OBSERVATIONS AND RECOMMENDATIONS

A. Financial Audit

1. The unreconciled balances of Members' Contributions (MC) and Estimated liability on MC earnings account, amounting to P9.603 billion and P3.216 billion, respectively, representing collections of capital contribution and earnings on members' capital contribution, respectively, have no updated subsidiary ledgers (SLs), 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.

1.1 Chapter 2, Section 111 of P.D. No. 1445 provides that:

> *Keeping of accounts.*
>
> *(1) The accounts of an agency shall be kept in such detail as is necessary to meet the needs of the agency and at the same time be adequate to furnish the information needed by fiscal or control agencies of the government.*
>
> *(2) The highest standards of honesty, objectivity and consistency shall be observed in the keeping of accounts to safeguard against inaccurate or misleading information.*

1.2 Further, Paragraph 15 of PAS 1 on fair presentation and compliance with Philippine Financial Reporting Standard (PFRS) states that:

> *Financial statements shall present fairly the financial position, financial performance and cash flows of an entity. Fair presentation requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the Framework. Xxx*

1.3 The AFPRSBS was established as a funding mechanism to ensure the continuous payment of retirement and separation benefits due to the members of the AFP.

1.4 E.O. No. 590, as amended by E.O. No. 590-A, prescribes the deactivation of the AFPRSBS and the transfer of the MCs into a trust account to be managed by a Government Financial Institution (GFI) as Trustee. Further, M.O. No. 90 directs the abolition, winding down and liquidation of the AFPRSBS effective April 8, 2016 to include, among others, the cessation of collecting MCs and accrual of interest and the refund of AFPRSBS members' contributions as they fall due.

1.5 As of December 31, 2018, the balance of Refund of MC payable and Estimated liability on MC earnings amounting to P9.603 billion and P3.216 billion, respectively, represents the total accumulated MC to be refunded to the members upon their retirement, separation or discharge from active service and the interest earned on the contribution, respectively. The total of the two accounts represents 60 per cent of the total liability and equity of the System as at December 31, 2018. Details are as follows:

	Refund of MC payable		Estimated liability on MC earnings	
Particulars	**Account number**	**Amount**	**Account number**	**Amount**
Current	507101	P 3,105,136,462	508101	P 1,274,236,641
Non-current	601102	6,497,455,511	601102	1,941,450,236
Total		**P 9,602,591,973**		**P 3,215,686,877**

1.6 Every member should have his/her own individual ledger which contains his/her contributions. However, updated individual ledgers of MC were not provided by the System to the Audit Team. Alternatively, Accounting Department (AD) submitted a list extracted from the Integrated Financial Management System (IFMS) as of July 2015 which is still under reconciliation with the balance of MC payable per books.

1.7 Based on the observation in CY 2015, an expert was hired to extract the members' individual ledger from the IFMS and convert it into an excel file. As of December 31, 2018, the remaining discrepancy amounting to P1.841 billion from P4.914 billion in CY 2015, cannot be accounted for. Details are as follows:

Particulars	Amount
Balance per books, July 31, 2015	P 10,844,040,316
Balance per IFMS, July 31, 2015	12,684,829,265
Difference	**P 1,840,788,949**

1.8 On the other hand, comparison of the balance per books and the SL provided by Management disclosed a difference of P3.082 billion computed as follows:

Particulars	Amount
Balance per books, December 31, 2018	P 9,602,591,973
Balance per SL, July 31, 2015	12,684,829,265
Difference	**P 3,082,237,292**

1.9 Currently, the balance of MC payable account is adjusted by aggregating the amount of regular refund upon the retirement, separation or discharge from active service of the military personnel and the total matured advance loan granted to members that availed the discounting loan facility of the System without considering whether the members' individual SLs were properly closed.

1.10 Moreover, there is no supporting schedule being provided for the details of the Estimated liability on MC earnings account. The System failed to update the records of the members' individual SLs, thus, the correct amount of MCs that should be transferred to the GFI, as Trustee, cannot be determined and the implementation of E.O. Nos. 590 and 590-A and M.O. No. 90 on the transfer of MCs to the GFI Trustee cannot be facilitated.

1.11 Continuous updating of the accounts is being performed by the System to determine the accurate amount of refund of MC and the interest earned thereon. However, the balance of the two accounts cannot be relied upon due to the absence of updated individual ledger of MC which is contrary to Paragraph 15 of PAS 1 and Section 111 of P.D. No. 1445.

1.12 The System owes it to its members to have a complete, updated and accurate individual SL of MC since this will be the basis in the computation of the members' refund and the corresponding interest thereon, which their inability to do so affects the members' claims benefits and the attainment of the mandate of AFPRSBS.

1.13 **We reiterated our CY 2015 recommendation that Management require the AD to update and reconcile the SLs of the IFMS with the books of accounts in preparation for the transfer of the records of MCs to the GFI Trustee in accordance with E.O. Nos. 590 and 590-A, as amended by M.O. No. 90.**

1.14 Management commented the following:

a. The AFPRSBS maintains its records of the MC, advance refunds, and the refunds in the Client Module of the IFMS 2. The individual SLs of the members contain all their monthly contributions except for some observed unposted contributions of which records are still being traced/validated against printed Remittance Lists. While there is an individual SL for each member in the IFMS 2, the computerized system does not provide for a facility to generate reports pertaining to outstanding MC.

b. The accrual of interests on MC was only estimated over the years and these were lodged under the Estimated Liability on MC account. The account will be reconciled once the total principal contribution of each member is established per corrected/updated individual SL of the members. The SLs will be the basis in computing the interests earned on the contributions.

c. The System is now accelerating the refund of contributions and is projecting to refund all contributions within three (3) years. Once this is accomplished, there will probably be no more outstanding contributions or only minimal outstanding contributions will be turned over to a GFI Trustee or whoever will be appointed by the government as the receiver of the assets/liabilities of the AFPRSBS.

