**OBSERVATIONS AND RECOMMENDATIONS**

1. **Financial Audit**
2. **The going concern assumption was still used/adopted by Armed Forces of the Philippines Retirement and Separation Benefits (AFPRSBS) as basis in the preparation of its financial statements (FS) for the year ended December 31, 2022, and its comparative period despite its imminent liquidation pursuant to Memorandum Order (MO) No. 90 which directs the abolition of the AFPRSBS and privatization of its subsidiaries. The continued presentation and measurement of the account balances in this manner is not in consonance with the Revised Conceptual Framework for Financial Reporting (CFFR), Philippine Accounting Standards (PAS) 1, and PAS 10.**
	1. Paragraph 3.9 of the Revised CFFR provides:

*Financial statements are normally prepared on the assumption that the reporting entity is a going concern and will continue in operation for the foreseeable future. Hence, it is assumed that the entity has neither the intention nor the need to enter liquidation or to cease trading.* ***If such an intention or need exists, the financial statements may have to be prepared on a different basis.*** *If so, the financial statements describe the basis used.* (Emphasis supplied)

* 1. Likewise, Paragraphs 15 and 25 of PAS 1 on the Presentation of FS provide:

*15. The financial statements must* ***present fairly*** *the financial position, financial performance and cash flows of an entity.* ***Fair presentation requires the faithful representation of the effects of the 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*

*25. When preparing financial statements, management shall make an assessment of an entity’s ability to continue as a going concern****. An entity shall prepare financial statements on a going concern basis unless management either intends to liquidate the entity or to cease trading, or has no realistic alternative but to do so****. When management is aware, in making its assessment, of material uncertainties related to events or conditions that may cast significant doubt upon the entity’s ability to continue as a going concern, the entity shall disclose those uncertainties. When an entity does not prepare financial statements on a going concern basis, it shall disclose that fact, together with the basis on which it prepared the financial statements and the reason why the entity is not regarded as a going concern.* (Emphasis supplied)

* 1. Moreover, Paragraphs 14 and 15 of PAS 10 on Events After the Reporting Period provide:

*14.* ***An entity shall not prepare its financial statements on a going concern basis if management determines after the reporting period either that it intends to liquidate the entity or to cease trading, or that it has no realistic alternative but to do so.***

*15. Deterioration in operating results and financial position after the reporting period may indicate a need to consider whether the going concern is still appropriate. If the going concern assumption is no longer appropriate, the effect is so pervasive that this Standard requires a fundamental change in the basis of accounting, rather than an adjustment to the amounts recognized within the original basis of accounting.* (Emphasis supplied)

* 1. In the review of the FS for the year ended December 31, 2022, the Audit Team observed that the going concern assumption was still used in the preparation of the AFPRSBS FS despite the issuance of MO No. 90, series of 2016, directing its abolition.
	2. Under Governance Commission for GOCCs (GCG) Memorandum Circular (MC) No. 2015-03 dated April 8, 2015, which sets the guidelines covering the merger or abolition/dissolution of a government-owned and/or controlled corporations (GOCCs), the term “abolition” under Section 5(a) of Republic Act (RA) No. 10149 is a generic term that lawfully covers the following legal processes:
1. *Dissolution*, which is the point in time when a GOCC **ceases to exist as a going concern** or for pursuit of its business purpose, and its juridical capacity remains only for purposes of winding-down its affairs and the liquidation of its assets. The date of dissolution shall be effective upon the issuance of the President’s approval of the GCG’s recommendation to abolish a GOCC. (Emphasis supplied)
2. Liquidation, which takes place immediately after dissolution involves, but is not limited to, the settlement and adjustment of claims against the GOCC, payment of its just debts, and collecting all that is due the corporation. In no case shall the period of Liquidation of a GOCC exceed three (3) years pursuant to the Corporation Code.
	1. In relation thereto, the same Circular also provides that in abolishing a chartered GOCC, the point of abolition takes effect upon the approval of the President of the recommendation of GCG to abolish the GOCCs through the issuance of an Executive Order (EO). Likewise, the issuance of the EO causes the formal dissolution of the GOCC, which thereafter ceases to exist as a going concern, and trigger the process of liquidation of its business enterprise. The abolished GOCC shall be liquidated in accordance with the terms and conditions provided for in the EO which seeks to safeguard the assets, business enterprise, programs and activities of the abolished GOCC under the terms and procedures for the best interests of the GOCC’s stakeholders.
	2. Moreover, it is worth noting that under the Revised CFFR, FS are normally prepared on the assumption that an entity is a going concern and will continue in operation for the foreseeable future. In addition, as mentioned earlier under Paragraph 25 of PAS 1, the FS shall be prepared on a going concern basis unless Management either intends to liquidate the entity or to cease trading or has no realistic alternative but to do so. Hence, it is assumed that the entity has neither the intention nor the need to liquidate or curtail materially the scale of its operations. If such an intention or need exists, the FS will have to be prepared on a basis which is other than a going concern basis, sometimes referred to as a liquidation basis and, if so, the basis is disclosed.
	3. A clear reading of the Notes to FS particularly Note 2 thereof disclosed that the AFPRSBS has still adopted the going concern assumption and will continue operating in the normal course of business, and do not include any adjustment relating to the recoverability of asset carrying values or the amount of liabilities that might result in the AFPRSBS’ inability to continue its operations in the normal course of business. Hence, the FS are still prepared under the going concern basis.
	4. However, the assumption stated in the immediately preceding paragraph is negated when MO No. 90 was issued effectively abolishing the AFPRSBS. Apparently, the issuance of MO No. 90 causes the formal dissolution of AFPRSBS, which thereafter effectively ceases as a going concern, and trigger the process of liquidation of its normal course of business. Specifically, MO No. 90 enumerated that the AFPRSBS Board shall act as a Board of Liquidators (BOL), to which they are directed to act, such as, but not limited to the following:
3. Cease collecting members’ contributions (MCs) and accrual of interest thereon;
4. Collect all indebtedness due to the AFPRSBS;
5. Enter contracts for the following purpose:
	1. Sell all its real estate assets, such as, but not limited to, subdivision lots, house and lots, memorial lots, raw lands and all acquired assets in accordance with the existing internal policies of AFPRSBS;
	2. Sell its golf and country club shares, and all other personal properties;
	3. Manage, preserve and maintain its buildings, facilities and equipment in line with the winding down activities;
	4. Complete deliverables to subdivisions, and turn over completed subdivisions to LGUs and homeowners’ association; and
	5. Maintenance and preservation of existing projects and properties, including security services, insurance, etc.
	6. The preceding enumerated activities must be undertaken by the BOL to liquidate the AFPRSBS. Thus, the preparation of the FS under the going concern assumption finds no basis due to the issuance of MO No. 90.
	7. Consequently, AFPRSBS should have prepared its FS under the liquidation basis from the time of the effectivity of MO No. 90 on April 8, 2016 considering that its dissolution and liquidation becomes apparent and imminent.
	8. In like manner, the AFPRSBS should have disclosed, as to the basis of accounting in a set of FS prepared, a basis other than the going concern and make an explicit and unreserved statement of compliance with Philippine Financial Reporting Standards (PFRS) in the Notes to FS.
	9. Under Philippine Interpretations Committee Question and Answer No. 2009-01, FS prepared on a basis other than going concern can be considered compliant with PFRS if the FS comply with all the requirements of PFRSs, including the relevant PFRS guidance for the measurement of assets, liabilities and equity and recognition of income, expenses, gains and losses.
	10. Furthermore, appropriate disclosures in accordance with Paragraph 25 of PAS 1 should be made to describe the basis of accounting and its impact on the accounting policies selected. PAS 1 requires the following disclosures:
6. The fact that the FS are not prepared on a going concern basis;
7. The basis on which the FS are prepared; and
8. The reason why the entity is not regarded as a going concern.
	1. Foregoing considered, the continued presentation, recognition and subsequent measurement of assets and liabilities under the going concern assumption affects the fair presentation of the FS which may not assist the users of those FS in their assessment of the amount of cash or other assets that they might reasonably expect to receive after the liquidation process is completed.
9. **We recommended that Management:**
10. **Prepare the FS and its comparative period using the liquidation basis of accounting; and**
11. **Make appropriate disclosures in the Notes to FS taking into consideration the provisions under Paragraph 25 of PAS 1.**
12. The Management commented that:
	* + 1. MO No. 90 was issued primarily due to the depletion of its Retained Earnings. Likewise, as provided in the same order, the GCG recommended the abolition of AFPRSBS, and upon approval of the President of the Philippines, GCG will implement such abolition unless another agency is otherwise designated;
			2. The thrust of the AFPRSBS now is to transfer all its remaining assets to an entity that will be identified by its supervising agency, the Department of National Defense (DND). A proposal to transfer the remaining assets of AFPRSBS to another entity is being drafted and will be submitted to the AFPRSBS BOL for its approval and endorsement to the approving authority.
			3. Furthermore, the Accounting Standards Update No. 2013-07 issued in April 2013 provides for the guidelines in the Liquidation Basis of Accounting. The update was issued to clarify when an entity should apply the liquidation basis of accounting.
			4. Based on the said reference, liquidation is imminent when the likelihood is remote that the entity will return from liquidation and either:
13. A plan for liquidation is approved by the person or persons with the authority to make such a plan effective and the likelihood is remote that the execution of the plan will be blocked by other parties; or
14. A plan for liquidation is being imposed by other forces (e.g. involuntary bankruptcy).
	* + 1. The first criterion cannot be considered as fully applicable to the AFPRSBS. Although its abolition was already approved per MO No. 90 of 2016, the last whereas clause of the said memo still allows for the stoppage of the implementation when another agency is designated. The second criterion does not also apply to AFPRSBS since it is not bankrupt as shown in its latest FS.
			2. Moreover, the liquidation of the AFPRSBS is not imminent at this time considering the plan to transfer its remaining assets to another entity. The manner of transfer is still for decision which can also be in the form of merger.
			3. Thus, the AFPRSBS believes that the preparation of the FS can still be made in the going concern assumption.
15. As a rejoinder, the Audit Team would like to emphasize the importance of presenting the FS under a basis other than the going concern to fairly present not only the results of operations but also its current financial condition.

1. We reiterate that MO No. 90 is straightforward in declaring the abolition of the AFPRSBS which negates the assumption of the Management that it is still operating under a going concern. As can be gleaned from the provisions of MO No. 90, it clearly and unequivocally declared that the AFPRSBS is already abolished. More so, the said order also provides for its winding down and liquidation.
2. Likewise, the first criteria as provided in Accounting Standards Update No. 2013-07 is fully applicable to the AFPRSBS since there is a Liquidation Plan (LP) approved by the GCG. Moreover, the activities specified in MO No. 90 and LP in relation to winding down of the AFPRSBS such as selling its real estate assets, ceasing of the collection and refunding of MCs are already being made by the Management. Foregoing considered, until MO No. 90 is repealed and/or amended, the mandate of abolishing the AFPRSBS and its eventual liquidation shall prevail. Hence, there is no reason for the Management to assume that it is still operating under a going concern.
3. Moreover, the statement “unless another agency is otherwise designated” as provided in the last whereas clause of MO No. 90 pertains to the agency (other than GCG) that will implement and supervise the said abolition and does not refer to stoppage of the implementation of the said order. A clear reading of the last whereas clause reveals that it is the GCG which is primarily tasked to carry out the abolition of the AFPRSBS unless another agency is designated by the President to implement the provisions of MO No. 90.
4. Foregoing considered, we maintain our recommendation that Management prepare the FS and its comparative period using the liquidation basis of accounting, and make appropriate disclosures in the Notes to FS as provided under Paragraph 25 of PAS 1.
5. **The FS of AFPRSBS and that of its other subsidiaries where it has investments totaling P1.116 billion were not consolidated. Accordingly, the parent and subsidiary reciprocal account balances were not all eliminated, contrary to the pertinent provisions of PFRS 10 – *Consolidated Financial Statements*, thus, casting doubt on the reliability and accuracy of the financial condition and results of the operations of the AFPRSBS as at and for the year ended December 31, 2022.**
	1. This is a reiteration with modifications of prior years' (PY) Audit Observation (AO) as embodied in the Calendar Years (CYs) 2018, 2020, and 2021 Annual Audit Report (AAR).

* 1. PFRS 10 – Consolidated Financial Statements sets the requirements for the preparation and presentation of consolidated FS, requiring entities to consolidate entities it controls provides:

*Paragraph 4 requires an entity that is a parent to present consolidated financial statements except if it meets all of the following conditions:*

1. *It is a wholly-owned subsidiary or is a partially-owned subsidiary of another entity and all its other owners, including those not otherwise entitled to vote, have been informed about, and do not object to, the parent not presenting consolidated financial statements;*
2. *Its debt or equity instruments are not traded in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets);*
3. *It did not file, nor is it in the process of filing, its financial statements with a securities commission or other regulatory organization for the purpose of issuing any class of instruments in a public market; and*
4. *Its ultimate or any intermediate parent produces consolidated financial statements that are available for public use and comply with PFRSs.*

*Paragraphs 19 and 21 requires a parent to prepare consolidated financial statements using uniform accounting policies for like transactions and other events in similar circumstances and that in preparing consolidated financial statements, a parent shall:*

1. *Combine like items of assets, liabilities, equity, income, expenses and cash flows of the parent with those of its subsidiaries;*
2. *Offset (eliminate) the carrying amount of the parent’s investment in each subsidiary and the parent’s portion of equity of each subsidiary; and*
3. *Eliminate in full intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between entities of the group. Xxx*

*Paragraph 21 further provides that the financial statements of the parent and its subsidiaries used in the preparation of the consolidated financial statements shall have the same reporting date. When the end of the reporting period of the parent is different from that of a subsidiary, the subsidiary prepares, for consolidation purposes, additional financial information as of the same date as the financial statements of the parent to enable the parent to consolidate the financial information of the subsidiary, unless it is impracticable to do so.*

*If it is impracticable to do so, the parent shall consolidate the financial information of the subsidiary using the most recent financial statements of the subsidiary adjusted for the effects of significant transactions or events that occur between the date of those financial statements and the date of the consolidated financial statements. In any case, the difference between the date of the subsidiary’s financial statements and that of the consolidated financial statements shall be no more than three months. Xxx*

* 1. As at December 31, 2022, the AFPRSBS has a total investment of P1.116 billion in stocks of its subsidiaries wherein the corresponding FS were not consolidated with the FS of AFPRSBS due to the non-submission of related reports from most of its subsidiaries which are already non-operating, while others are either subject to liquidation and/or for disposal. Details are presented in Table 2.1.

