



REPUBLIC OF THE PHILIPPINES  
**COMMISSION ON AUDIT**  
Commonwealth Avenue, Quezon City

**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, 2023 and 2022, 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 material accounting policy information.

In our opinion, because of the significance of the matters discussed in the *Bases for Adverse Opinion* section of our report, the accompanying financial statements do not present fairly, the financial position of AFPRSBS as at December 31, 2023 and 2022, and its financial performance and its cash flows for the years then ended in accordance with the Philippine Financial Reporting Standards (PFRSs) under the liquidation basis of accounting.

*Bases for Adverse Opinion*

The liquidation basis of accounting in the preparation of financial statements as at and for the years ended December 31, 2023 and 2022 was not complied with despite its adoption as disclosed in Note 2 to the financial statements. Such basis requires that the assets must be presented and measured at their estimated realizable values and liabilities at their settlement amounts, and appropriately disclosed correspondingly in the Notes to Financial Statements. The non-compliance that affected the fair presentation of the AFPRSBS' financial statements are manifested in the:

- (a) Non-classification of its non-current assets to current assets amounting to P4.978 billion and P4.874 billion as at December 31, 2023 and 2022, respectively, and its non-current liabilities to current liabilities amounting to P237.299 million and P277.033 million as at December 31, 2023 and 2022, respectively.
- (b) Non-compliance with the forward-looking expected losses as prescribed under PFRS 9 – *Financial Instruments* in the provisioning of impairment loss on financial assets on Loans and Receivables stated at P2.786 billion and P3.073 billion, Lease Receivables of P244.953 million and P228.750 million, Other Receivables of P1.157

billion and P559.826 million; and Investment in Bonds of P2.297 billion and P2.349 billion, as at December 31, 2023 and 2022, respectively.

- (c) Non-valuation of properties and/or assets with total carrying amounts of P5.880 billion and P5.575 billion as at December 31, 2023 and 2022, respectively, to their estimated realizable values; and liabilities amounting to P237.299 million and P277.033 million as at December 31, 2023 and 2022, respectively, to their estimated settlement amounts.

On the other hand, there are unreconciled variances in certain accounts that cast doubt on the accuracy and reliability of their balances. In particular, there are variances of P600.270 million and P116.560 million as at December 31, 2023 and 2022, respectively, between the General Ledger (GL) and Subsidiary Ledger (SL) balances of Members' Contribution (MCs) Payable and Estimated Liability on Earnings of MCs accounts. Similarly, there are variances of 415,573 square meters of raw lands with an equivalent cost of P383.637 million as at December 31, 2023 and 548,564 square meters of raw lands with an equivalent cost of P589.355 million as at December 31, 2022 between the total land area per Transfer Certificates of Title and those recorded in the Real Estate Inventories and Landbanking Assets accounts. The status of records of AFPRSBS did not permit us to apply alternative audit procedures. Consequently, we were unable to determine whether any adjustments on the balances of the above-mentioned accounts, as presented in the financial statements, 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 adverse opinion.

#### *Emphasis of Matter*

We draw attention to Note 2 to the financial statements in relation to Note 11.1. On April 19, 2016, the Board of Liquidators (BOL) approved the stoppage of the collection of five per cent members' contributions (MCs) and the accrual of interests thereon effective March 31, 2016, as per Board Resolution (BR) No. SPL-01-2016. The implementation of Accelerated Refund of MCs was approved by the BOL on June 13, 2018. Consequently, it was approved by the 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 Armed Forces of the Philippines Units. This covers the refund of contribution to an estimated 105,200 members for a period of three years. The AFPRSBS commenced the pay-out of Accelerated Refund in January 2019, thus, effectively stopping the granting of Advance Refund Loans. As at December 31, 2023, a total of P12.481 billion in principal and interests was refunded to 115,727 members/claimants.

We further draw attention to Note 2 to the financial statements which describes that

pursuant to MO No. 90, AFPRSBS continues to engage in various business activities necessary to wind down its operations. These include, among others, the management of funds and investments in real estate projects and foreclosed assets. In late CY 2016, AFPRSBS submitted its Liquidation Plan to the Governance Commission for GOCCs (GCG) stating that the primary objective of the same was to raise P16 billion to be able to refund all the MCs within three years or by December 31, 2019. However, the GCG clarified in its letter dated March 29, 2019, that the three-year period to liquidate a dissolved corporation can be extended until the liquidation is fully completed. In May 2023, the AFPRSBS submitted to the GCG its accomplishments considering the provisions of MO No. 90 and its updated Liquidation Plan, identifying all real estate assets to be sold and turned over to the succeeding entity. In the said updated Liquidation Plan, the AFPRSBS opted to turn over most of the remaining real estate investments to an appropriate GOCC under the Department of National Defense since it has generated enough funds to pay the remaining members' contributions and other outstanding liabilities.

We likewise draw attention to Note 31 to the financial statements, which describes the uncertainties related to pending cases in several courts involving various claims against the AFPRSBS.

Our opinion is not modified in respect of these matters.

#### *Other Matter*

In our report dated March 16, 2023, we modified our opinion on the fairness of presentation of the CY 2022 financial statements of AFPRSBS partly due to the effects of the non-consolidation in the financial statements of AFPRSBS of its subsidiaries where it has investments totaling P1.116 billion, resulting in the non-elimination of all the parent and subsidiary reciprocal account balances, which is not in accordance with PFRS 10-*Consolidated Financial Statements*.

In MO No. 90 (Directing the abolition of the AFPRSBS), it is required that AFPRSBS sell all its real estate properties, its golf and country club shares and all other personal properties, hence, liquidation basis of accounting should already be adopted by AFPRSBS in preparing its financial statements. Liquidation basis requires that the assets are presented and measured at their estimated realizable values.

Relatedly, the investment in subsidiaries of AFPRSBS is recorded at cost. PAS 27 - *Separate Financial Statements* provides that investments accounted for at cost or using the equity method shall be accounted for in accordance with PFRS 5 - *Non-current Assets Held for Sale and Discontinued Operations*. Investments accounted for in accordance with PFRS 5 are measured at lower of carrying amount and fair value less cost to sell. However, since AFPRSBS should already be adopting liquidation basis of accounting, its investments should be valued at their estimated realizable values. Accordingly, the investments in subsidiaries should then be reclassified as Non-current Assets Held for Sale which are classified as current assets and measured at their estimated realizable values.

Hence, the previously required consolidation in the AFPRSBS financial statements of its subsidiaries is no longer applicable. Accordingly, our opinion on the CY 2022 financial statements, as presented herein, is no longer modified concerning this matter.

## *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 AFPRSBS'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 AFPRSBS or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the AFPRSBS' 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 AFPRSBS' 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 AFPRSBS to cease to continue as a going concern;

- 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; and
- Obtain sufficient appropriate evidence regarding the financial information of the entities or business activities within the AFPRSBS to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

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.

### **Report on Other Legal and Regulatory Requirements**

Our audits were conducted for the purpose of forming an opinion on the financial statements taken as a whole. The supplementary information in Note 30 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 financial statements. Such supplementary information is the responsibility of management of the AFPRSBS. The supplementary information has been subjected to the auditing procedures applied in the audit of the financial statements. Because of the significance of the matters discussed in the Bases for Adverse Opinion section of our report, it is inappropriate to, and we do not express an opinion on the supplementary information referred to above.

### **COMMISSION ON AUDIT**

**LIZA S. DELA CRUZ**  
OIC-Supervising Auditor

March 18, 2024