1.15 **As a rejoinder, we further recommend that Management ensure that the correct amount of capital contribution and the earnings thereon are refunded to the members. As the custodian of soldiers' contributions, every single centavo collected must be accounted for and returned to the soldiers.**

2. The difference between the inventory of Transfer Certificates of Title (TCTs) and recorded real estate per books amounting to P651.925 million and the presence of negative/abnormal balance in some accounts amounting to P555.620 million cast doubt on the propriety and reliability of the account balance as of December 31, 2018, contrary to the Philippine Conceptual Framework for Financial Reporting (PCFFR) 2018 and Section 112 of P.D. No. 1445.

2.1 Chapter 2, Section 2.23 of PCFFR 2018 provides that comparability, verifiability, timeliness and understandability are qualitative characteristics that enhance the usefulness of information that is relevant and faithfully represented; and Chapter 4, Section 4.2 defines an asset as a present economic resource controlled by the entity as a result of past events. An economic resource is a right that has the potential to produce economic benefits.

2.2 Likewise, Section 112 of P.D. No. 1445 or the Government Auditing Code of the Philippines provides that:

> *Recording of financial transactions. Each government agency shall record its financial transactions and operations conformably with generally accepted accounting principles and in accordance with pertinent laws and regulations.*

2.3 Also, Sections 111 and 114 of P.D. No. 1445 also require that accounts should be kept in such detail for the agency's needs and at the same time be adequate to furnish the information needed by fiscal or control agencies of the government. These include the maintenance of SL. Also, internal control dictates that an entity should maintain adequate records and systems for all aspects of its business including the maintenance of hard copies of individual SLs that will support the general ledger (GL) control account at any given period of time.

2.4 *Land title* refers to that upon which ownership is based. It is the evidence of right of the owner or the extent of his interest, and by which means he can maintain, control and as a rule, assert right to exclusive possession and enjoyment of the property. To the purchaser, the only legal truth upon which he has to rely is that the land is registered in the name of the seller and that the title under the law is absolute and indefeasible (Registration of Land Titles and Deeds, Narciso Pena, 1982 edition).

2.5 The System's Investments in real estate account with a balance of P5.608 billion as of December 31, 2018 consist of various investments in raw lands, commercial and residential subdivision projects, member-related housing projects, golf and country club shares and the related allowance for its decline in value. The balances of the accounts are as follows (in thousands):

Account title	Balance as of 12/31/2018	Balance as of 12/31/2017	Increase/ (decrease)
Investment in real estate, landbank	P 3,265,993	P 3,292,662	P (26,669)
Investment in real estate, resd'l/comm'l landbank	2,017,239	2,017,239	-
Investment in real estate, memorial lots	637,867	637,656	211
Investment in real estate, club shares	134,304	132,782	1,522
Investment in real estate, resd'l/comm'l vertical	90,564	90,564	-
Investment in real estate, member related project	71,853	71,853	-
Investment in real estate, resd'l/comm'l mkt	52,782	52,782	-
Investment in real estate, resd'l/comm'l horizontal	6,985	2,386	4,599
Investment in real estate, landbank clearing	2,010	2,010	-
Investment in real estate, resd'l/comm'l admin	1,351	1,351	-
Investment in real estate, resd'l/comm'l horizontal	(534,070)	(61,697)	(472,373)
Investment in real estate, joint venture	(21,550)	282,543	(304,093)
Direct cost, General Santos	70	163	(93)
Allowance for probable loss, member related	2,534	2,534	-
Allowance for depreciation, member related	(58,338)	(55,637)	(2,701)
Allowance for probable loss, other assets	(19,232)	(19,232)	-
Allowance for asset impairment	(16,153)	(16,153)	-
Allowance for decline in value, acquired assets	(2,534)	(2,534)	-
Accumulated investment in real estate impairment loss	(24,040)	(24,040)	-
Total	**P 5,607,635**	**P 6,407,232**	**P (799,597)**

2.6 The System's AD maintains manual SL consisting of all the remaining inventory of projects booked as Investment in real estate with its corresponding carrying value, total area/plots/shares and cost per square meter/plot/share. Investments in real estate are carried at cost and AFPRSBS uses the computed cost per sqm/plot/share as the basis for the unit cost of each lot/plot/share. Their manual SL of Investment in real estate is presented as follows:

Project	Carrying value (A)	Remaining inventory sqms/plots/shares (B)	Cost per sqm/ per plot/share (A/B)
RIVIERA PROJECT	**P 1,150,847,176**	**293,506**	**P 3,921**
Golf shares	724,268,715	2,406	301,026
Residential lots	179,885,622	201,826	891
Country club shares	149,124,019	4,019	37,105
Commercial	97,568,820	85,255	1,144
MOUNT ZION MEMORIAL	**341,301,717**	**24,173**	**14,119**
HEAVEN'S GATE MEMORIAL GARDEN	**297,215,255**	**23,118**	**12,856**
EASTRIDGE GOLF COURSE AND SUBDIVISION I	**206,513,455**	**74,772**	**2,762**
Shares	131,239,861	202	649,702
Lots	75,273,594	74,570	1,009
BENJAMIN 9 NORTHVILLE SUBDIVISION	**122,545,387**	**227,808**	**538**
Lots (Undeveloped)	79,551,712	166,942	477
Lots (Developed) (Rawland=200,497 sq.m.)	42,993,675	60,866	706
CIUDAD VERDE	**98,314,644**	**50,268**	**1,956**
SAN LORENZO SOUTH SUBDIVISION (SLSS)	**28,710,145**	**21,518**	**1,334**