**Table 2.1 – Schedule of AFPRSBS’ Subsidiaries and their Status of Operations**

**As at December 31, 2022**

| **Subsidiaries**  | **Percentage of ownership** | **Status of operation (Per AFPRSBS)** | **Cost of investment** | **Additions/ (Deductions)\*** | **Carrying value as** **at December 31, 2022** |
| --- | --- | --- | --- | --- | --- |
| Resources Investment House | 100.00 | Ceased operations in 2004 | P 300,000,000  | P (297,227,545) | P 2,772,455 |
| RSBS Land Inc. | 100.00 | Ceased operations in 2004 | 70,000,000  | (69,733,205) | 266,795 |
| Matrix Realty Development Corporation  | 100.00 | Ceased operations in 2005 | 35,931,250  | (35,931,250) | 0 |
| Fashion Link Corporation  | 100.00 | Ceased operations in 1998 | 20,100,000  | (20,100,000) | 0 |
| Globan Fruits and Development Corporation  | 100.00 | Ceased operations in 2003 | 10,000,000  | (10,000,000) | 0 |
| RSBS Enterprises, Inc.  | 100.00 | Ceased operations in 2004 | 2,500,000  | (2,500,000) | 0 |
| Veterans Electronics Communications, Inc.  | 90.65 | Ceased operations in 1999 | 126,738,598  | (126,738,598) | 0 |
| Goodfit Manufacturing Corporation (GMC) | 79.99 | Ceased operations in 2004 | 25,556,920  | (25,556,920) | 0 |
| General Satellite Communications, Inc. | 62.00 | Never operated/for write off | 2,906,238  | (2,906,238) | 0 |
| Bay Resources Development Corporation (BRADCO) | 50.00 | Active | 402,000,000  | 736,041,387 | 1,138,041,387 |
| AFP Theater Enterprises, Inc. | 50.00 | Ceased operations on December 31, 2021 | 120,000,000  | (116,897,096) | 3,102,904 |
| **Total** |  |  | **P 1,115,733,006** | **P 28,450,535** | **P1,144,183,541** |

\**Sum total of disposal or additional investments, liquidating dividends, allowance for probable losses and share in equity income or loss.*

* 1. The aforesaid subsidiaries of the AFPRSBS are still subject for consolidation with AFPRSBS’ FS until the cancellation of their respective registrations with the Securities and Exchange Commission and the completion of the liquidation process. Emphasis is given on the objective of consolidating the FS in eliminating the inter-company transactions and presenting more accurate financial position. The Audit Team noted that only the FS of MDC, with investment cost in the amount of P873.927 million and a recorded carrying amount of P344.989 million, was consolidated with the FS of AFPRSBS as at reporting date. All other subsidiaries in the Table 2.1 are presented under the Other non-current assets account disclosed in Note 12.1 of the Notes to FS.
	2. Inquiry with Management revealed that the non-consolidation of AFPRSBS’ FS and the FS of all subsidiaries is due to the absence of an updated and audited FS of the said subsidiaries identified as either closed or have ceased operations. Further, according to Management, the preparation of annual FS of the non-operating subsidiaries and affiliates/controlled entities is impractical at this point because of the non-availability of the relevant documents and the manpower to conduct such endeavor as mandated under MO No. 90, directing the abolition of the AFPRSBS including its winding down and liquidation. Furthermore, it may incur additional costs which may affect the ongoing refund of contributions to the members of AFPRSBS.
	3. Nevertheless, the above existing conditions are not among those provided under Paragraph 4 of PFRS 10 to exempt AFPRSBS from the consolidation of its FS and all the subsidiaries. Moreover, the preparation of Statements of Affairs and Statement of Realization and Liquidation of the non-operating/closed subsidiaries must be pursued based on the principles of accountability and transparency in the management of government funds. Likewise, the dissolution of corporate life and liquidation of the assets of these non-operating/closed subsidiaries must be given consideration as part of the directive of MO No. 90.
	4. Since the consolidation of the assets, liabilities, and results of operations of all its subsidiaries in the FS of AFPRSBS was not undertaken, the parent and subsidiaries’ reciprocal account balances were not all eliminated. Accordingly, the consolidated FS of the AFPRSBS 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, 2022.
1. **We reiterated with modifications our PYs’ audit recommendations that Management:**
2. **Prepare the consolidated FS to include the assets, liabilities, and results of operations of all the subsidiaries in compliance with the provisions of PFRS 10; and**
3. **Eliminate all parent and subsidiary reciprocal account balances during the process of consolidation to ensure accurate presentation of the Investment in subsidiaries presented under the Other non-current assets account in the FS.**
4. **We further recommended that Management:**
5. **Conduct an inventory of the assets of the subsidiaries with investment costs totaling P1.116 billion;**
6. **Prepare/update the corresponding FS of the aforesaid subsidiaries; and**
7. **Take actions to officially dissolve the non-operating/closed subsidiaries’ corporate life and liquidate the assets accordingly.**
8. **The Allowance for Impairment computed using a method other than that required under PFRS 9 – *Financial Instruments*, resulted in the overstatement by undetermined amounts of the Receivables, Loans Receivables, Installment Contract Receivable (ICR) and Investment in bonds stated at P859.370 million, P1.091 billion, P325.778 million and P2.349 billion, respectively, as at December 31, 2022.**
	1. This is a reiteration with modifications of PY’s AO as embodied in the CY 2021 AAR.
	2. Paragraphs 5.5.1 and 5.5.3 of PFRS 9 state that:

*An entity shall recognise a loss allowance for expected credit losses on a financial asset that is measured in accordance with paragraphs 4.1.2 or 4.1.2A, a lease receivable, a contract asset or a loan commitment and a financial guarantee contract to which the impairment requirements apply in accordance with paragraphs 2.1*(g), 4.2.1(c) or 4.2.1(d).

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*at each reporting date, an entity shall measure the loss allowance for a financial instrument at an amount equal to the lifetime expected credit losses if the credit risk on that financial instrument has increased significantly since initial recognition.*

* 1. Moreover, Paragraph 5.5.9 of PFRS 9 states that:

***At each reporting date, an entity shall assess whether the credit risk on a financial instrument has increased significantly since initial recognition.*** *When making the assessment, an entity shall use the change in the* ***risk of a default*** *occurring over the expected life of the financial instrument instead of the change in the amount of expected credit losses. To make that assessment, an entity shall compare the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and consider reasonable and supportable information, that is available without undue cost or effort, that is indicative of significant increases in credit risk since initial recognition.* (Emphasis supplied)

* 1. Note 3.5 to the FS on the accounting policy for Impairment of Financial Assets disclosed that AFPRSBS adopts the expected credit loss (ECL) model in measuring credit impairment in accordance with PFRS 9. In this respect, it shall recognize credit impairment/allowance for credit losses even before an objective evidence of impairment becomes apparent and the amount of the loss shall be recognized in profit or loss.
	2. Our audit, however, revealed that for the various reported outstanding receivables and investments in fixed income securities in CY 2022, only the Accounts receivables (AR)-Trade, AR-Others, Loans receivables and ICR were provided with allowance for impairment as shown in Table 3.1. These provisions were based on a method other than that required under PFRS 9 contrary to the accounting policy disclosed in Note 3.5.

**Table 3.1 AFPRSBS’ Various Receivables and Fixed Income Securities**

**As at December 31, 2022**

|  |  |  |  |
| --- | --- | --- | --- |
| **Account** | **Amount** | **Allowance for doubtful accounts** | **Balance** |
| **Receivables:** |  |  |  |
| AR, Trade | P 239,592,273  | P 5,130,003 | P 234,462,270 |
| AR, Others | 581,263,701  | 72,804,367 | 508,459,334 |
| Accrued Interest and Dividend Receivable | 38,513,642  | 0 | 38,513,642 |
| Loans Receivables | 1,090,642,360 | 242,858,989 | 847,783,371 |
| ICR | 325,778,449 | 88,644,387 | 237,134,062 |
| **Investments** |  |  |  |
| Current Portion of Investment in Bonds and Commercial Papers | 1,550,000,000  | 0 | 1,550,000,000 |
| Non-current portion of Investment in Bonds & Commercial Papers | 799,471,339  | 0 | 799,471,339 |
| **Total** | **P 4,625,261,764** | **P 409,437,746** | **P 4,215,824,018** |

* 1. Management provided only 13 per cent allowance for AR, Others account and 22 per cent for Loans Receivables account despite the apparent low collection facility of the outstanding collectibles. Factors such as the credit risk and probability of default of borrowers should have been considered as basis in providing the appropriate allowance for impairment on the receivable accounts.
	2. Inquiry with Management on the existing policy of the AFPRSBS revealed that they will no longer provide allowance for probable losses for the ICR account since the title of the properties subject of the ICR are not yet transferred to the buyers unless fully settled.
	3. As to the investment in bonds recorded and measured at fair values, PFRS 9 requires the assessment of the risk through daily monitoring of cash flows in consideration of future payment due dates and daily amounts of collection as basis for the impairment, hence, subject for any impairment. The same standard allows the recognition of credit impairment/allowance for credit losses even before an objective evidence of impairment becomes apparent for financial assets.
	4. The non-computation of allowance for impairment loss based on the requirements of PFRS 9 is likewise a violation of the concept of prudence under the Revised CFFR which requires entities to use caution when making judgments to properly value its assets and liabilities to avoid the misstatement of account balances, such as the overstatement and understatement of the accounts. The overstatement of AFPRSBS’ assets caused by insufficient provision of allowances is considered not in accordance with Paragraph 15 of PAS 1 which requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, revenue and expenses set out in the Revised CFFR.
1. **We reiterated with modifications our PY’s audit recommendations that Management:**
2. **Provide allowance for impairment for the AFPRSBS’ financial assets based on ECL; and**
3. **Secure Board’s approval to set up any additional provisions to recognize the said impairment on financial assets.**
4. Management commented that the AFPRSBS has an existing policy on providing allowance for probable losses and writing-off of accounts. (Policy No. CPO-001-2017 dated July 26, 2017), which covers the provision for allowances of the receivables and investment accounts that are considered to be uncollectible or worthless. Management further commented that adjustments will be done as needed based on existing policy.
5. As a rejoinder, the Audit Team noted that the above-mentioned policy does not provide any guidelines on the ECL in accordance with PFRS 9. Hence, we maintain our recommendations.
6. **We further recommend that the mentioned policy on providing allowance for probable losses and writing-off of accounts be updated/revised to comply with the requirements of PFRS 9.**

1. **The accuracy and fair presentation of the MCs Payable and Estimated Liability on Earnings of MCs accounts in the FS amounting to P1.285 billion and P785.431 million, respectively, as at December 31, 2022, could not be established due to the presence of unreconciled amount of P116.560 million between the General Ledger (GL) and Subsidiary Ledger (SL) balances.**
	1. This is a reiteration with modifications of PYs’ AO as embodied in the CYs 2018, 2019, 2020 and 2021 AARs.

* 1. Paragraph 15 of PAS 1 on fair presentation and compliance with 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. PD No. 361 (s. 1973) established the AFPRSBS and gave it the mandate to provide a self-reliant funding scheme and continuous financial support to the Armed Forces of the Philippines (AFP) retirement system. In 2003, it was established by the *Feliciano Commission Report* that AFPRSBS was “fundamentally flawed” and had not discharged its mandate. Hence, EO No. 590 (s. 2006), as amended by EO No. 590-A (s. 2007) were issued mandating the deactivation of AFPRSBS, including its winding down and liquidation, but the same were not fully implemented.
	2. Further, on April 8, 2016, MO No. 90 was issued to direct the abolition, winding down and liquidation of the AFPRSBS. The cessation of collecting MCs, accrual of interest thereon and its refund to members as they fall due, are among the main purpose of MO 90.
	3. On April 19, 2016, pursuant to the same MO, the AFPRSBS’ Board of Trustees convened as the BOL. The BOL issued Board Resolution No. SPL-01-2016 which approved the stoppage of the collection of five per cent MCs and the accrual of interest thereon effective March 31, 2016.
	4. As at December 31, 2022, the balances of the MCs Payable and Estimated Liability on Earnings of MCs accounts in the FS amounted to P1.285 billion and P785.431 million. The MCs Payable account represents the total accumulated MCs to be refunded by the AFPRSBS to its members upon their retirement, separation, or discharge from active service, while the Estimated Liability on Earnings of MCs refers to the interest earned from the said contributions. Furthermore, all MCs Payable and Estimated Liability on Earnings of MCs were classified as current liability in consonance with AFPRSBS plan of paying all the remaining members by CY 2023.
	5. The total amount of P2.070 billion for the two accounts represents 70 per cent of the P2.972 billion total liabilities of the AFPRSBS as at
	December 31, 2022.

* 1. In maintaining the MCs payable and estimated earnings on MCs accounts, every member of the AFPRSBS has an SL card where his/her contributions and corresponding earned interest are posted. However, the Accounting Department (AD) was not able to provide the Audit Team of said ledgers of members, instead, the AD submitted a list extracted from the Integrated Financial Management System (IFMS) as at July 2015 which is still under reconciliation with the balance of the MCs payable per books. As at report date, the AD is continuously reconciling the data retrieved from the IFMS simultaneous with the processing of the member’s refund by the Membership Department. According to them, once they can ascertain the correctness of the balance of each member’s account, they will be able to compute the total contributions including the estimated interest on MCs earnings.
	2. The individual SLs of the members in the IFMS contain all their monthly contributions except for some observed unposted contributions of which records are still being traced/validated against the printed Remittance Lists. While there is an individual SL for each member in the IFMS, the computerized system does not provide for a facility to generate reports pertaining to outstanding MC. Thus, in CY 2015, an expert was hired to extract the members’ individual ledger from the IFMS and converted it into an excel file, and it was found out that there was a variance between the balances per books and balances per IFMS of the MCs Payable account.
	3. As at December 31, 2022, the unreconciled variance between the GL and the extracted balances of the MCs Payable account from the IFMS was reduced to P116.560 million from P596.622 million on July 31, 2015, as shown in Table 4.1.

