the correctness and fair presentation of the balances of Members' Contributions (MC) Payable and Estimated Liability on MC Earnings accounts, stated at P4.360 billion and P1.393 billion, respectively, in CY 2020 and P7.268 billion and P2.294 billion, respectively, in CY 2019, and the Investments in Real Estate account stated at P1.730 billion both as at December 31, 2020 and December 31, 2019. The status of the records of AFPRSBS did not permit us to apply alternative audit procedures. Consequently, we were unable to determine whether any adjustments on the balances presented in the financial statements of the above-mentioned accounts were necessary.

We conducted our audits 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 Conduct and Ethical Standards for Commission on Audit Officials and Employees (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 qualified opinion.

Emphasis of Matter

We draw attention to Note 2 to the financial statements in relation to Notes 7 and 20. On April 19, 2016, the Board of Liquidators (BOL) approved the stoppage of the collection of five percent members' contributions and the accrual of interests thereon effective March 31, 2016 as per Board Resolution No. SPL-01-2016. The implementation of Accelerated Refund of Members' Contributions (MCs) was approved by the BOL on June 13, 2018 and later on approved by the Governance Commission for GOCCs (GCG) En Banc, subject to several conditions, per letter from GCG dated September 7, 2018. Policies and procedures for the implementation of the Accelerated Refund Program were established in coordination with AFP Units. This covers the refund of contribution to an estimated 105,200 members for a period of three years. The System commenced the pay-out of Accelerated Refund in January 2019, thus, effectively stopping the granting of Advance Refund Loans. As at December 31, 2020, a total of P8.850 billion in principal and interests was refunded to 56,072 members/claimants. We further draw attention to Note 2 to the financial statements which describes the hindered disposal of some assets due to the unavailability of the land 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 adverse conditions, if any, will be reported in the financial statements, as they become known and measurable. Our opinion is not modified 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 June 10, 2020, we did not express an opinion on the financial statements of the System partly because there were no schedules provided for audit to support the CY 2019 balances of the following accounts: receivable accounts amounting to P244.145 million; other asset accounts amounting to P28.533 million; allowance for doubtful accounts amounting to P308.357 million; accounts payable, accrued expenses and other liability accounts amounting to P1.048 billion and equity accounts amounting to P8.244 billion. Because of the status of the accounting records, we were not able to apply alternative audit procedure to obtain sufficient evidence on the correctness of the balances of the affected accounts and determine whether any adjustments to these accounts were necessary.

In our current audit of the 2020 financial statements, the schedules supporting the audit of the 71 general ledger accounts identified without schedules have already been

provided and we found them in order. Accordingly, and as presented in the *Bases for Qualified Opinion* section of our Report, we are no longer rendering a disclaimer of opinion on the 2019 financial statements.

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 in Note 32 to the financial statements is presented for the purpose 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. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements. In our opinion, except for the possible effects of the matters described in the *Bases for Qualified Opinion* section, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

COMMISSION ON AUDIT


CYNTHIA S. VERGARA
Supervising Auditor

April 12, 2021