Project	Carrying value (A)	Remaining inventory sqms/plots/shares (B)	Cost per sqm/ per plot/share (A/B)
SLSS phase I-C/IC-A	21,814,294	18,499	1,179
Villa Caceres	4,853,921	1,545	3,142
SLSS phase I	776,830	765	1,015
SLSS I-E	686,600	264	2,601
Villa Toledo –TH Lot (Ave = 3K to 6K)	578,500	445	1,300
VILLAGE EAST 111 SUBDIVISION	**25,006,647**	**57,017**	**439**
Lots	28,891,799	57,017	507
Less: Allowance for impairment (37 lots)	(3,885,152)		
500 MILLION ON-BASE HOUSING	**10,770,417**		
Lots	68,620,437		
Less: Accumulated depreciation	(57,850,020)		
GREENLAND ANTIPOLO	**7,059,653**	**953**	**7,408**
STA. ROSA HOMES SUBDIVISION	**621,213**	**201**	**3,091**
ORCHARD PROJECT	**172,324**	**3,630**	**47**
NORTH MATRIXVILLE SUBDIVISION	**47,243**	**100**	**472**
SAN MATEO HOUSING PROJECT	**-**	**-**	**-**
Lots	2,756,375		
Less: Allowance for probable losses	(2,756,375)		
LANDBANKING			
RIVIERA	**1,613,598,931**	**2,453,733.00**	**658**
Lots	1,632,831,161	2,453,733	665
Less: Allowance for probable loss	(19,232,230)		
CALAMBA	**711,714,571**	**2,275,005**	**313**
Tanuan	440,833,472	1,615,133	273
Inner lots	282,105,523	659,872	428
Less: Allowance for impairment	(11,224,424)		
GENERAL SANTOS CITY	**562,074,347**	**49,421**	**11,373**
Lot Y	211,664,866	17,996	11,762
Others	175,597,814	16,405	10,704
Lot X	174,811,667	15,020	11,639
Direct cost	70,000		
SAN LORENZO	**240,381,413**	**435,997**	**551**
EASTRIDGE GOLF COURSE AND SUBD II	**105,355,868**	**503,018**	**209**
GREEN MEADOWS ILOILO	**68,215,628**	**36,168**	**3,530**
Phase 1A	50,836,365	22,970.00	2,213
Phase 1	17,379,263	13,198.00	1,317
STA ROSA NUEVA ECIJA	**12,103,142**	**132,189**	**92**
Lots	33,387,065	132,189	253
Less: Allowance for probable loss	(21,283,923)		
BATAAN	**4,881,363**	**72,948**	**67**
Hermosa	4,252,023	62,907	68
Morong	1,672,731	10,041	167
Less: Allowance for impairment	(1,043,391)		
	P 5,607,520,539	**6,735,542**	

2.7 Our audit revealed the following:

a. Difference between the total area in the Manual SL and the total area as per TCTs found inside the vault amounting to P651.925 million are properties not recorded in the books as part of Investments in real estate account. Details are as follows:

Project name	Remaining inventory- per book (sqms/plots) (A)	Total area- per TCTs found in vault* (B)	Difference (C) = (A – B)	Cost per sqm/plot (D)	Over/(under) (C x D)
Heaven's Gate Memorial Garden**	23,118	14,455	8,663	12,856	P 111,375,368
Benjamin 9, Pampanga	227,808	63,894	163,914	P 538	88,174,696
Eastridge Golf Course and Subdivision I	74,570	-	74,570	1,009	75,273,594
Village East III Subdivision	57,017	-	57,017	507	28,891,799
Riviera Project- Commercial	85,255	78,024	7,231	1,144	8,275,411
Greenland Antipolo	953	690	263	7,408	1,948,257
San Mateo Housing Project***	-	17,795	(17,795)	-	-
SLSS – Phase I-D***	-	251	(251)	-	-
Mount Zion Memorial	24,173	156,811	(132,638)	14,119	(1,872,733,096)
Riviera Project- Residential	201,826	526,134	(324,308)	891	(289,052,680)
Ciudad Verde	50,268	67,479	(17,211)	1,956	(33,662,754)
Villa Caceres	1,545	8,879	(7,334)	3,142	(23,041,201)
SLSS – Phase I-C / IC-A	18,499	26,445	(7,946)	1,179	(9,369,451)
Villa Toledo -TH	445	5,112	(4,667)	1,300	(6,067,100)
Sta. Rosa Homes Subdivision	201	980	(779)	3,091	(2,407,587)
SLSS – Phase I	765	2,334	(1,569)	1,015	(1,593,262)
The Orchard Project	3,630	34,561	(30,931)	47	(1,468,362)
North Matrixville Subdivision	100	2,584	(2,484)	472	(1,173,280)
SLSS – Phase I-E	264	330	(66)	2,601	(171,650)
Landbanking					
Riviera	2,453,733	1,318,686	1,135,047	665	755,314,499
Calamba (Tanauan)	1,615,133	588,678	1,026,455	273	280,160,037
General Santos City	49,421	34,191	15,230	11,373	173,213,660
Eastridge Golf Course and Subd II	503,018	-	503,018	209	105,355,868
San Lorenzo	435,997	330,932	105,065	551	57,926,255
Green Meadows Iloilo (Phase 1A)	22,970	1,580	21,390	2,213	47,339,566
Hermosa, Bataan	62,907	-	62,907	68	4,252,023
Green Meadows Iloilo (Phase 1)	13,198	125,536	(112,338)	1,317	(147,927,841)
Sta. Rosa, Nueva Ecija	132,189	135,189	(3,000)	253	(757,712)
	6,059,003	**3,541,550**	**2,517,453**		**(P 651,924,943)**

*Net of properties under Installment Sale Contract with Installment Contract Receivable (ICR) as at December 31, 2018

**Available Inventory per IFMS

***No available cost per inventory

TCTs not in the name of AFPRSBS were not included

It was also observed that neither the available inventories provided by Marketing and Sales Department (MSD) nor by the Property Management and Enhancement Department (PMED) reconciled with the accounting records.