**Table 4.1 - Status of the CY 2015 Reconciliation of books/GL Balances**

**with IFMS SL Balances of the MCs account**

**As at December 21, 2022**

|  |  |  |  |
| --- | --- | --- | --- |
| **Calendar Year** | **Per books/GL** | **Per IFMS SL** | **Variance** |
| December 31, 2021 | P 10,844,040,316 | P 11,440,662,372 | P 596,622,056 |
| December 31, 2022 | P 1,285,198,377 | P 1,401,758,644 | P 116,560,267 |

* 1. To date, the continuous updating of the accounts is being performed by the AFPRSBS to determine the accurate amount of refund of MCs including the interest earned thereon.
	2. In addition, according to the AD, the variance in MCs is still unreconciled despite the lapse of almost seven years from the time it was discovered due to the following:
	3. Some members who were already refunded of their contributions are still included in the list, such as those who were refunded in CYs 2012 and 2013 via manual processing due to the crash of the IFMS2 in CY 2012;
	4. Some members have duplicate records whose refunds were based on the consolidated record, but the other record was not deleted/cleansed. Hence, the contributions on the said record remain outstanding;
	5. Some members have two different assigned serial numbers, hence, even if the refund is already made to such members, their other records of different serial numbers will remain open/outstanding; and
	6. Lack of adequate manpower who will focus solely on reconciliation.
	7. On the other hand, the Management mentioned that their priority at this time is to refund first all the contributions to members and later work on the reconciliation of members’ accounts in order not to hamper the repayment process being made while the reconciliation is ongoing.
	8. While we recognize Management’s effort of reconciling the P596.622 million noted variances in the CY 2015 audit which was reduced to P116.560 million as at report date, the said amount remains substantial. It is to be emphasized that the AFPRSBS’ responsibility to have a complete, updated, and accurate SLs of the MCs payable and Estimated liability on Earnings of MCs accounts are indispensable because these are the bases in the computation of the members’ refund of their contributions and interest earned. Failure to do so may result in under or overpayment of refunds and may adversely affect the timely refund of the benefits that will consequently prolong the liquidation process of the AFPRSBS.
	9. Thus, the non-reconciliation of the variance of P116.560 million between the balances per GL and IFMS SL of the MCs Payable and Estimated Liability on Earnings of MCs accounts amounting to P1.285 billion and P785.431 million, respectively, affected the accuracy and fair presentation of these accounts in the FS as at December 31, 2022.
1. **We reiterated our PYs’ audit recommendations that Management:**
2. **Reconcile the IFMS SLs with the books of accounts/GL maintained by the AD in preparation for the transfer of MCs records to the Government Financial Institution Trustee in accordance with EO Nos. 590 and 590-A, as amended by MO No. 90; and**
3. **Designate specific personnel who will focus on the reconciliation of accounts including the preparation of the complete schedule and/or list of members with outstanding balances to support the balances of the MCs payable and the Estimated liability on Earnings of MCs accounts.**
4. The Management ensures that it will continuously reconcile the balance of MCs account per books with the SL available in the IFMS 2 and will double its effort to accelerate the progress of the collections.
5. According to the Management, the accounts for reconciliation were distributed to the Membership Accounting Branch personnel. The delay in the reconciliation is due to the non-renewal of contract and resignation of some concerned personnel.
6. **The correctness and fair presentation of the balances of the Real estate inventories and the Landbanking assets accounts with net carrying values of P3.531 billion and P1.748 billion, respectively, as at December 31, 2022 could not be ascertained due to: a) Unreconciled variances between the total land area per records and actual inventory of Transfer Certificates of Title (TCTs) amounting to P84.442 million; and b) Unrecorded seven (7) projects/ properties consisting of 120 TCTs in the books, contrary to Paragraph 2.23 of the Revised CFFR, and Section 112 of Presidential Decree (PD) No. 1445.**
	1. This is a reiteration with modifications of PYs’ AO as embodied in the CYs 2018, 2020, and 2021 AAR.

*Net variance of 146,010 square meter (sqm) or P84.442 million between the recorded total land area and actual inventory of TCTs*

* 1. Paragraph 2.23 of the Revised CFFR provides that comparability, verifiability, timeliness and understandability are qualitative characteristics that enhance the usefulness of information that is relevant and faithfully represented. Moreover, Chapter 4, Section 4.2 of the same framework defines an asset as: (1) a present economic resource controlled by the entity as a result of past events; and (2) an economic resource is a right that has the potential to produce economic benefits.
	2. Likewise, Section 112 of PD No. 1445, otherwise known as the Government Auditing Code of the Philippines, provides that:

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

* 1. In addition, Sections 111 and 114 of the same law 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 GL control account at any given period of time.
	2. The AFPRSBS’ Landbanking assets account refers to underdeveloped land properties located in various parts of the country which are not yet being offered for sale to the public. The net carrying value of the said account as at December 31, 2022 amounting to P1.748 billion is presented in Table 5.1.

**Table 5.1 – Breakdown of Landbanking Assets Account**

**As at December 31, 2022**

|  |  |
| --- | --- |
| **Account title** | **Amount** |
| Investment in real estate, landbanking | P 1,767,013,436  |
| Allowance for probable loss, other assets |  (19,232,230) |
| **Net carrying value** | **P 1,747,781,206**  |

* 1. On the other hand, the AFPRSBS’ Real estate inventories refer to those real properties held for sale in the ordinary course of business. As at
	December 31, 2022, the account has a balance of P3.530 billion as presented in Table 5.2.

**Table 5.2 – Breakdown of Real Estate Inventories Account**

**As at December 31, 2022**

|  |  |
| --- | --- |
| **Account title** | **Amount** |
| Club share inventory | P 1,008,825,205 |
| Other inventories | 2,592,816,695 |
| Allowance | (70,893,191) |
| **Net carrying value** | **P 3,530,748,709** |

* 1. For CY 2022, the same exceptions were noted vis-a-vis the PYs AOs that cast doubt on the reliability of the presented balances of the Landbanking assets account in the Statement of Financial Position. The land area variances between the actual TCT and the AFPRSBS’ record which were first observed in the CY 2018 audit were still not fully reconciled as at December 31, 2022. Nevertheless, as at October 31, 2022, the AFPRSBS was able to reconcile some variances between the total area per physical inventory of TCTs in the custody of Internal Records Management Department (IRMD) and the balance of the Landbanking assets account, per record of Accounting Department (AD), amounting to P582.988 million as presented in Table 5.3.

**Table 5.3 – Breakdown of Reconciled Variances**

**For CY 2022**

| **Project name** | **Total area in sqm per books-AD** | **Total area- per TCTs net of sold lots (sqm)-****IRMD** | **Variance** | **Cost per sqm/lot** | **Equivalent value/ cost** | **Results of COA Validation** |
| --- | --- | --- | --- | --- | --- | --- |
| Calamba (Tanauan) | 1,615,133 | 588,678 | 1,026,455 | P272.9394 | P 280,160,012  | The variance was traced and determined as those sold assets on installment basis. However, various accounts still included are already past due for more than 180 days as of CY 2022, hence, for cancellation of installment sales. |
| General Santos City | 49,421  |  34,191  | 15,230  | 11,373.1884  | 173,213,660  | The 15,020 sqm variance is properly accounted and cancelled due to the Supreme Court decision to revert the properties as public domain for public use. The remaining 210 sqm variance pertains to the property it purchased from Bulaong Enterprises., which was erroneously accounted as part of its assets, but has not yet been fully paid by the Management since 1997iat its agreed purchase price. Hence, derecognition of the property from the books of the AFPRSBS is proper unless a compromise agreement is successfully entered into with the seller. |
| Benjamin 9, Pampanga | 227,808 | 63,894 | 163,914 |  537.9327 |  88,174,701  | Properly reconciled and accounted. |
| Eastridge Golf Course and Subdivision I | 74,570  | 0 | 74,570  | 1,009.4353  | 75,273,590  | Properly reconciled and accounted. |
| SLSS Phase I-E*(Forward)* | 264  | 330  | (66)  | 2,600.7576 | (171,650)  | Properly reconciled and accounted. |
| Ciudad Verde  | 50,268  | 67,479  | (17,211)  |  1,955.8860  | (33,662,754)  | Variances noted pertains to sold properties on installment basis which were properly derecognized in the books as assets but past due accounts for more than 180 days were not cancelled.  |
| **Total**  | **2,074,481**  |  **754,572**  |  **1,319,909**  |  | **P 582,987,558** |  |

* 1. After the validation of the reconciliation conducted by the AFPRSBS, the Audit Team found out that there are still remaining variances between the books and the TCTs totaling P84.442 million as presented in Table 5.4.

**Table 5.4 – Variance between the Recorded and Actual Inventory of TCTs**

**As at December 31, 2022**

| **Project Name** | **Total area per books** | **Total area- per TCTs net of sold lots** | **Variance** | **Cost per sqm/plot** | **Equivalent amount of variance (net)** |
| --- | --- | --- | --- | --- | --- |
| **(sqm/ plots)** | **(sqm)** | **(sqm)** |
| **(A)** | **(B)** | **(C) = (A - B)** | **(D)** | **(C x D)** |
| Riviera Project- Residential | 175,586  |  105,580  |  70,006  | P 913.8632  | P 63,975,907  |
| Mount Zion Memorial  |  24,173  | 19,698 | 4,475 | 14,074.2400  | 62,982,224 |
| SLSS – Phase I-C / IC-A |  26,579  |  18,379  |  8,200  | 1,164.4800  | 9,548,736  |
| Riviera Project- Commercial |  85,255  |  78,024  |  7,231  | 1,144.4400  | 8,275,446  |
| North Matrixville Subdivision | 0 |  2,391  |  (2,391) | 471.9013  |  (1,128,316) |
| Villa Toledo -TH | 0 |  4,832  |  (4,832) | 1,300.0000  |  (6,281,600) |
| SLSS – Phase I |  88  | 3,663  | (3,575) | 1,800.0000 | (6,435,000) |
| Sta. Rosa Homes Subdivision |  1,027  |  3,867  | (2,840) | 2,326.5299 | (6,607,345) |
| Village East III Subdivision | 93,445  | 109,005  |  (15,560) | 530.5500  |  (8,255,358) |
| The Orchard Project |  29,919  |  36,250  |  (6,331) | 1,514.6200  |  (9,589,059) |
| Villa Caceres |  897  |  14,003  |  (13,106) | 1,765.1000  |  (23,133,401) |
| San Mateo Housing Project | 0 | 18,265  | (18,265) | 0 | 0 |
| **LANDBANKING** |  |  |  |  |   |
| Riviera | 2,453,733  | 2,222,903  |  230,830  | 663.4900  | 153,153,397  |
| Green Meadows Iloilo (Phase 1A) |  21,963  |  6,531  |  15,432  | 2,214.4800  |  34,173,855  |
| General Santos City |  34,401  |  34,191  |  210  | 11,238.3286  |  2,360,049  |
| Eastridge Golf Course and Subdivision II | 499,428  |  488,956  | 10,472  | 209.4500  |  2,193,360  |
| San Lorenzo | 435,727  |  435,296  | 431  | 545.9095  | 235,287  |
| Green Meadows Iloilo (Phase 1) |  12,424  | 146,801  | (134,377) | 1,421.5700  |  (191,026,312) |
| **Total** | **3,894,645** | **3,748,635** | **146,010** |   | **P 84,441,870** |

* 1. Audit of the account revealed that the department responsible in the presentation of the account in the FS only maintains a schedule showing the aggregate total area per project which is updated only by adding or deducting new acquisitions or disposals of assets. No itemized and detailed list is being maintained which could be a factor for the result of variances.
	2. While we appreciate Management’s action of reconciling the variance noted, the remaining variance is still significant, thus, the accuracy of the Management’s records could not be ascertained unless the unresolved issues are fully clarified, justified, and adjusted accordingly in their books.

*Unrecorded seven (7) projects/properties consisting of 120 TCTs in the books of the AFPRSBS*

* 1. As disclosed in the PYs’ AARs, out of the 62 land development projects for real estate and acquired assets, there are still seven projects/properties consisting of 120 TCTs which are still not recorded in the books as at December 31, 2022, as presented in Table 5.5. Management commented that there was no reconciliation made during the year and the said projects are still for further review and evaluation.

**Table 5.5 – Summary of Seven Unrecorded Projects/Properties**

**As at December 31, 2022**

|  | **Project**  | **No. of**  | **Registered owner** |
| --- | --- | --- | --- |
|  | **TCTs** | **AFPRSBS** | **Others** |
| 1 | Anaped Estate, Inc. | 2 | 0 | 2 |
| 2 | Congressional Property | 2 | 2 | 0 |
| 3 | Iloilo Certificate Land Transfer | 14 | 0 | 14 |
| 4 | Isla Philcons Holdings | 22 | 0 | 22 |
| 5 | Philcons Finance | 78 | 0 | 78 |
| 6 | Superior Pharmacy, Inc. | 1 | 0 | 1 |
| 7 | Terra Fortuna | 1 | 1 | 0 |
| **Total** | **120** | **3** | **117** |

* 1. The Audit Team would like to emphasize that the prompt reconciliation and correction of records of the Real estate inventories will accurately present the AFPRSBS’ financial reports to be more useful and will provide relevant financial information to determine whether the assets of the AFPRSBS will be sufficient to cover all its existing obligations at the time of its liquidation.
1. **We reiterated with modifications our PYs' audit recommendations that Management require the concerned personnel to:**
2. **Reconcile the remaining variances between the total land area per physical inventory of TCTs with those recorded under the Landbanking assets account to ensure correctness of the account balance;**
3. **Prioritize the submission of the updated reconciliation pertaining to Landbanking assets account for the Audit Team to validate and verify the nature of the remaining variance totaling P84.442 million; and**
4. **Record in the books of the AFPRSBS the listed/identified assets based on the result of the reconciliation that are duly supported with proofs of ownership.**
5. **We further recommended that Management:**
	* + 1. **Facilitate the cancellation of Installment Sales Contracts with past due accounts; and**
			2. **Derecognize from the books of the AFPRSBS, the unpaid property purchased from Bulaong Enterprises, unless ownership or real rights could already be established.**
6. The Management commented that the balance of P84.442 million is still subject to reconciliation. An updated reconciliation schedule will be submitted to the Audit Team once the validation/review of the accounts are completed.
7. As regards the seven projects which were not recorded in the AFPRSBS books, the Management commented that the history of each account is being traced and adjustments in the books will be made, as necessary.
8. Furthermore, the AFPRSBS will work on the necessary actions in relation to the long overdue installment sales depending on the result of the evaluation/review that will be made for each account. Past due accounts which may not qualify anymore for restructuring will be recommended for cancellation.
9. Moreover, necessary adjustments will be made in the books depending on the result of the negotiation that will be undertaken, if any, between the seller and the AFPRSBS.
10. As a rejoinder, we appreciate Management’s continuous effort in reconciling the noted variances but the Audit Team will closely monitor Management’s compliance with the above recommendations until the variance is fully reconciled.
11. **The net values of Investment in real estate – landbanking and industrial park and Acquired assets accounts of AFPRSBS totaling P2.092 billion as at December 31, 2022 are still valued using the cost model despite the issuance of MO No. 90 which directs the abolition of the AFPRSBS and to sell all its real estate assets. Likewise, the same accounts were not classified and presented as Assets Held for Sale under current assets. Consequently, the continued measurement, classification, and presentation of the account balances in this manner is not in consonance with Paragraph 15 of PAS 1, and Paragraphs 6 and 15 of PFRS 5. Thus, the balances could not be relied upon affecting the fair presentation of the accounts in the FS.**
	1. Aside from Paragraph 15 of PAS 1 requiring fair presentation of FS, Paragraphs 6 and 15 of PFRS 5 on Non-current Assets Held for Sale and Discontinued Operations provide:

*6. An entity shall classify a non-current asset (or disposal group) as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use.*

*7. For this to be the case, the asset (or disposal group) must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets (or disposal groups) and its sale must be highly probable.*

*8. For the sale to be highly probable,* ***the appropriate level of management must be committed to a plan to sell the asset (or disposal group), and an active program to locate a buyer and complete the plan must have been initiated.***

*Xxx*

*15. An entity shall measure a non-current asset (or disposal group) classified as held for sale at the* ***lower of its carrying amount and fair value less costs to******sell.*** (Emphasis supplied)

* 1. In addition, as defined under Paragraph 5 of PAS 41, costs to sell is the incremental costs directly attributable to the disposal of an asset (or disposal group), excluding finance costs and income tax expense.
	2. Likewise, Section 3 of MO No. 90 provides:

*Section 3. Winding down and Liquidation – The AFPRSBS Board shall act as a Board of Liquidators, subject to oversight by the Governance Commission, and is hereby directed to:*

*Xxx*

*f. Enter contracts for the following purpose:*

1. ***Sell all its real estate assets****, such as, but not limited to, subdivision lots, house and lots, memorial lots, raw lands and all acquired assets in accordance with the existing internal policies of AFP-RSBS;* (Emphasis supplied)
	1. In the review of the FS as at December 31, 2022, the Audit Team observed that the AFPRSBS still used the cost model as measurement basis for its Investment in real estate – landbanking and industrial park, and Acquired assets totaling to P2.092 billion, despite the issuance of MO No. 90 directing the AFPRSBS’ abolition. The details and account balances are presented in Table 6.1.

**Table 6.1 – Account Balances of Investment property and**

**Acquired assets account**

**As at December 31, 2022**

| **Account title** | **Amount** |
| --- | --- |
| **Investment property** |  |
| *Landbanking assets* |  |
| Investment in real estate, landbanking | P 1,767,013,436 |
| Allowance for probable loss, other assets |  (19,232,230) |
| **Sub-total** |  **1,747,781,206**  |
| *Building and building improvements at the industrial park* |  |
| Investment in real estate, industrial park\* | 129,061,550 |
| Allowance for depreciation, industrial park | (109,942,571) |
| **Sub-total** | **19,118,979**  |
| **Acquired assets** |  |
| Acquired assets  | 466,841,279 |
| Allowance for probable losses | (141,242,942) |
| **Sub-total** | **325,598,337**  |
| **Total** | **P2,092,498,522** |

*\*Includes direct cost*

* 1. Moreover, under Notes 3.10, 3.11, and 3.13 to the FS, the AFPRSBS disclosed the following:

# *3.10 Investments in real estate*

*Investments in real estate are carried at cost and presented in the SFP. These include raw land properties which are not available for sale within one (1) year period.*

# *3.11 Investment property*

*The investment account is* ***carried at cost less any accumulated depreciation and any impairment in value****. Depreciation is computed using the straight-line method over its estimated useful life. Xxx*

*Xxx*

# *3.13 Acquired assets*

*Assets acquired in full or partial settlement of loans are* ***recorded at book value or bid price, whichever is lower****. Holding costs subsequent to the foreclosure, acquisition or consolidation of the properties are charged to operations if the book value is already equal or higher than the market value.*

*Xxx*

*An allowance for probable losses is set up for any anticipated significant decline in value of the property based on the appraisal reports and current negotiations and programs to dispose of these properties to interested parties.* (Emphasis supplied)

* 1. Consequently, the continued measurement, classification and presentation, of the account balances using the cost model despite the issuance of MO No. 90 which directs the abolition of the AFPRSBS and the sale of all of its real estate assets, the reported account balances as at December 31, 2022 could not be relied upon affecting the fair presentation of the Investment in real estate – landbanking and industrial park and Acquired assets accounts in the FS.
1. **We recommended that Management:**
2. **Reclassify the Investment in real estate – landbanking and industrial park and Acquired assets accounts as Held for sale under current assets and revalue the same at lower of its carrying amount and fair value less cost to sell in accordance with Paragraph 15 of PFRS 5; and**
3. **Make appropriate disclosures in the Notes to FS in accordance with PFRS 5 specifically describing the following:**
	* 1. **A description of the non-current asset; and**
		2. **A description of the facts and circumstances of the sale, or leading to the expected disposal, and the expected manner and timing of that disposal.**
4. The Management commented that MO No. 90 was issued primarily due to the depletion of its Retained Earnings. Likewise, as provided in the same order, the GCG recommended the abolition of AFPRSBS, and upon approval of the President of the Philippines, GCG will implement such abolition unless another agency is otherwise designated.
5. In relation thereto, the Management commented that the AFPRSBS has generated enough funds to fully refund the contributions of the members and by the end of CY 2022, it is estimated that the AFPRSBS has P1.115 billion excess funds after allocating funds for the settlement of all its remaining liabilities and its Retained Earnings has a balance of P9.638 billion. Furthermore, the major disposals made in CY 2018 reversed the depletion of the Retained Earnings.
6. With the availability of funds for the refund of the MCs and payment of its outstanding liabilities, the AFPRSBS is not considering disposing all of its remaining real estate inventories. Currently, the thrust of the AFPRSBS is to transfer all its remaining assets to an entity that will be identified by the DND.
7. Thus, the AFPRSBS will maintain the non-current classification of its Investment in real estate – landbanking and industrial park, and Acquired assets.
8. As a rejoinder, the Audit Team would like to emphasize the requirement under Paragraph 6 of PFRS 5 which provides that an entity shall classify a non-current asset as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. For this to be the case, the asset must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets and its sale must be highly probable. For the sale to be highly probable, the appropriate level of management must be committed to a plan to sell the asset, and an active program to locate a buyer and complete the plan must have been initiated.
9. MO No. 90 expressly and unequivocally directs not only the abolition of the AFPRSBS but also its winding down and liquidation. As expressly provided in the said order, the AFPRSBS BOL subject to oversight by the GCG is directed to enter into contracts for the sale of all of its real estate assets, such as, but not limited to, subdivision lots, house and lots, memorial lots, raw lands and all acquired assets in accordance with the internal policy of the AFPRSBS. In view thereof, the carrying amounts of these assets will be recovered principally through a sale transaction rather than through continuing use. Likewise, under its prevailing approved LP, one of the strategies being pursued is to dispose all assets whether real or equity investment at their highest recoverable value. Until such LP is revised and a new plan is approved by the GCG, the thrust of the AFPRSBS is to liquidate all its assets. As such, classification of these assets from non-current to current assets is warranted.
10. Moreover, while the AFPRSBS estimated to have an excess funds amounting to P1.115 billion after allocating funds for the settlement of all its remaining liabilities, such circumstance is not among the conditions mentioned in PFRS 5 that would warrant exemption from reclassifying its non-current assets held for sale such as Investment in real estate – landbanking and industrial park, and Acquired assets to current assets.
11. Foregoing considered, we maintain our recommendation for AFPRSBS to reclassify its Investment in real estate – landbanking and industrial park and Acquired assets as Held for sale under current assets and revalue the same at lower of its carrying amount and fair value less cost to sell in accordance with Paragraph 15 of PFRS 5.
12. **The reliability and fair presentation of the balances of ICR – Current and ICR-past due accounts in the FS totaling P325.778 million as at December 31, 2022 could not be relied upon due to: a) variance between the GL and SL balances of the ICR; and b) improper presentation and measurement of the account, contrary to Paragraphs 15 and 66 of PAS 1.**
	1. Aside from Paragraph 15 of PAS 1 requiring the fair presentation of FS, Paragraph 66 of the same standard provides:

*66. An entity shall classify an asset as current when:*

*(a) it expects to realize the asset, or intends to sell or consume it, in its normal operating cycle;*

*(b) it holds the asset primarily for the purpose of trading;*

*(c)* ***it expects to realize the asset within twelve months after the reporting period****; or*

*(d) the asset is cash or a cash equivalent (as defined in PAS 7) unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.* (Emphasis supplied)

* 1. To expedite the sale of its properties, the AFPRSBS sold some of its properties on installment basis to give buyers the option to allocate payments over a longer period, normally ranging from one to 15 years. Upon full payment of the required down payment, an ICR is established for the buyer and monthly amortization payments are subsequently charged thereon.

*Variance between the GL and SL balances of the ICR*

* 1. As at December 31, 2022, the ICR balance of the AFPRSBS amounted to P263.726 million and P62.053 million for ICR-current and ICR-past due, respectively. To ascertain the composition of these receivables the Audit Team requested for the SL of the ICR. However, our audit showed a net variances of P23.341 million and P0.970 million between the GL and SL balances of the ICR-current and ICR-past due, respectively. Details are presented in Table 7.1.

**Table 7.1 – Variance between the GL and SL balances of the ICR**

**As at December 31, 2022**

| **ICR** | **Current** | **Past due** | **Total** |
| --- | --- | --- | --- |
| **GL** |  P 263,725,853  |  P 62,052,596 |  P 325,778,449  |
| **SL** | 240,385,038 | 63,022,278 |  303,407,316  |
| **Variance** |  **P 23,340,815**  |  **P 969,682**  |  **P 22,371,133**  |

* 1. Inquiry with Management disclosed that there is an ongoing reconciliation to trace the noted variance. However, one of the identified causes of the said variance pertains to the automatic entries created before in the IFMS 2.
	2. In addition, the Audit Team also noted other possible causes of the identified variance as follows:
1. Negative balance of P18.794 million for the account of Mount Zion in the SL;
2. Unidentified beginning balance from CY 2009 for the account of Riviera Residential Estate in the SL;
3. Unsupported various adjustments in the account of Riviera Residential Estate and Eastridge in the SL; and
4. Absence of supporting aging Subsidiary Buyer’s Ledger for the SL of Village East III accounts.

*Improper presentation and measurement contrary to the pertinent provision of PAS*