b. Aside from the understatement of inventory of real estate, the reported income from sale of the subject properties in CY 2018 cannot also be relied upon. There are 12 real estate properties sold with total contract price of P17.676 million but with zero book value, as follows:

Property details	Area (sq m)	Total contract price	Discount	Book value	Commission	Net income
Villa de Toledo						
Ph 02 Blk 26 Lot 1-E	240	P 2,160,000	P 120,000	P -	P -	P 2,040,000
Ph 02 Blk 26 Lot 1-B	240	2,160,000	-	-	172,800	1,987,200
Ph 02 Blk 27 Lot 02	140	1,400,000	140,000	-	126,000	1,134,000
Ph 02 Blk 27 Lot 4	125	1,125,000	16,875	-	110,812	997,313
Ph 02 Blk 15 Lot 44	91	724,000	-	-	72,400	651,600
Ph 02 Blk 15 Lot 45	91	724,000	-	-	72,400	651,600
Ph 02 Blk 15 Lot 46	91	724,000	-	-	72,400	651,600
Ph 02 Blk 15 Lot 47	91	724,000	-	-	72,400	651,600
Cittadella (Las Piñas)						
Block 03 Lot 15	-	5,903,536	-	-	-	2,951,768
San Lorenzo South Subdivision						
Ph 1A Blk 26 Lot 13	306	1,071,000	-	-	107,100	963,900
Ph 01 Blk 21 Lot 01	102	750,000	22,500	-	72,750	654,750
North Matrix Ville						
Ph 01 Blk 10 Lot 38	67	301,500	30,150	-	-	271,350
	1,582	**P 17,676,036**	**P 329,525**	**P -**	**P 879,062**	**P 13,606,680**

The Management is amenable that the non-derecognition of an asset account during the sale is due to the units sold that are not recorded in the books of the System. The AD will only be aware of it at the time of recording of the sale.

c. The presence of negative balances of some SL accounts further contributed to the unreconciled inventory of real estate, such as:

Account code	Account title	Balance as of (in thousands) 12/31/2018	12/31/2017	Increase/ (decrease)
211101	Investment in real estate, resd'l/comm'l horizontal	(P 534,070)	(P 61,697)	(P 472,373)
216101	Investment in real estate, Joint Venture	(21,550)	282,543	(304,093)
		(P 555,620)	**P 220,846**	**(P 776,466)**

Analysis of the Investment in real estate accounts showed that the recognition of sale of ASEANA and Green Meadows Phase 2 caused the negative balances of the above-listed SLs. The presence of accounts with abnormal/negative balances cast doubt on the accuracy and validity of the balances reported in the FS.

d. Moreover, 1,365 TCTs are still in the name of developers or owners. Details are as follows:

Project name	No. of TCTs	Area	Registered owner	Amount
Villa Caceres	69	86,221	AFP-RSBS & Moldex Realty, Inc.	P 270,880,204
Benjamin 9, Pampanga	663	480,695	Benjamin Const. Equipment, Inc.	258,581,705
Village East III Subdivision	440	234,959	Antipolo Properties Inc.	119,059,022
Riviera Project-Commercial	4	99,322	Riviera Golf Club, Inc.	113,667,590
Eastridge Golf Course and Subdivision I	60	38,794	Antipolo Properties, Inc.	39,160,035
	47	35,821	First Countertrade Inc.	36,158,984
Riviera Project-Residential	1	38,228	Riviera Golf Club, Inc.	34,072,258

Project name	No. of TCTs	Area	Registered owner	Amount
Sta. Rosa Homes Subdivision	3	1,005	21'st Century Resources and Development Corporation	3,106,066
SLSS- Phase I	3	239	SLDC / AFP-RSBS	242,696
North Matrixville Subdivision	3	273	Name of individuals	128,973
Landbanking				
Eastridge Golf Course and Subd.II	63	492,546	Name of individuals	103,162,534
Calamba (inner lots)	7	71,194	Name of individuals	6,383,234
Hermosa, Bataan	2	62,907	Name of individuals	4,252,023
Total	**1,365**			**P 988,855,323**

To reiterate CY 2017 observation, one of the reasons of unconsolidated TCTs is the legal issues on ownership. Deficiencies in documentation and encumbrances on the titles have further delayed the process of consolidation in favor of the System. Also, acquired lots are still registered under the names of the previous owners since these are supported by an un-notarized Deeds of Absolute Sale (DAS). The foregoing deficiencies hinder or slow down the consolidation of the said assets, thus, the System's interests over these assets are at risk of fraud, dispute and encroachment by trespassers. Ultimately, the liquidation of the System as directed by the President of the Philippines under M.O. No. 90, series of 2016 may not be fully achieved and the payment of retirement benefits of military personnel may not be fully funded.

2.8 Based on the System's winding down and liquidation plan, the objective is to raise P16 billion to refund all members' contributions by December 31, 2019. One of the strategies being pursued by the System to achieve the objective is to dispose all assets, including real estate, at the highest recoverable value. On November 6, 2017, the Governance Commission for GOCCs (GCG) approved the divestment of equity shares, such as, Monterrosa Development Corporation (MDC) and Southern Utility Management and Services, Inc. (SUMSI) and real estate properties, such as, lots 6B/6C/6D/6E at Aseana City (Roxas Boulevard, Paranaque City); lots 1979-I and 1981-A (Sta. Rosa City, Laguna); Calubcob property (Silang City, Cavite); and Phase 2 of Green Meadows Iloilo Project. All the Real Estate Projects, except for the Calubcob property were successfully bidded-out in CY 2018. The System's Board of Liquidators (BOL) approved the award of sale of the properties with a total contract price of P6.396 billion on March 22, 2018 to the highest complying bidders. The sold assets are payable in cash within 30 days except for Green Meadows Iloilo which is payable in three years at an interest rate of four per cent per annum. By the end of 2018, the System has sold a total of 171 retail real estate inventories which resulted in a total of P203.628 million sales net of discount.