* 1. The ICR balance of the AFPRSBS is presented in the FS under non-current asset reflecting a balance of P237.134 million as at December 31, 2022, which is net of allowance of P88.644 million. Thus, there was no current portion of the ICR that is separately presented in the Statement of Financial Position as at year-end, contrary to the Paragraph 66 of PAS 1.
	2. Likewise, the past due accounts are reported under the non-current portion of the AFPRSBS’s assets despite the same had already been due and demandable, contrary to Paragraph 66 of PAS 1 which requires that an asset shall be classified as current when the asset is expected to be realized within twelve months after the reporting period.
	3. In view of the foregoing, the unreconciled variance between the GL and SL; the failure to provide an adequate allowance pursuant to the requirement on entities to use the ECL method; and the non-presentation of the current portion of the ICR cast doubt on the reliability and fair presentation of the ICR balance presented in the FS as at December 31, 2022.
1. **We recommended that Management:**
2. **Expedite the reconciliation of P22.371 million net variance between the GL and SL of the ICR account; and**
3. **Comply with the current/non-current presentation of ICRs in the FS pursuant to Paragraph 66 of PAS 1.**
4. For the variance between the GL and SL balances of the ICR, the Management commented that the concerned departments of the AFPRSBS are continuously reconciling the variance between the GL and the SL balances of the ICR account. This is also in preparation for the transfer of the remaining assets of the AFPRSBS to the Agency designated to handle thereof.
5. However, as to the presentation of the ICR-current and ICR-past due accounts as either current or non-current, the Management commented that due to the limitations encountered such as absence of new computerized accounting system, manual updating of the individual buyer’s ledger (IBL), and reduced number of personnel assigned in handling and updating various IBL, the classification of ICR and ICR-past due accounts as current and non-current is not feasible.
6. As a rejoinder, the Audit Team acknowledges the efforts of the Management to continuously reconcile the noted variance despite the limited manpower. However, the courses of action to be taken by the Management to comply with the recommendations presented will be closely monitored and evaluated accordingly. On the other hand, as to the presentation of the ICR and ICR-past due accounts, we maintain our recommendation to present the current and non-current portion of the said accounts pursuant to PAS 1.
7. **Deferred credits and Unapplied receipts amounting to P202.044 million and P1.718 million, respectively, under the Deposit and other liabilities account as at December 31, 2022, could not be relied upon due to long outstanding balances with no supporting aging schedules, contrary to Paragraph 15 of PAS 1.**
	1. This is a reiteration with modifications of PY’s AO as embodied in the CY 2019 AAR.
	2. Deferred credits account represents billed or collected revenues that are not recognized as income pending completion of the earning process. On the other hand, the Unapplied receipts account represents collections done over the counter but not yet posted in the GL and SL. The Management disclosed that continuous reconciliation is being made in order to account the unidentified transactions which were credited to the bank account. However, they are having difficulty in the reconciliation since most of the entries were created in the previous accounting system and they are still currently tracking the PYs transactions.
	3. Examination of the SLs of the Deferred credits and Unapplied receipts accounts amounting to P202.044 million and P1.718 million, respectively, as at December 31, 2022 disclosed that the Management maintains two separate SLs for Deferred credits. One related to the sale of Real estate inventories and another for the Investment in shares of stock. The AO in CY 2019 referred only to the deferred credits related to the sale of Real estate inventories. However, verification of the deferred credits related to the Investment in shares of stock showed that there were no transactions recorded since CY 2019 and no supporting aging schedule as well.
	4. It is worth mentioning that since the issuance of the AO in CY 2019, the Management was able to reconcile and reduce the balance of the Deferred credits account for the sale of Real estate inventories from P9.210 million to P5.536 million or by 39.89 per cent and recognized adjustment for unapplied receipts in the amount of P34,631. However, they were not yet able to provide for the aging schedule or composition of the accounts.
	5. Consequently, the reported balances of the Deposit and other liabilities account as at December 31, 2022 could not be relied upon due to the presence of long outstanding deposits and other liabilities with no supporting aging schedules.
8. **We reiterated with modifications our PY’s audit recommendations that Management:**
9. **Prepare an aging schedule to support the remaining balances of the Deposit and other liabilities account; and**
10. **Make the necessary adjusting entries, if appropriate.**
11. **We further recommended that Management submit to the Audit Team the supporting schedules of the composition of the Deferred Credits and Unapplied Receipts.**
12. The Management commented that the Deferred credits account pertaining to the Investment in shares of stock amounting to P196,508,126 refer to the AFPRSBS’ 40 per cent share in the unrealized gain on the 1995 transfer of Village East III properties to Marilaque Land, Inc. (MLI), a subsidiary of AFPRSBS, in exchange for the latter’s shares of stock. On April 30, 1999, the amount was provided with 100 per cent allowance for probable loss and was reclassified as deferred credit/revenues on September 30, 2003 per recommendation of the private auditors, hence, the account has been outstanding for more than 19 years already. The account will be reversed in AFPRSBS’ books upon the disposal of the MLI shares.
13. As to the deposits and other liabilities amounting to P6.682 million, the Management commented that this pertains to transactions related to six real estate projects. In July and December 2022, the AFPRSBS was able to reconcile and adjust a total of P3.674 million. The remaining accounts are subject of an ongoing reconciliation and the aging schedule will be prepared, once the reconciliation is completed. Although some of the transactions included in this category were already identified, there is still a need to further validate the same.
14. Further, the remaining balance for reconciliation is down to P1.718 million and this pertains primarily to the temporary beginning balance of the account that was forwarded during the migration to the IFMS 1 in November 2004.
15. Likewise, the AFPRSBS will endeavor to reconcile the remaining accounts and adjustments will be made, as necessary.
16. As a rejoinder, the Audit Team appreciates Management’s effort in the continuous reconciliation of the affected accounts but maintains its recommendation that Management submit the supporting schedules of the remaining composition of the Deferred credits and Unapplied receipts to facilitate the verification as to validity/accuracy of the Deposit and other liabilities account.
17. **The faithful representation and accuracy of the recorded Property and equipment (PE) with a total net book value of P24.348 million could not be ascertained due to: a) unreconciled difference of P7.864 million between the balances of GL and Report on the Physical Count of Property, Plant and Equipment (RPCPPE); b) unreconciled difference of P6.531 million between the balances of the SLs and schedule of PE; and c) failure to conduct proper disposal of unserviceable properties, contrary to Paragraph 15 of PAS 1, National Budget Circular No. 425, and Section 111 of PD No. 1445.**
	1. This is a reiteration with modifications of the PY’s AO as embodied in the CY 2021 AAR.
	2. National Budget Circular No. 425 dated January 28, 1992, pursuant to EO No. 285, provides that:

*Disposal proceedings should be immediately initiated to avoid further deterioration of the property and consequent depreciation in its value.*

* 1. In addition, Section 111 of PD No. 1445 on keeping of accounts, states that:

*(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. The above cited criteria prescribe the procedures on the presentation, timely disposal and accurate recording of property, plant and equipment (PPE) items of government agencies. The procedures, if taken, should come up with a reliable amount of the PPE account in the FS.

*Unreconciled difference of P7.864 million between the GL and RPCPPE*

* 1. The AFPRSBS’ AD maintains the balances of its PE account based on the data or information provided in the SLs that is traceable within the IFMS. Inquiry with Management revealed that a portion of the amount reported in the GL was extracted from the said SL in IFMS as at December 31, 2012, as the reckoning date of settling the account. Moreover, the transactions for the succeeding periods were manually recorded or maintained. As part of the operations of the AFPRSBS, the balances of the respective PE accounts are continuously reconciled by the concerned departments.
	2. Review of the PE account and comparison made between the RPCPPE and the book balances as at December 31, 2022 disclosed a variance of P7.864 million. The details of the variances are presented in Table 9.1.

**Table 9.1 – Total Variance between the RPCPPE and**

**GL sub-account balances of PE account**

**As at December 31, 2022**

| **Account Title** | **GL** | **RPCPPE** | **Variance\*** |
| --- | --- | --- | --- |
| Office machineries and equipment | P 89,042,329  |  P 87,765,901  |  P 1,276,428  |
| Buildings/structures |  89,739,305  |  91,429,579  |  1,690,274 |
| *(Forward)* |  |  |  |
| Office furniture and fixtures |  5,313,516  |  8,213,502  |  2,899,986 |
| Transportation/motor vehicles | 7,577,198 | 5,579,500 | 1,997,698 |
| **Total** | **P 191,672,348** | **P 192,988,482** | **P 7,864,386** |

*\*Presented in absolute amount.*

* 1. Management mentioned that one of the reasons for the discrepancies noted pertains to disposals of unserviceable properties in the PYs that were not properly dropped in the books and the use of the salvage value of P10 in various items in the Office machineries and equipment. During the year, the Management was able to reconcile a significant portion of the variance that the Audit Team noted in the PYs. However, there is still a portion unreconciled while the requested copy of the reconciliation report was not yet submitted to the Audit Team to date for further verification.

*Unreconciled difference of P6.531 million between the SL and Schedule of PE*

* 1. The Audit Team noted that the Schedule of PE showed a total cost of P185.141 million which differed by P6.531 million from the GL balances of P191.672 million. The details of the discrepancies are presented in Table 9.2.

**Table 9.2 – Discrepancies between GL and SL balances of PE**

**As at December 31, 2022**

| **Account title** | **Per GL** | **Per SL** | **Difference** |
| --- | --- | --- | --- |
| Office machineries and equipment | P 89,042,329  | P 85,949,173  | P 3,093,156  |
| Buildings/structures | 89,739,305  | 89,739,305  | 0  |
| Office furniture and fixtures | 5,313,516  | 4,387,764  | 925,752  |
| Transportation/motor vehicles | 7,577,198  | 5,065,035  | 2,512,163  |
| **Total** | **P 191,672,348**  | **P 185,141,277**  | **P 6,531,071**  |

* 1. For CY 2022, the Management had already complied with the new threshold requirement to capitalize only acquired assets amounting to P50,000 and above. However, comparison of the balances of the GL and the SL of PE still showed a variance totaling P6.531 million. Inquiry with Management disclosed that they are still in the process of reconciling the difference but they could not yet determine when this will be fully resolved.

*Failure to conduct proper disposal of unserviceable properties*

* 1. Unserviceable properties are assets that no longer serve its purpose to an entity and are therefore subject for disposal thru sale, barter or destruction. If in case of sale or barter, the appraised value of subject property is determined which becomes its minimum selling price. Unserviceable assets are then dropped from the books only after the disposal. The necessity of disposal of unserviceable assets are duly recognized as pertinent laws, rules and circulars were issued to regulate and expedite the process.
	2. For CY 2022, the list of unserviceable properties of the AFPRSBS showed that there are 725 units with a total cost of P3.908 million ranging from P0 to P313,200 per item. Inquiry with Management disclosed that the most recent disposal of unserviceable assets was conducted in CY 2018 while no disposals were conducted for CYs 2019 to 2022. Although, several meetings were held by its Disposal Committee to plan for the proper disposition of its obsolete assets, none of its proposal was pushed through. Moreover, the Management also asserted that disposal of the unserviceable assets was not undertaken due to the pandemic situation as well as the absence of its in-house appraiser.
	3. The immediate disposal of unserviceable, obsolete, forfeited, abandoned, excess or surplus items of government agencies is necessary to avoid further deterioration, to realize greatest benefits by selling at highest price possible, and to make the storage space available for other purposes, as may be deemed useful for the AFPRSBS.

* 1. These observations greatly affect the fair presentation of the PE accounts as issues on completeness, accuracy, and reliability of the related reports could not be relied upon. It is the Management’s paramount obligation to maintain its records organized and up to date. Accurate and reliable reports are also significant for the AFPRSBS’ liquidation particularly in determining the complete list of its assets and the determination of its market value.
1. **We reiterated with modifications our PY’s audit recommendations that Management require the:**
2. **AD and the General Services Department to reconcile the discrepancy between the accounting records and the RPCPPE**, **which as at December 31, 2022 amounted to P7.864 million, and prepare and submit a copy of the corresponding report to the Audit Team for validation;**
3. **AD to reconcile the variances between the GL and the SL balances amounting to P6.531 million as at December 31, 2022 and submit copies of the updated and reconciled SLs and GL to the Audit Team for verification;**
4. **Comply strictly with the “One Time Cleansing” procedures under Commission on Audit (COA) Circular No. 2020-006 dated January 31, 2020 to facilitate reconciliation of PE accounts; and**

1. **Effect the necessary adjusting entries, if any, to reflect the correct balance of the PE account in the FS, once reconciliation of the PE accounts is completed.**
2. **We further recommended that Management dispose all unserviceable assets in accordance with the appropriate disposal guidelines.**
3. The Management commented that the reconciliation of the discrepancy between the accounting records and the RPCPPE is being undertaken by the AFPRSBS’ Inventory Committee. The Committee has already convened thrice in CY 2022 to identify the variance between the AD’s record and the RPCPPE.
4. The reconciliation of the remaining P6.531 million variance between the GL and the SL balance is still ongoing. The reconciled schedule will be submitted to the Audit Team once the same is completed.
5. With regard to the assets with a residual value of P10 or zero that are still in the AFPRSBS books, these are assets which were already fully depreciated even prior to the declaration of the AFPRSBS being a government entity. Some of these assets (i.e. tables, chairs, etc.) are still in use, however, those that were already not in use and are considered or classified as unserviceable will be included in the items for disposal.
6. The unserviceable assets are scheduled for disposal by the fourth quarter of CY 2023. The AFPRSBS is just awaiting appraisal of the items/properties to be disposed.
7. Likewise, the AFPRSBS is working towards the one-time cleansing of the PE and will file a request for authority to derecognize the non-existing/missing PEs to COA and make the necessary adjusting entries once the reconciliation is completed.
8. As a rejoinder, we appreciate the Management’s efforts to reconcile the variances noted between the ledgers, and the accounting records and RPCPPE, their immediate response in creating an action plan to address the issue on the disposal of its unserviceable assets, and for their inclination to comply with our recommendations to make the necessary adjustments in their books.
9. **Others**
10. **Deposits and/or Advances made to Manila Electric Company (Meralco) for the installation of extension lines and/or additional facilities from CYs 2006 to 2019 totaling P23.872 million of which, P16.057 million or 67.27 per cent remained unrefunded, contrary to Sections 2.6.1 and 2.6.2 of the Distribution Services and Open Access Rules (DSOAR) on Modifications and New Physical Connections and signed agreements,** **depriving the AFPRSBS of additional funds for its operations. Moreover, the accuracy of the total balance in the Summary of Meralco Disbursements and Refunds (MDR) provided by Management is doubtful due to: a)** **exclusion of some items that were included in the AO in CY 2014 AAR; b) presence of unadjusted item that was recorded twice with the same reference number; c)** **deduction of refunds from** **the summary but without supporting documents; and d)** **offsets recorded in the SL but not included in the** **summary, thus casting doubt on the accuracy of the reported amount in the Summary of MDR.**
	1. This is a reiteration with modifications of PY’s AO as embodied in the CY 2014 AAR.
	2. Pursuant to RA No. 9136, otherwise known as the Electric Power Industry Reform Act of 2001, and the Implementing Rules and Regulations (IRR) issued pursuant to that Act, the Energy Regulatory Commission (ERC) promulgated on January 18, 2006 the DSOAR that set forth among others the terms and conditions related to the provision of connection assets and services.

* 1. Sections 2.6.1 and 2.6.2 of the DSOAR on Modifications and New Physical Connections provide that:

***2.6.1 RIGHT TO EXTENSION OF LINES AND FACILITIES***

*In accordance with the Magna Carta, a residential end-user located within (30) meters from the distribution utilities’ existing secondary low voltage lines has right to an extension of lines or installation of additional facilities, other than a service drop, at the expense of the utility. However, if a prospective customer is beyond the said distance and the said project is not included in the forecasted CAPEX of the distribution utility (DU), the customer or developer may advance the amounts necessary to cover the expenditures on the connection assets beyond the standard connection facilities.*

***2.6.2 REFUND***

*To recover the aforementioned advanced payment, the customer may either demand the issuance from the DU of any financial instruments mutually acceptable to the parties or* ***refund at the rate of seventy-five (75) percent of the gross distribution revenue******derived from all customers connected*** *to the line extension for the calendar year until such amounts are fully refunded xxx”* (Emphasis supplied)

* 1. In view of new regulatory frameworks, the ERC adopted on
	February 13, 2012, Resolution No. 3, series of 2012, amending some portions of the DSOAR including Sections 2.6.1, now re-numbered as 2.6.2. The revised section of the DSOAR now states that:

***2.6.2 RIGHT TO EXTENSION OF LINES AND FACILITIES***

*Provided that the project is viable, a residential end-user has a right to an extension of lines or installation of additional facilities at the expense of the distribution unit.*

*A project shall be considered as viable if the cost of installing lines and facilities is at least equal to the revenue/s derived from customer/s connected thereto within the standard asset life of such lines and facilities as determined under existing ERC rules and regulations.*

***If the project is not viable as referred to above, the customer or developer may advance the amounts necessary to cover the expenditures*** *on the non-standard connection assets/facilities. Xxx* (Emphasis supplied)

* 1. Likewise, Section I, paragraph 1.3 of the Agreement for extension of Lines and/or additional facilities between the AFPRSBS and Meralco states that:

**I. TERMS and CONDITIONS**

*1.3 REFUND. The CUSTOMER shall be entitled to an annual refund of seventy-five percent (75%) of the Gross Distribution Revenue (GDR) realized from all customers directly connected to the lines/poles/facilities subject matter of this Agreement for the calendar year, commencing from the energization of service\* until such amounts are fully refunded. MERALCO shall have the right to off-set the refund amount or the balance thereof against the unpaid electric bills of the CUSTOMER which are already due and demandable. Xxx*

* 1. As AFPRSBS is engaged in various business operations including real estate projects involving the development and construction of commercial and subdivision projects, it ensures that its residential subdivisions have adequate electric service. In fulfilling such duty, the AFPRSBS made several applications for service connection with Meralco from CYs 2006 to 2019 that required advance payments as per above-mentioned DSOAR.
	2. As at December 31, 2022, the total deposit/advance payments of the AFPRSBS to the Meralco amounted to P23.872 million for subdivisions Riviera Residential Estate, Villa Segovia and Villa de Toledo, out of which P16.057 million or 67.27 per cent remained unrefunded, contrary to the DSOAR and signed agreements. Details of the submitted summary by the Management is presented in Table 10.1.