2.9 Unresolved issues on non-coordination among the different operating departments of the System and the previous years' transactions under unstructured procedure in the procurement, foreclosure/cancellation of contract to sell and disposal of property, contributed to the failure to record said property in its book of accounts.

2.10 If and only when the reconciliation of the inventory of real estate is to be prioritized by the Management especially by the departments concerned which includes but not limited to the Internal Records Management Department (IRMD), MSD, PMED and AD, a more useful financial information can be generated in order to depict whether the assets of the System is enough to cover all its payables at the time of its liquidation.

2.11 **We reiterated our previous years' recommendations that Management:**

   a. Require the department/division concerned to expedite the process of consolidating the titles in favor of the System to safeguard its ownership and facilitate its easy disposal in pursuance to its winding down and liquidation plan; and

   b. Identify the cause of the negative/abnormal balance in the GL including a review and analysis of the validity of the items.

2.12 **We further recommended and Management agreed to require the AD to:**

   a. Reconcile the listed TCTs with the recorded Investment in real estate to ensure ownership and correctness of the account balance; and

   b. Record in the books all the listed assets stated in Paragraph no. 2.7a, Part II of this report that are supported with proofs of ownership to correct the understatement of the said account.

3. Several TCTs relating to ICR and ICR-Past Due accounts were not found in the System's custody during the conduct of inventory, thus, the installment payables of buyers to the System are unsecured and is contrary to the policy of AFPRSBS.

3.1 Chapter 2, Section 111 of P.D. No. 1445 as cited in Paragraph No. 1.1, Part II of this report provides guidelines in the keeping of accounts.

3.2 Section II.A.2.f of Policy No. CPO-001-2017 (Revised Policy on Providing Allowances for Probable Losses and Writing-Off of Accounts) issued by the Office of the President and Chief Executive Officer (CEO) of AFPRSBS dated July 26, 2017 states:

> ***f. Installment Contract Receivable***
>
> *There will be no provision for losses or allowances that will be made on this account since* ***the title of the properties subject of the receivables are not yet transferred to buyers unless fully settled.*** *(Emphasis supplied)*

3.3 As of December 31, 2018, the SL of ICR and ICR-Past Due have total balances of P1.196 billion and P152.703 million, respectively. The ICR accounts represent the balances of contract receivables arising from the sale of real estate inventories and acquired assets which were financed by the System through in-house financing scheme, while ICR-Past Due represents the uncollected balance that remained unpaid for more than 180 days.

3.4 Based on prior years' observations and inquiry with Management, the ICR SLs have unreconciled individual accounts. The Management stated that there are still accounts with positive balances in spite of clearance from AD because of on-going reconciliation of the ICR account. Some of which are previously cancelled contract to sell but they are unable to close the SL. Also, Management admitted that there are instances of sale to another buyer despite of already existing contract to sell concerning the same property.

3.5 The reconciliation of TCTs on file with the addresses of the real estate properties indicated in the ICR and ICR-Past Due account schedules showed that the TCTs of the real estate properties subject of 452 ICR and 486 ICR-Past Due accounts with a total amount of P869.870 million and P78.448 million, respectively, have not been found during the conduct of inventory of TCTs. Verification of the whereabouts of the TCT was not attained because the schedule of ICR and ICR-Past Due accounts does not provide for TCT numbers.

3.6 Thus, the installment payables of the buyers to the System are unsecured which is not in conformity with AFPRSBS' policy that the TCTs of the properties subject of the receivables will not be transferred to buyers unless fully settled.

3.7 **We reiterated our previous year's recommendation and Management agreed to strictly comply with the AFPRSBS' policy by ensuring that buyers' SLs are verified, any discrepancy resolved, and fully paid buyers' SL removed in the ICR general control account, before the release of the TCTs are authorized pursuant to the provisions of Chapter 2, Section 111 of P.D. No. 1445.**

3.8 **We further recommended and Management agreed to establish whether the TCTs of real properties subject of ICR are released to the buyer without full settlement of account and determine the persons liable for the release of the TCTs.**

4. **The System's financial statements (FS) and that of its subsidiaries where it has invested a total of P1.729 billion were not consolidated. Likewise, the investment account is erroneously accounted under equity method resulting in the inaccurate presentation of the entity's financial position and dividend income by P583.000 million and P2.500 million, respectively, and overstatement of income from its share in income from equity investment by P5.473 million, contrary to Paragraphs 10 and 12 of PAS 27.**

4.1 The System has a total investment of P1.729 billion in stocks of its subsidiaries and affiliates/controlled entities that are not consolidated with its FS due to the non-submission of related reports from the majority of its subsidiaries which are already either non-operating, subject to liquidation and/or for disposal. Details are as follow:

Subsidiaries and affiliates/Controlled entities	Per cent of ownership	Cost of investment
MDC	100.00%	P 873,765,346
Resources Investment House (RICHI)	100.00%	98,972,103
Matrix Realty Development Corporation (MRDC)	100.00%	35,931,250
Fashion Link Corporation (FLC)	100.00%	20,100,000
Southern Utility Management Services, Inc. (SUMSI)	100.00%	10,000,000
Globan Fruits and Development Corporation (GFDC)	100.00%	10,000,000
RSBS Enterprises, Inc. (REI)	100.00%	2,500,000
RSBS Land, Inc. (RLI)	100.00%	994,170
Veterans Electronics Communications (VEC)	90.65%	126,738,598
Goodfit Manufacturing Corporation (GMC)	79.99%	25,556,920
General Satellite Communications, Inc. (GSCI)	62.00%	2,906,238
Bay Resources Development Corporation (BRADCO)	50.00%	402,000,000
AFP Theatre Enterprises, Inc. (ATEI)	50.00%	120,000,000
Total		**P 1,729,464,625**

4.2 Although only six among the subsidiaries are accounted as with existing value, all of these entities are still subject for consolidation until their registration with the Securities and Exchange Commission (SEC) is cancelled and undergone the process of liquidation. Consolidation is necessary to eliminate inter-company transactions which causes the misstatement of accounts, in order to produce a more accurate representation of the entities' financial position.