**Table 10.1 –** **Summary of Meralco Disbursements and Refunds**

**As at December 31, 2022**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Year paid** | **Advance payment** | **Refunded** | **Balance** | **Percentage to total** |
| 2006-2010  | P 2,485,550 |  P 2,173,596  | P 311,954  | 1.31 |
| 2011-2017 | 15,809,375 | 4,405,653 | 11,403,721 | 47.77 |
| 2018-2022 | 5,576,682 | 1,235,558 | 4,341,125 | 18.19 |
| **Total** | **P23,871,607**  |  **P 7,814,807**  | **P16,056,800**  | **67.27** |

* 1. Based on the contract agreement of the AFPRSBS with the Meralco, the AFPRSBS shall be entitled to an annual refund of 75 per cent of the Gross Distribution Revenue realized from all customers directly connected to the line/poles/facilities subject matter per agreement for the CY.

* 1. As can be gleaned from Table 10.1, the significant portion of the total unrefunded balance is from CY 2017 and PYs amounting to P11.716 million or 72.96 per cent of such balance. Consequently, depriving the AFPRSBS of additional funds for its operations.

* 1. Moreover, the total balance in the Summary of MDR provided by Management could not be ascertained due to the following:

*Exclusion of some items that were included in the AO in CY 2014 AAR*

* 1. The Audit Team verified the Summary of MDR submitted by the Management to determine its compliance with the AO in CY 2014 AAR. However, it was observed that some items are no longer part of the summary list provided. Details are presented in Table 10.2.

**Table 10.2 – Items included in the AO in CY 2014 AAR but were**

**Excluded in the Summary of MDR**

**As at December 31, 2022**

| **Date** | **Project** | **\*RVCP No.** | **Amount** |
| --- | --- | --- | --- |
| 10/15/2008 | Riviera Residential Estate | 48710 |  P 32,050  |
| 10/22/2009 | Villa Segovia | 61565 |  66,930  |
| 10/22/2009 | Villa Segovia | 61566 |  90,010  |
| 09/30/2013 | Riviera Residential Estate | 105941 |  3,938,700  |
| 12/01/2014 | Riviera Residential Estate | 116782 |  672,651  |
| **Total** |   |   |  **P4,800,341**  |

*\*RVCP - Request for Voucher and Check Preparation*

*Presence of unadjusted item that was recorded twice with the same reference number*

* 1. In the verification of the Summary of MDR, the Audit Team also noted that the amount of P1.026 million was recorded twice with the same reference number of RVCP No. 148604 for Block 22 Lot 7.
	2. According to the Management, validation is still ongoing on some of the excluded items in the Summary of MDR submitted and on the item that was recorded twice. There is no update on the status of such validation as at December 31, 2022 submitted to date.

*Deductions of refunds from the Summary of MDR but without supporting documents*

* 1. The Management submitted two Official Receipts (ORs) to the Audit Team as proof of collection for refund from the Meralco. However, the total of the OR submitted is only P5.412 million, while the declared refund based on the Summary of MDR provided in Table 10.1 shows that the total refunds from Meralco amounted to P7.815 million, with a difference of P2.403 million. The Audit Team already requested from the Management the supporting documents for the said difference, but no documents were presented to date. Details of the ORs submitted is presented in Table 10.3.

**Table 10.3 – Official Receipts Submitted**

**As at December 31, 2022**

| **OR No.** | **Date** | **Amount** |
| --- | --- | --- |
| 66321A | August 24, 2021 |  P 4,251,576  |
| 58226A | July 22, 2019 | 1,160,172 |
| **Total** |   |  **P 5,411,748**  |

*Offsets* *recorded in the SL but not included in the Summary of MDR*

* 1. As earlier mentioned, the contract agreement of the AFPRSBS with the Meralco also specified that the Meralco shall have the right to offset the amount of refund of the balance thereof against the unpaid electric bills of the AFPRSBS which are already due and demandable.
	2. Review of SL of the AR – Others, where the deposits and/or advances to Meralco are recorded showed that a total of P6.053 million were credited against the account. The Audit Team selected three items with the highest value as samples and inquired with the Management regarding the nature of the accounts recorded. The Management admitted that those items are bill deposits which were offsets against the monthly billings of Meralco. Likewise, these items were not included in the Summary of MDR and no documents were submitted to support the offsets made. Details are presented in Table 10.4.

**Table 10.4 – Offsets recorded in the SL but not included**

**in the Summary of MDR**

**From CYs 2016 to 2018**

|  |  |  |
| --- | --- | --- |
| **Ref no.** | **Particulars** | **Amount** |
| NI 133079 | Payment of electricity consumption for the period July 23, 2016 to August 22, 2016 | P 41,003 |
| NI 140669 | Industrial Park Management Office (IPMO) electric charges for the period of June 16, 2017 to July 15, 2017 | 40,087 |
| NI 144218 | IPMO electric charges for the period December 16, 2017 to January 15, 2018 | 38,604 |
| **Total** |   | **P 119,694** |

* 1. In view of the foregoing, the accuracy of the Summary of MDR provided by the Management could not be relied upon as there are some items included in the AO in CY 2014 AAR that are no longer included in the submitted Summary of MDR, presence of unadjusted item that was recorded twice, deductions of refunds without supporting documents and offsets recorded in the SL but not included in the Summary of MDR.
1. **We reiterated with modifications our PY’s audit recommendations that Management:**
2. **Retrieve/produce all documents relative to the advances and/or deposits made to Meralco and make personal representation with Meralco for the status of service connection for each project completed to determine the propriety of a refund; and**
3. **Provide the Audit Team of the supporting documents for any offsets made in CY 2014 and PYs, if any.**
4. **We further recommended that Management:**
5. **Expedite validation of the Summary of MDR to determine the reasons for the exclusion of some items in the list of those included in the CY 2014 AAR;**
6. **Adjust immediately the item that was recorded twice with the same reference number;**
7. **Submit the ORs and/or other documents to support the amount of P2.403 million which allegedly have been refunded by Meralco;**
8. **Explain why offsets were recorded in the SL but not included in the Summary of MDR; and**
9. **Determine if there are other offsets made against unpaid electric bills.**
10. The Management commented that the reconciliation with the Meralco for the refund claims of AFPRSBS is a continuing activity. The AFPRSBS is in constant coordination with Meralco to determine the status of service connection for each completed project and for the collection of additional refunds that are already due to AFPRSBS. Likewise, the validation of the Summary of MDR is still ongoing to identify the reasons for the exclusion of some items in the list. The schedule will be revised accordingly depending on the result of the reconciliation.
11. Moreover, the item or transaction that was recorded twice under RVCP No. 148604 for Block 22 Lot 7 amounting to P1.026 million was already corrected/excluded in the Summary of MDR. The exclusion of the same, however, does not require any adjustment in AFPRSBS’ books since it was only in the Summary of MDR that the same was included twice. In addition, the AFPRSBS had already identified the ORs corresponding to refunds amounting to P0.510 million out of the P2.403 million without proofs of collection. These pertain to refunds for the Riviera, Villa Segovia and Villa De Toledo projects. The AFPRSBS is still tracing the ORs and supporting documents for the remaining balance of P1.893 million.
12. As to the offsets recorded in the SL but not included in the Summary of MDR, the Management commented that from CYs 2016 to 2018, a total refund of P119,694 as presented in Table 10.4 were deducted by Meralco from its monthly billings for the AFPRSBS Office and IPMO. These were not recorded as deductions in the Summary of MDR since the schedule covers only the deposits and refunds made for the Riviera, Villa Segovia and Villa De Toledo projects.
13. Nevertheless, the AFPRSBS will endeavor to reconcile all the deposits and refunds with Meralco including offsets made, if any, to determine the correct balance of the refunds that are still due to the AFPRSBS.
14. As a rejoinder, the Audit Team acknowledges the efforts of the Management to continuously reconcile the noted variance. However, we would like to emphasize that Management should submit to the team the supporting documents of the above-mentioned recorded offsets and alleged refunds from the Meralco for validation. On the other hand, the offsets that are recorded in the SL should also be considered in the summary of the MDR to reflect the actual/accurate amount recorded as advances to Meralco.
15. Likewise, the Audit Team will closely monitor and evaluate the Management’s action and submission of documents accordingly to ascertain the actual amount that should be refunded by the Meralco.
16. **The timely abolition/liquidation of the AFPRSBS pursuant to MO No. 90 did not push through as expected as there was delay brought about by the absence of: a) IRR issued by the GCG; b) updated winding down/LP as approved by the GCG; c) clearance from the GCG to dispose major assets through public bidding; and d) cut-off date to close the books of accounts and material misstatements of the various account balances in the FS. Likewise,** **the 2018 approved LP was not strictly implemented and closely monitored. Consequently, the delay in the liquidation process is not in accordance with the public policy considerations for the abolition of GOCCs under Section 4.2 of GCG MC No. 2015-03 vis-à-vis RA No. 10149.**
	1. Sections 4.1 and 4.2 of GCG MC No. 2015-03 dated April 8, 2015, provide:

*4.1 Coverage of "Abolition". – "Abolition" under Section 5(a) of R.A. No. 10149 is a generic term that lawfully covers the following legal processes:*

*Xxx*

* + - 1. *Liquidation, which takes place immediately after dissolution and involves, but is not limited to, the settlement and adjustment of claims against the GOCC, payment of its just debts, and collecting all that is due the corporation.* ***In no case shall the period of Liquidation of a GOCC exceed three (3) years pursuant to the Corporation Code.***

*Xxx*

*4.2* ***Public Policy Considerations for the Abolition of GOCCs*** *– The abolition of GOCCs under RA No. 10149 shall be pursued consistent with the following policies:*

1. *Safeguarding the Public Purpose of Public Funds/Properties – The manner of abolition of every GOCC shall be pursued in a manner that preserves the value of its assets and business enterprise that would provide for the highest possible liquidation value to cover the legitimate interests of all stakeholders, and allow the public service interests to be pursued in the agency that will take-over the abolished GOCC's social development functions.*
2. *Safeguarding the Civil Service /interests and Employees' Entitlement to Reasonable Separation Benefits. - The civil service rights of employees in GOCCs which have been approved for abolition, as well as providing for the separation pay to which they may be entitled, shall be one of the highest considerations in pursuing the liquidation process of an abolished GOCC.*
3. *Safeguarding the Priority Claims of Legitimate Creditors of GOCCS. - The liquidation of a GOCC that has been approved for abolition shall be undertaken in full consideration of the security and property rights of legitimate creditors.* (Emphasis Supplied)
	1. Sections 3 and 6 of MO No. 90 provide:

*Section 3. Winding down and Liquidation – The AFPRSBS Board shall act as a Board of Liquidators, subject to oversight by the Governance Commission, and is hereby directed to:*

*Xxx*

*c.* ***Collect all indebtedness due to the AFP-RSBS;***

*d. Continue a corporate operating budget for the purpose of the following:*

*1.) Continuation of leasing services, for the purpose of preservation of its assets;*

*2.) Collection of all indebtedness;*

*3.) Release of penalties to loans and inter-company receivables due to AFP-RSBS, provided it is not manifestly prejudicial to the government, and in compliance with existing auditing rules and regulations;*

*4.)* ***Refund of AFP-RSBS members’ contributions as they fall due****; and*

*5.) Servicing of existing Membership Loan Programs;*

*e. For its Board of Trustees to act as Board of Liquidators, who shall recommend to the GCG dispositive actions for its subsidiaries and affiliates;*

*f. Enter contracts for the following purpose:*

*1.* ***Sell all its real estate assets, such as, but not limited to, subdivision lots, house and lots, memorial lots, raw lands and all acquired assets*** *in accordance with the existing internal policies of AFP-RSBS;*

*2. Sell its golf and country club shares, and all other personal properties;*

*3. Manage, preserve and maintain its buildings, facilities and equipment in line with the winding down activities;*

*4. Complete deliverables to subdivisions, and turn over completed subdivisions to LGUs and homeowners association; and*

*5. Maintenance and preservation of existing projects and properties, including security services, insurance, etc.*

*Xxx*

*The foregoing are without prejudice to supplemental guidelines from the Governance Commission in implementing this Order.*

(Emphasis Supplied)

*Xxx*

*Section 6. Implementing Guidelines –* *The Governance Commission shall issue such implementing rules and regulations as may be necessary to supplement this Order.*

* 1. The Audit Team noted that the entire liquidation process of the AFPRSBS was not timely met and the delay is brought about by the several factors/reasons, as discussed below:

*Absence of IRR issued by the GCG*

* 1. As specified in Section 6 of MO No. 90, the GCG shall issue such IRR as may be necessary to supplement this Order. However, the Audit Team noted that from the time when such Order took effect in 2016, no IRR has been issued by the GCG to implement the provisions stated in the said Order.
	2. Inquiry with Management disclosed that one of the reasons for non-issuance of the IRR is that the MO No. 90 does not mandatorily require the GCG to issue an IRR since as expressly provided in the said MO, the GCG shall only issue such IRR as it may deem necessary to supplement the said Order.
	3. However, the Audit Team would like to emphasize the importance of IRR which is to prescribe the procedures and guidelines for the implementation of MO No. 90 to facilitate the compliance and achieve its objectives.
	4. As stated in MO No. 90, the actions of the AFPRSBS BOL and the AFPRSBS Management are only limited as to those expressly provided therein. The issuance of the IRR is within the jurisdiction of the GCG based on MO No. 90. While the said MO provides that GCG will issue such IRR as may be necessary to supplement the subject Order, the Audit Team opined that there is already a need to issue the IRR due the considerable length of time in the delay of the abolition/liquidation. The absence of such IRR greatly affected the expeditious abolition/liquidation of the AFPRSBS.

*Absence of an updated winding down/LP as at December 31, 2022, as approved by the GCG*

* 1. Based on the latest LP provided by the Management as at
	September 30, 2021, the Audit Team noted that the said LP was not yet approved by the GCG but has been presented every BOL meeting.
	2. The primary objectives of the unapproved latest LP are as follows:
1. Full implementation of accelerated refund of MCs until 2022; and
2. Initiation of the transfer process for the remaining assets of AFPRSBS to DND and AFP.
	1. Moreover, to achieve such objectives, the following strategies shall be pursued within the liquidation period which should end on
	December 31, 2022:
3. Liquidation of some assets to sustain operations until turn-over of remaining assets;
4. Preparation of inventory and accounting of records for terminal audit;
5. Preservation of remaining assets until disposal or turn-over;
6. Immediate separation of employees whose functions are no longer required; and
7. Turn-over to DND and AFP all remaining assets of AFPRSBS including skeletal structure who shall assist in management of remaining assets.
	1. In relation thereto, the Audit Team reviewed the minutes of the BOL meetings in CY 2022. As discussed thereof, one of the reasons for the non-submission of an updated LP to the GCG is that other government agencies are interested in the remaining assets of the AFPRSBS. The Management would like to communicate with the Office of the President and propose an amendment to MO No. 90, wherein upon the liquidation of AFPRSBS, the remaining assets should be transferred to an agency under the control of the DND since its funds are sourced from the contributions of soldiers and its members.
	2. Further, the non-submission to the GCG of an updated LP as well as updates on the status of assets liquidated, may hinder the technical guidance that the latter can offer in relation to the AFPRSBS' liquidation process. This practice is not consistent with MO No. 90 and RA No. 10149. Thus, ultimately contributes to the delay of its liquidation.

*Absence of clearance from the GCG to dispose major assets through public bidding*

* 1. The Audit Team observed that the absence of clearance from the GCG is one of the limitations encountered by the Management in the disposal of its major assets through public bidding.
	2. In the review of BOL’s minutes of meetings as at December 31, 2022, the Audit Team noted that for those properties sold on retail, the sale price is the market value or the assessed value of the properties in the area. However, for the sale of major assets through public bidding, the Management need to seek a clearance from the GCG aside from incurring additional expenses for the procurement of services of an independent appraiser.
	3. The absence of the required clearance is attributed to the GCG’s requirement that the property subject of sale thru public bidding be re-appraised. However, based on our inquiry with Management, the requirement of re-appraisal is not cost-efficient on the part of the AFPRSBS and could be detrimental to the interested buyer/s since the GCG’s requirement coincides with the negotiation stage of the sale where the appraised value may be different from the original appraised value.
	4. Customarily, the appraised value is valid only for one CY. Thus, if the bidding process takes more than a year, the previous year’s appraised value for the property to be disposed will no longer be valid. Hence, re-appraisal and revaluation may be necessary due to any changes in the value of the property. As mentioned in the BOL minutes of meeting, the one-year validity of appraisal value is a requirement from the GCG.
	5. As a result, to prevent the cost of re-appraisals, the Management is forced to undertake the appraisal of its properties only once there are interested buyers. Furthermore, the Management had already expressed its contention to the GCG on the matter.

*Absence of cut-off date to close the books of accounts and material misstatements of the various account balances in the FS*

* 1. Section 4 of COA Circular No. 92-375 provide:

*Section 4 -* ***The cut-off date to effect the transfer of balances of accounts from the old to the new agency is the effective date of abolition, transfer, merger, consolidation or sub-division pursuant to the provisions of law****. However, for purposes of reconciliation, consolidation, adjustment, closing of books of accounts of the old agency and opening of books of accounts of the new agency, a maximum of six (6) months transitory period from the cut-off date shall be allowed to effect such transfer.*

* 1. Likewise, GCG MC No. 2015-03 dated April 8, 2015 provide:

*Xxx*

1. *Dissolution, which is the point in time when a GOCC ceases to exist as a going concern**or for pursuit of its business purpose, and its juridical capacity remains only for purposes of winding-down its affairs and the liquidation of its assets.* ***The date of dissolution shall be effective upon the issuance of the President’s approval of the Governance Commission’s recommendation to abolish a GOCC.***(Emphasis supplied)

* 1. Pursuant to MO No. 90, Section 4 of COA Circular No. 92-375 and GCG MC No. 2015-03, the effective cut-off date for AFPRSBS to close its books of accounts was December 31, 2016. However, as at December 31, 2022, there is no officially declared agency that will absorb/receive the assets of AFPRSBS. Hence, the procedures and guidelines set forth in the aforementioned COA Circular cannot be performed.
	2. Moreover, due to the abolition of the AFPRSBS, the Audit Team recommended that Management present and adopt the liquidation basis of accounting for the FS ending December 31, 2022. Consequently, the account balances of Investment in real estate – landbanking and industrial park and Acquired assets totaling P2.092 billion should be measured at the lower of its carrying amount or fair value less cost to sell in accordance with Paragraph 15 of PFRS 5. In addition, AOs were issued pertaining to the unreconciled variances between the GL and SL of PE against the RPCPPE; and unreconciled variances on Real estate inventories between total land area per records against the actual inventory of TCTs.

*2018 approved LP was not strictly implemented and closely monitored*

* 1. On the other hand, the Audit Team also noted that the 2018 approved LP was not strictly implemented and closely monitored which also contributed to the delay in the abolition/liquidation of the AFPRSBS.
	2. As stated in GCG MC No. 2015-03 the period of liquidation of a GOCC shall in no case exceed three (3) years pursuant to the Corporation Code. 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.
	3. The Audit Team also observed that six years after the issuance of MO No. 90, there is no significant movement yet in the action plans of the AFPRSBS.
	4. It was also observed that out of the P17.732 billion approved gross sales price of the assets to be liquidated, only P6.555 billion or 36.97 per cent had materialized. The details of the initial LP dated June 30, 2018, submitted to and approved by GCG are presented in Table 11.1.

**Table 11.1 – Liquidation/Winding down Plan As approved by GCG**

**As at June 30, 2018**

B. Current Status of Divestment of Assets

| **Real estate assets for auction** | **Award of sale amount** |
| --- | --- |
| Lots 6B/6C/6D, Aseana City | P 3,316,509,038 |
| Lot 6E, Aseana City |  1,794,344,509 |
| Green Meadows Phase 2, Iloilo |  1,251,000,000 |
| Lot 1979-I, Sta Rosa, Laguna | 23,641,200 |
| Lot 1981-A, Sta Rosa, Laguna | 10,500,000 |
| **Total** | **P 6,395,994,747** |

C. Timeline

**Year 1 (2nd-4th Qtr 2018)**

Action Plans:

1. Sell the following retail Real estate inventories in cash or deferred cash (maximum term of one year) basis:

| **Properties** | **Inventory /lots** | **Gross sales** | **Cost of Sale** | **Marketing expense** | **Net gain** |
| --- | --- | --- | --- | --- | --- |
| **(In million pesos)** |
| Eastridge | 103 | P 166.095 | P 72.617 | P 16.609 | P 76.869 |
| Green Meadows | 35 | 88.403 | 16.532 | 33.593 | 38.278 |
| Riviera | 18 | 56.700 | 8.641 | 20.412 | 27.647 |
| Villa de Toledo | 6 | 13.395 | 0.579 | 3.639 | 9.177 |
| Caceres | 13 | 23.040 | 6.573 | 8.294 | 8.173 |
| Orchard | 11 | 15.480 | 2.073 | 5.573 | 7.834 |
| **Total** | **186** | **P 363.113** | **P 107.015** | **P 88.120** | **P 167.978** |

1. Sell the following major assets:

| **Properties** | **Gross sales** | **Cost of Sale** | **Marketing expense** | **Net gain** |
| --- | --- | --- | --- | --- |
| **(In million pesos)** |
| Mexico, Pampanga | P 422.146 | P 122.545 | P 25.329 | P 274.272 |
| Ciudad Verde 2 | 527.898 | 282.106 | 31.674 | 214.118 |
| Tanauan Batangas (39 Lots) | 355.864 | 161.882 | 21.352 | 172.630 |
| RSCCI Shares | 338.580 | 145.832 | 20.315 | 172.433 |
| Green Meadows Commercial Lots | 187.796 | 31.008 | 11.268 | 145.520 |
| St Michael Tower | 400.000 | 254.702 | 24.000 | 121.298 |
| San Lorenzo Lot 1959 A | 21.171 | 3.916 | 1.270 | 15.985 |
| Calubcob Silang Cavite | 59.051 | 43.750 | 3.543 | 11.758 |
| *(Forward)* |  |  |  |  |
| Gen San Property Lot 26/10600 | 99.437 | 81.874 | 5.966 | 11.597 |
| Gen San Property Lot 2 | 84.045 | 69.201 | 5.043 | 9.801 |
| San Lorenzo Lot 1959 B | 8.174 | 1.512 | 0.490 | 6.172 |
| **Total** | **P 2,504.162** | **P 1,198.328** | **P 150.250** | **P 1,155.584** |

1. Sell equity holdings or shares of stocks in the following subsidiaries/ affiliates:

| **Subsidiary** | **Gross sales** | **Cost of Sale** | **CGT\*/****DST\*\*** | **Net Gain/ (Loss)** |
| --- | --- | --- | --- | --- |
| **(In Million Pesos)** |
| Southern Utilities Management and Services, Inc. (SUMSI) | P 30.000 | P 20.244 | P 4.800 | P 4.956 |
| MDC | 600.000 | 870.170 | 96.000 | (366.170) |
| **Total** | **P 630.000** | **P 890.414** | **P 100.800** | **P (361.214)** |

*\* CGT – Capital Gains Tax*

*\*\* DST – Documentary Stamp Tax*

**Year 2 (CY 2019)**

Action Plans:

1. Sell the following retail Real estate inventories in cash or deferred cash (maximum term of one year) basis:

| **Properties** | **Inventory/ lots** | **Gross sales** | **Cost of Sale** | **Marketing expense** | **Net gain** |
| --- | --- | --- | --- | --- | --- |
| **(In million pesos)** |
| Riviera Residential | 36 | P 199.773 | P 28.159 | P 71.918 | P 99.696 |
| Caceres | 12 | 17.280 | 4.930 | 6.221 | 6.129 |
| Orchard Residential | 5 | 6.450 | 0.864 | 2.322 | 3.264 |
| **Total** | **53** | **P 223.503** | **P 33.953** | **P 80.461** | **P 109.089** |

1. Sell the following major assets:

| **Properties** | **Gross sales** | **Cost of Sale** | **Marketing expense** | **Net gain** |
| --- | --- | --- | --- | --- |
| **(In million pesos)** |
| Heaven's Gate | P 635.789 | P 298.089 | P 38.147 | P 299.553 |
| San Lorenzo Lot 5 | 229.600 | 15.927 | 13.776 | 199.897 |
| Gen San Property Lot Y | 395.912 | 211.665 | 23.755 | 160.492 |
| San Lorenzo Mt. Zion | 191.982 | 54.636 | 11.519 | 125.827 |
| Sta Rosa Rawlands (7 Lots) | 126.317 | 35.949 | 7.579 | 82.789 |
| Riviera Rawlands | 405.146 | 300.168 | 24.309 | 80.669 |
| Lots 1-A-2-B-1 to B-3 |
| Orchard | 35.660 | 0.579 | 2.140 | 32.941 |
| San Lorenzo Lot 2033-B | 33.814 | 5.361 | 2.029 | 26.424 |
| Zamboanga Mem'l Garden | 1.632 | 1.283 | 0.098 | 0.251 |
| **Total** | **P 2,055.852** | **P 923.657** | **P 123.352** | **P 1,008.843** |

1. Sell equity holdings or shares of stocks in the following subsidiaries/ affiliates:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Subsidiary** | **Gross sales** | **Cost of Sale** | **CGT/****DST** | **Net Gain/ (Loss)** |
| **(In million pesos)** |
| BRADCO | P 5,157.660 | P 414.722 | P 825.226 | P 3,917.712 |
| Enchanted Kingdom Holdings, Inc. | 127.000 | 0 | 20.320 | 106.680 |
| Philippine Airlines Holdings, Inc. | 79.515 | 6.626 | 12.722 | 60.167 |
| MLI | 194.880 | 196.508 | 31.181 | (32.809) |
| **Total** | **P 5,559.055** | **P 617.856** | **P 889.449** | **P 4,051.750** |

* 1. The summary of assets sold as at December 31, 2022 is presented in
	Table 11.2.