4.3 Also, in the System's separate FS, these investments are erroneously accounted under equity method, contrary to Paragraphs 10 and 12 of PAS 27, to wit:

> *When an entity prepares separate financial statements, it shall account for investments in subsidiaries, joint ventures and associates either:*
>
> *(a) at cost, or*
> *(b) in accordance with PFRS 9.*
>
> *The entity shall apply the same accounting for each category of investments. Investments accounted for at cost shall be accounted for in accordance with PFRS 5 Non-current Assets Held for Sale and Discontinued Operations when they are classified as held for sale (or included in a disposal group that is classified as held for sale). The measurement of investments accounted for in accordance with PFRS 9 is not changed in such circumstances.*
>
> *An entity shall recognise a dividend from a subsidiary, a joint venture or an associate in profit or loss in its separate financial statements when its right to receive the dividend is established.*

4.4 The investment must be accounted as "Investment in subsidiary" which is equal to the percentage of the entities' net assets or equity using PFRS 9 valuation. Improper accounting resulted in the understatement of total assets and dividend income by P583.000 million and P2.500 million, respectively, and overstatement of income from share in income from equity investment by P5.473 million, to wit (in millions):

Subsidiaries	Percentage of ownership	Carrying value as of December 31, 2018	Latest available FS	Net assets	Percentage of net assets	Over (under)	Dividend income	Share in net income from equity investment
MDC	100.00%	P 870.170	12/31/2015	P 728.947	P 728.947	P 141.223	P -	P -
BRADCO	50.00%	414.722	12/31/2016	2,276.083	1,138.041	(723.319)	-	-
ATEI	50.00%	43.991	12/31/2018	88.283	44.142	(.151)	-	(1.353)
SUMSI	100.00%	27.175	12/31/2018	27.927	27.928	(.753)	2.500	6.826
RICHI	100.00%	5.772	12/31/2005	5.772	5.772	-	-	-
RLI	100.00%	3.094	12/31/2003	3.094	3.094	-	-	-
Total		**P 1,364.924**		**P 3,130.106**	**P 1,947.924**	**P (583.000)**	**P 2.500**	**P 5.473**

4.5 In view of the foregoing, the financial statements of the System do not present a true and reliable representation of its financial condition and the results of its operations as at and for the year ended December 31, 2018.

4.6 **We reiterated our previous years' recommendations that Management:**

a. Prepare the consolidated financial statements to include the assets, liabilities and results of operations of its subsidiaries in compliance with the provisions of PAS 27;

b. Prepare the Statement of Affairs and the Statement of Realization and Liquidation of those subsidiaries and affiliates that are already closed and submit them to Commission on Audit (COA) for audit until all its assets are realized; all its liabilities are settled; and the concerned subsidiaries and affiliates are fully liquidated/dissolved in accordance with the pertinent rules and regulations of SEC; and

c. Require the responsible officials to account for and prepare the System's subsidiaries and affiliates financial statements, otherwise, failure by the officials and employees to comply to such shall be subject to administrative disciplinary action under Section 127 of P.D. No. 1445.

4.7 **We further recommended and Management agreed to require the AD to properly account and adjust the Investment in subsidiaries for fair presentation of the accounts in the FS.**

4.8 Management commented the following:

a. As stated by the auditors, the consolidation is aimed at producing a more accurate representation of the entities' financial position for a certain period. The System believes, however, that the consolidation will not provide the desired objective if the latest available FS will be used due to unreliability of the same. Further, while some closed and non-operating subsidiaries have available FS, the details are not available to identify the reciprocal accounts.

b. During the conduct of terminal audit of some of the subsidiaries, the auditors encountered difficulties validating the accounts due to the absence of the books of accounts, schedules, trial balances, and other references. There are assets reflected in the FS but the whereabouts cannot be ascertained yet and some of the assets may not be existent anymore. The System is having the same difficulty.

c. The System will endeavor to prepare the Statement of Affairs and the Statement of Realization and Liquidation of the closed subsidiaries on a best effort basis. Once finished, the same will be submitted to COA for audit.

d. As mentioned above, there is difficulty in locating for the documents in relation to the transactions of the closed subsidiaries and affiliates. Hence, the preparation of the FS cannot be done easily. Further, the responsible personnel in the management of the subject subsidiaries and affiliates at the time they were closed or ceased operations are already resigned from the System.

4.9 As a rejoinder, we consider Management's explanation for non-consolidation of FS of the subsidiaries. However, we maintain our position with regard to the consolidation of subsidiaries, namely, SUMSI, MDC, BRADCO and ATEI since they are still operating and active as of to date.

4.10 For the closed subsidiaries, the required clearance must be sought from pertinent government regulatory agencies to proceed with the dissolution and liquidation as a step to implement the liquidation of the System within the three-year period pursuant to M.O. No. 90.

5. Unreconciled balances between the GL and the SL with the difference of P6.709 million and the Report of Physical Count of the Property, Plant and Equipment (RPCPPE) against accounting records resulted in the unreliability of the balance of Property and Equipment (PE) account, contrary to Item No. 4, Paragraph V of COA Circular No. 80-124 dated January 18, 1980.

5.1 Section V of COA Circular No. 80-124 dated January 18, 1980 prescribes the guidelines for inventory-undertaking. Item No. 4 on inventory reports requires that:

> *All inventory reports shall be prepared on the prescribed form (Gen. Form No. 41-A) and certified correct by the committee in charge thereof, noted by the Auditor and approved by the head of the agency.* ***The reports shall be properly reconciled with accounting and inventory records****. (Emphasis supplied)*

5.2 The Handbook on Property and Supply Management System requires the proper reconciliation of the results of the actual inventory count of property with accounting records and any deficiencies should be noted for appropriate action and/or investigation to settle the differences.

5.3 The System's IFMS maintains SL for its PE accounts which are the basis of recording in the books by the AD. The amounts reported in the IFMS were based on the December 31, 2012 balances and any transactions for the succeeding periods were maintained manually. Comparison of the GL balances for PE accounts with the SL balances showed a difference of P6.709 million computed as follows:

Account name	Per GL	Per SL	Difference
Office machineries and equipment	P 146,859,172	P 143,766,016	P 3,093,156
Buildings/structures	91,429,579	91,429,579	-
Office furniture & fixtures	14,851,016	13,912,518	938,498
Transportation/motor vehicles	8,283,853	5,771,690	2,512,163
Books & references	165,615	-	165,615
Total	**P 261,589,235**	**P 254,879,803**	**P 6,709,432**

5.4 Likewise, comparison of the recorded book value of PE (excluding Building/structures) in the accounting records with the RPCPPE showed a variance of P18.521 million, to wit:

Account name	RPCPPE	Book value	Difference
Office machineries and equipment	P 31,860,811	P 19,505,814	P 12,354,997
Office furniture & fixtures	4,334,045	2,924,353	1,409,692
Transportation/motor vehicles	5,635,013	870,817	4,764,196
Books & references	4,379	12,735	(8,356)
Total	**P41,834,248**	**P 23,313,719**	**P 18,520,529**

5.5 Due to the unreconciled balances of the GL and SL as well as the RPCPPE with the accounting records, the reliability and the correctness of the recorded PE account balances as of December 31, 2018 could not still be ascertained as observed in CY 2017 audit.

5.6 Physical inventory report on PE was submitted by Management as proof that they conducted physical inventory taking in CY 2018. Since no COA representative was invited to witness the count, validation of the CY 2018 physical inventory report was conducted to ascertain the existence and the accuracy and reliability of the report. Thirty samples costing P70,000 and above totalling to P28.271 million out of the 4,167 PE were found and identified, therefore, the RPCPPE can be relied on to reconcile the accounting records.

5.7 **We reiterated our previous years' recommendations and Management agreed to:**

a. Require the AD to reconcile the difference between the GL and the SL both maintained in the IFMS and manually recorded; and

b. Require the AD and the General Services Department (GSD) to reconcile the Accounting records with the RPCPPE.

B. Compliance Audit

6. The conduct of physical inventory-taking by the System in CY 2018 in the absence of COA representative as observer is contrary to Item No. 1, Paragraph V of COA Circular No. 80-124 dated January 18, 1980.

6.1 Item No. 1 of Section V of COA Circular No. 80-124 dated January 18, 1980 requires that:

> *A committee shall be formed to take charge of the physical inventory-taking, consisting of two or more employees designated by the head of the agency including the property/administrative officer or custodian depending on the extent of his accountability.* ***A representative of the Auditor shall witness the inventory-taking.*** *(Emphasis supplied)*

6.2 The above-mentioned COA Circular was issued to operationalize the provisions of Section 102 of P.D. No. 1445, to wit:

> *Section 102. Primary and secondary responsibility*
>
> *(1) The head of the agency of the government is immediately and primarily responsible for all government funds and property pertaining to his agency.*
>
> *(2) Persons entrusted with the possession or custody of the funds or property under the agency head shall be immediately responsible to him, without prejudice to the liability of either party to the government.*

6.3 Interview with the assigned personnel in the inventory of the System's property and equipment from the GSD disclosed that they were incognizant that COA should be informed to be an observer in their physical inventory-taking.

6.4 The COA Circular considers the physical inventory-taking as an indispensable procedure for checking the integrity of property custodianship. In addition, inventory report is required to be prepared on the prescribed form (General Form No. 41-A) where it shall be certified correct by the Committee-in-charge, noted by the Auditor and approved by the Head of the agency.

6.5 It is clear in the said form that it must be noted by the COA Auditor. That is, the COA Auditor must at least be informed of the inventory-taking by sending an invitation because he/she cannot express "noted" without even knowing that the System is going to conduct the inventory-taking. Therefore, the System's contention that they are not aware that the presence of COA Auditor as observer is necessary during the inventory-taking, is not acceptable.

6.6 The integrity of property custodianship likewise cannot be ascertained without complying with the requirements of the COA Circular. Thus, there is a risk that the result of physical inventory cannot be relied upon in the absence of an independent observer.

6.7 **We recommended and Management agreed to:**

a. Invite/notify COA Auditor on the physical inventory to be undertaken; and

b. Require the GSD to prepare the prescribed inventory reports pursuant to COA Circular No. 80-124.

Gender and Development

7. The approved Annual Gender and Development (GAD) Plan and Budget (GPB) was not submitted to the Philippine Commission on Women (PCW) for review and endorsement to DBM and to the Audit Team for audit purposes on a timely manner, contrary to Sections 7 and 8 of PCW-NEDA-DBM Joint Circular (J.C.) No. 2012-01 and Section 5 of COA Circular No. 2014-001 due to the delayed creation of AFPRSBS' GAD Focal Point System (GFPS).

7.1 PCW-NEDA-DBM J.C. No. 2012-01 prescribes the guidelines and procedures for the formulation, development, submission, implementation, monitoring and evaluation including accounting of results of agency annual GPB and GAD accomplishment reports (ARs). Section 8 on the submission, review and endorsement of agency GPB provides that:

> *8.1 Pursuant to Section 37A.1 of the MCW-IRR, all agencies, offices, bureaus and all government instrumentalities and others concerned shall formulate their annual GPBs within the context of their mandates.*
>
> *8.1.1 GOCCs attached to line departments shall prepare their GPBs in accordance with their budget cycle and shall submit the same to their central office for review.*
> *8.1.2 Xxx*
>
> *8.2 The GFPS of the agency shall review all submitted GPBs and as needed, provide comments or recommendations for revision. Xxx. The GFPS shall then submit the final GPBs*

and the corresponding GAD ARs to PCW for review and endorsement to DBM.

7.2 Accordingly, the schedule to be observed in GAD planning and budgeting was also provided in Section 7 of the J.C., to wit:

i. <u>*September 2 (2 years before budget year)*</u> *– PCW issues notification letters to all line departments or central offices for the submission of their annual GPB and GAD ARs to PCW. (Note: GPB for the following year must be accompanied by the GAD AR of the preceding year)*

ii. *Xxx*

v. <u>*January (1 year before budget year)*</u> *– Submission of reviewed GPBs and ARs to PCW. Xxx*

7.3 Also, Section 5 of COA Circular No. 2014-001 dated March 18, 2014 provides:

The Audited agency shall submit a copy of the Annual GAD Plan and Budget (GPB) to the COA Audit Team assigned to the agency within five (5) working days from the receipt of the approved plan from the PCW or their mother or central offices, as the case maybe. Likewise, a copy of the corresponding Accomplishment Report shall be furnished the said Audit Team within five (5) working days from the end of January of the preceding year.

7.4 In compliance with prior year's audit recommendation, the System recently created a GAD Focal Point System/Technical Working Group chaired by the Human Resource Office (HRO) Head as per Personnel Order HRO No. 05-03-2018 dated March 19, 2018. The committee is responsible in the preparation of the GPB, Programs, Projects and Activities and GAD related policies in accordance with the PCW Guidelines.

7.5 The System's GPB for CY 2018 was finalized on October 5, 2018 and was submitted to PCW for review and endorsement to DBM on the same month. PCW did not accept the GPB report since it was submitted after the deadline set in the PCW Memorandum Circular (M.C.) No. 2016-05 for CY 2018 GPB which is on January 31, 2017. On the same M.C., the submission, review and endorsement of GPBs and GAD ARs shall be coursed through the Gender Mainstreaming Monitoring System (GMMS), the PCW online system for managing GAD profiles, GPBs and GAD ARs, as well as for generating GAD-related reports. However, the System did not register hitherto.

7.6 Moreover, Management submitted its CY 2018 GPB to COA Audit Team on March 6, 2019. It has been the practice of Management to submit the said report only when COA requests for copy of the same which is not in consonance with COA Circular No. 2014-001. As a result, prompt review of these documents could not be undertaken, thus any observation that may be noted in the process, if any, could not be communicated to Management on time.

7.7 Foregoing considered, the oversight agencies forego its opportunity to use their expertise to further improve the System's GPB and GAD AR to be more responsive to the purpose of R.A. No. 9710.

7.8 **We recommended and Management agreed to:**

a. Direct the GAD Focal Person to ensure that the GPB and the corresponding AR are reviewed and endorsed by PCW to DBM in accordance with PCW-NEDA-DBM Joint Circular No. 2012-01 before its implementation, and to submit the same to the Audit Team within the prescribed period as required in Section 5 of COA Circular No. 2014-001; and

b. Register online to the GMMS for the yearly submission of the GPBs and GAD ARs.

8. Status of Suspensions, Disallowances and Charges

8.1 As at year-end, the status of audit suspension, disallowances and charges issued is as follows:

Audit Action	Beginning balance 01/01/2018	Issued this period	Settled this period	Ending balance 12/31/2018
Suspensions	P -	-	P -	P -
Disallowances	251,567,707	-	1,175,615	250,392,092
Charges	16,270,683	-	16,270,683	-
	P 267,838,390	**-**	**P 17,446,298**	**P 250,392,092**

8.2 The Notice of Disallowance (ND) on the overpriced land acquisition by the System in the amount of P250.318 million and the corresponding Notice of Charge (NC) on the deficiency taxes on the overpriced land amounting to P16.271 million were affirmed by the Commission Proper (CP) under COA Decision Nos. 2012-188 and 2012-139 dated November 5, 2012 and September 13, 2012, respectively. Moreover, the Motion for Reconsideration (MR) filed by the System on the COA Decisions was denied under CP En Banc Resolution dated February 27, 2015. Accordingly, a Notice of Finality of Decision (NFD) and COA Order of Execution (COE) were issued.

8.3 Furthermore, the Supreme Court (SC) promulgated its Decision under G.R. No. 217948 dated January 12, 2016 on the Petition for Certiorari for the ND on the overpriced land acquisition affirming COA Decision No. 2012-188 dated November 5, 2012.

8.4 The System has partially collected from the person liable amounting to P1,175,614 as of December 31, 2018.

8.5 The NC numbered N.C. No. 2010-07-001 in CY 1996 is considered as settled under NSSDC No. 18-001 dated June 27, 2018 due to the SC decision under

G.R. No. 213716. The Court found that it was incongruent to disallow the difference of P250.318 million but, at the same time, charge P16.271 million against the petitioner for the alleged underpaid taxes. Considering that the amount is being held as the correct purchase price of the sale, the correct taxes in the amount of P5.917 million have already been settled. To demand more on the ground that all income from whatever sources is taxable would unjustly enrich the government.

8.6 The details of the other disallowances that were issued in CY 2016 in the total amount of P1.250 million includes: (a) disallowances awaiting decision of the CP on gasoline withdrawn from AFP Commissary and Exchange Services (AFPCES) using private vehicles, granting of rice subsidy in excess of the allowable P1,500 per sack and granting of monthly cell card subsidy to a postpaid plan holder and claims for communication allowance while on official travel amounting to P534,132, P236,656 and P27,720, respectively; (b) granting of cash gift amounting to P325,999; and (c) granting of loyalty award to six AFPRSBS employees amounting to P125,000.