**Table 11.2 – Assets sold via Public Bidding**

**As at December 31, 2022**

| **Real estate assets for auction** | **Award of sale amount** |
| --- | --- |
| Lots 6B/6C/6D, Aseana City | P 3,316,509,038 |
| Lot 6E, Aseana City | 1,794,344,509 |
| Green Meadows Phase 2, Iloilo |  1,251,000,000 |
| SUMSI – Shares | 158,780,000 |
| Lot 1979-I, Sta Rosa, Laguna | 23,641,200 |
| Lot 1981-A, Sta Rosa, Laguna | 10,500,000 |
| **Total** | **P 6,554,774,747** |

* 1. The Audit Team would like to emphasize that the AFPRSBS BOL and Management should have closely coordinated with the GCG and the Technical Working Group (TWG) for the effective and expeditious abolition/liquidation of the AFPRSBS.
	2. As provided under Section 5 of MO No. 90, the GCG shall be assisted by the TWG to implement the provisions of MO No. 90. The TWG is composed of representatives from the following departments, agencies, and GOCCs:
1. Department of National Defense;
2. Department of Finance;
3. Department of Budget and Management;
4. Privatization Management Office;
5. AFP Retirement and Separation Benefits System; and
6. Armed Forces of the Philippines.
	1. Furthermore, under Section 4.6 of GCG MC No. 2015-03, the TWG shall resolve the following:
7. Settlement of separation pay of affected employees;
8. Surrender of original copies of corporate books of account and financial records to the Commission on Audit, and officially received by the latter;
9. lnventory of abolished GOCC's existing programs and projects which are to be terminated or transferred to the appropriate agency, as the case may be;
10. lnventory of abolished GOCC's assets and liabilities, if any and the manner by which said assets and liabilities shall be disposed of and settled;
11. Change Management Plan for affected stakeholders other than the creditors and employees;
12. lnventory of all pending cases brought by and against the dissolved GOCC, the status of such cases, and corresponding actions to resolve said cases, as well as the amount of contingent liabilities from said cases, if any;
13. The formal submission of the Plan of Liquidation of the GOCC which shall then be approved by all members of the TWG for implementation of the dissolved GOCC, Parent GOCC, or Supervising Agency, as the case may be; and
14. Such other matters to be resolved for the effective and expeditious abolition, dissolution and liquidation of the concerned GOCC.
	1. The Audit Team had already requested for certified photocopies of minutes of the meetings and resolutions undertaken by the TWG but to date, the same are not yet submitted.
	2. Consequently, the delay in the abolition/liquidation of AFPRSBS is not in accordance with the public policy considerations for the abolition of GOCCs as provided in Section 4.2 of GCG MC No. 2015-03 vis-à-vis RA No. 10149.
15. **We recommended that Management:**
16. **Closely coordinate with the GCG and request for the possible issuance of the IRR for the appropriate implementation of MO No. 90;**
17. **Prepare and submit updated LP to GCG for approval;**
18. **Submit periodic report to BOL to closely monitor the progress of the actions taken;**
19. **Communicate to GCG the concerns, challenges and limitations encountered during the winding down of AFPRSBS;**
20. **Sit down with the GCG for the proper and necessary practical procedures in the disposal of its major assets through public bidding;**
21. **Furnish the Audit Team with the certified photocopies of the minutes of the meetings and resolutions of the TWG; and**
22. **Determine and recommend the Agency that will receive the remaining assets of the AFPRSBS upon the cut-off date.**
23. The Management acknowledge the delay in the abolition/liquidation of AFPRSBS. Currently, various options are being pursued to come up with the maximum benefit of the liquidation and/or merger of the company for the members. The AFPRSBS has pending study on how to better liquidate or merge or acquire the company which needs approval of the President of the Philippines. Likewise, recent developments are being considered by the DND TWG.
24. As a rejoinder, the Audit Team appreciates the Management’s action in exploring various options to get the maximum benefit of the liquidation. However, the Audit Team will closely monitor Management’s compliance with the above recommendations.
25. **The purchases of buyers covered by Contracts to Sell with AFPRSBS are unsecured as several TCTs relating to various ICR-current and ICR-past due accounts amounting to P4.307 million and P19.544 million, respectively, were neither found during the inventory of TCTs nor among the TCTs released in CY 2022, contrary to Section 111 of PD No. 1445 and Section II.A.2.f of AFPRSBS Policy No. CPO-001-2017.**
	1. Section II.A.2.f of Policy No. CPO-001-2017 (Revised Policy on Providing Allowances for Probable Losses and Writing- Off of Accounts) 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)

* 1. In a contract to sell, the ownership and title of the subject properties will only be transferred and released, respectively, to the buyers upon full payment of the purchase price. Relative thereto, the transactions involving ICR accounts are covered with the respective Contract to Sell to which the corresponding titles of the sold real estate are still in the custody of AFPRSBS.
	2. Moreover, the IRMD as the vault custodian of AFPRSBS is tasked with the release of TCTs from their custody thru the issuance of Securities/ Documents Release Form (SRF) pursuant to the Guidelines on Document/ Check Releases dated April 11, 2006. The said SRF provides for the possible justifications on the release of TCTs, to wit:
1. Full settlement of account
2. For bank take-out
3. Temporary release due to:

1. Title transfer

2. Re-titling/Conveyance

3. Court hearing

4. Others (Specify)

* 1. For CY 2022, the IRMD released 309 TCTs, which was approved by the Treasury Department, as evidenced by: a) SRFs with requests and recommendations by managing and co-managing department heads; b) clearances issued by the legal department; and c) acknowledgment receipts by buyers or authorized representatives.
	2. In the review of the SL of the ICR-current and ICR-past due accounts which were vouched to the inventory record of TCTs maintained by the IRMD, the Audit Team noted that TCTs of real properties subject of ICR-current and ICR-past due accounts with a total amount of P4.307 million and P19.544 million, respectively, were neither found during the inventory of TCTs nor among the TCTs released in CY 2022. The list of ICR-current and ICR-past due accounts without TCTs on file is summarized in Tables 12.1 and 12.2 as follows:

**Table 12.1 – List of ICR-current accounts without TCTs on File**

**As at December 31, 2022**

| **Property name** | **Phase** | **Block** | **Lot** | **Outstanding balance** |
| --- | --- | --- | --- | --- |
| Acquired assets | - | 3 | 12 | P 1,603,660 |
| Green Meadows | 1 | 69 | 43 | 1,438,086 |
| Tanauan | - | - | 6521-C | 798,120  |
| Villa Caceres | 4 | 409 | 9 | 378,608  |
| San Lorenzo South - Phase ID | ID | 5 | 19 | 41,389  |
| San Lorenzo South - Phase IC & ICA | IC | 63 | 43 | 28,301  |
| Ciudad Verde | 1 | 7 | 6 | 18,112 |
| San Lorenzo South - Phase IC & ICA | ICA | 2 | 22 | 860  |
| **Total** |  |  |  | **P 4,307,136** |

**Table 12.2 – List of ICR-past due accounts without TCTs on File**

**As at December 31, 2022**

| **Property name** | **No of Accounts** | **Outstanding balance** | **Remarks** |
| --- | --- | --- | --- |
| Eastridge | 6 | P 9,562,620  | No data |
| Riviera | Various accounts | 2,990,136  | - |
| Orchard | 4 |  2,806,300  | - |
| San Lorenzo South – Phase IC & ICA | 9 |  1,799,854  | - |
| Green Meadows | 1 |  852,187  | - |
| San Lorenzo South – Phase I | 5 |  789,957  | - |
| Northmatrix Ville 1 | 2 |  547,969  | - |
| Sta. Perpetua | 2 |  130,259  | - |
| Victoria Homes | 1 |  35,703  | - |
| San Mateo | 1 |  26,414  | - |
| San Lorenzo South – Villa de Toledo | 1 |  2,143  | - |
| **Total** |   | **P19,543,542**  |   |

* 1. Likewise, further verification of the whereabouts of some TCTs could not be undertaken because the schedules of ICR-current and ICR-past due accounts do not provide for TCT number, and other items in the SLs are only tagged as “various accounts” with no breakdown of details.
	2. Based on AFPRSBS Policy No. CPO-001-2017, it is assumed that the titles of the properties subject of the enumerated ICR-current and ICR-past due accounts should have been found in the custody of IRMD. Thus, purchases of buyers covered by Contracts to Sell with AFPRSBS are unsecured as several TCTs relating to various ICR-current and ICR-past due accounts were neither found during the inventory of TCTs nor among the TCTs released in CY 2022.
1. **We recommended that Management:**
2. **Update the SLs of ICR-current and ICR-past due accounts by identifying those customers tagged as “various accounts”;**
3. **Coordinate with the IRMD to determine the exact details of the ICR-current and ICR-past due accounts tagged with “no data”;**

1. **Require the AD and the IRMD to reconcile the list of the TCTs released with that of the ICR schedule; and**
2. **Ensure that all the individual balances reflected in the ICR have corresponding TCT to secure buyers’ ownership over the property in case of full payment.**
3. The Management commented that the it is continuously reconciling the SL of the ICR-current and ICR-past due accounts to include those accounts that were identified by the Audit Team.

1. Meanwhile, the P4.307 million and P19.544 million pertaining to the ICR-current and ICR-past due accounts are subject to further validation and the result of the reconciliation will be provided to the Audit Team once the same is completed.
2. For the six (6) accounts tagged with “no data”, the AD has already identified the status of five accounts. The four (4) accounts pertain to Eastridge Golf Shares with a balance of P217,678 and one (1) account for reclassification of the P2,123 balance which was only adjusted in January 2023 via LE-3003-JAN23. The remaining account is subject to further validation.
3. The AD, IRMD and the Real Estate Group (REG) are already working on the reconciliation of the ICRs and the TCTs in the vault. For the remaining accounts for validation, the AD and IRMD together with REG will endeavor to reconcile the list of the TCTs released with that of the ICR schedule of the AD. Also, the AD will work in coordination with the IRMD on the tracing of the TCTs for ICRs that have no TCTs in the vault, if any.
4. As a rejoinder, the Audit Team will closely monitor and evaluate the Management’s actions on the audit recommendations, accordingly.
5. **Dormant AR totaling P960.928 million have remained outstanding for 11 to more than 20 years, thus, deprives the AFPRSBS of funds for its accelerated refund and payment of other obligations, contrary to COA Circular No. 2016-005.**
	1. This is a reiteration with modifications of PY’s AO as embodied in the CY 2019 AAR.
	2. COA Circular No. 2016-005 dated December 19, 2016 provides the Guidelines and Procedures on the Write-Off of Dormant Receivable Accounts, Unliquidated Cash Advances and Fund Transfers of National Government Agencies, Local Government Units and GOCCs. Section 5 of the said Circular defined the following terms:

*Xxx*

*5.5 Dormant Receivable Accounts – accounts which balances remained inactive or non-moving in the books of accounts for 10 years or more and where settlement/collectability could no longer be ascertained.*

*Xxx*

*5.9 Write-off of Dormant Accounts – the process of derecognizing the asset account and the corresponding allowance for impairment from the books of accounts and transferring the same to the Registry of Accounts Written off (RAWO). This does not mean condoning/extinguishing the obligation of the accountable officer/debtor.*

* 1. Moreover, Section 8.2 of the same Circular provides that the Head of the government entity shall file the request for the authority to write-off dormant receivable accounts, supported by the Schedule of dormant accounts by accountable officer/debtor/government entity and by account, certified by the accountants and approved by the Head of the government entity, together with the certified copies of relevant documents validating the existence of the conditions as enumerated in the said Circular.
	2. As at December 31, 2022, the net values of Trade and other receivables, Loans receivable and Advances to subsidiaries have a total balance of P1.629 billion. Of the said receivables, AFPRSBS has dormant receivables totaling to P960.928 million which is 59 per cent of the total receivables and eight per cent of the total assets as at year-end. Among these dormant receivables, the amount of P898.146 million are covered by collaterals and the same are subject of consolidation or foreclosure proceedings. Details are presented in Table 13.1.

**Table 13.1 – Aging of Dormant Receivable Accounts**

**As at December 31, 2022**

| **Account** | **No. of accounts** | **Amount** | **Aging of dormant receivable accounts** |
| --- | --- | --- | --- |
| **11 to 15 years** | **16 to 20 years** | **more than 20 years** |
| **Secured** |  |  |  |  |  |
| Accounts under litigation | 8 | P 776,847,347 | P 732,293,828 | P 0 | P 44,553,519 |
| Past due-commercial loans | 5 | 115,942,928 | 6,118,064 | 0 | 109,824,864 |
| Past due-small business loans | 6 | 3,607,927 | 714,233 | 0 | 2,893,694 |
| Past due car loan | 18 | 1,747,648  | 0 | 218,225 | 1,529,423 |
| **Sub-total** | **37** | **898,145,850** | **739,126,125** | **218,225** | **158,801,500** |
| **Unsecured** |  |  |  |  |  |
| AR-non-trade | 7 | 22,675,315  | 0 | 4,456,294 | 18,219,021 |
| Advances to subsidiaries | 5 | 22,238,406  | 14,142,936 | 5,894,093 | 2,201,377 |
| AR-others | 7 |  7,736,838 | 0 | 5,350,649 | 2,386,189 |
| AR-others, beg | 5 | 3,968,314 | 0 | 23,484 | 3,944,830 |
| Dividends receivable | 1 | 2,320,000 | 0 | 0 | 2,320,000 |
| Advances to contractors | 4 | 1,750,452  | 0 | 0 | 1,750,452 |
| AR-discounted | 1 | 1,010,081 |  0 |  0 |  1,010,081 |
| Past due-other loans | 3 | 779,668  | 779,668 | 0 | 0 |
| AR-trade, financing | 8 | 303,540  | 303,540 | 0 | 0 |
| **Sub-total** | **41** | **62,782,614** | **15,226,144** | **15,724,520** | **31,831,950** |
| **Total** | **78** | **P960,928,464**  | **P 754,352,269** | **P15,942,745**  | **P190,633,450** |

* 1. As can be gleaned in the preceding table, the accounts that were determined as dormant for periods ranging from 11 to more than 20 years pertains to the loans and advances that were extended by the AFPRSBS to its subsidiaries, former employees, real estate buyers and other major business enterprises and/or companies.
	2. Verification of AFPRSBS’ semestral report on dormant receivable accounts revealed that 10 accounts totaling to P120.166 million are due from its closed subsidiaries. The said report disclosed that the receivable from GMC in the amount of P8.676 million will be recommended for write-off once the documentary requirements needed are complied with. The Management approved the recommendation per Disposition Form dated June 23, 2022, the request for write-off of the dividend receivable in the amount of P2.320 million from Zenco Sales, Inc. and the same was submitted for review to its Legal Department. Also, three (3) accounts totaling to P50.614 million are with pending cases. Further, 10 accounts totaling to P6.337 million are marked as for collection, of which two (2) accounts were identified with collection letters. The remaining 25 accounts totaling P20.119 million are still for tracing and reconciliation due to difficulties in the retrieval of documents. The receivable from PAPC has remained outstanding since the property was foreclosed on February 28, 2013 and is not yet consolidated in the name of AFPRSBS. For the other dormant receivables totaling P745.705 million, the Management provided 100 per cent allowance for doubtful accounts.
	3. It can be recalled that MO No. 90 was issued directing the abolition of the AFPRSBS, privatization of its subsidiaries, and for other purposes. In view thereof, the Audit Team would like to emphasize that under Section 3 of the said MO, the Board of AFPRSBS was directed to collect all indebtedness due to the AFPRSBS. However, the balance of dormant receivables of the AFPRSBS remains significant at P960.928 million as at December 31, 2022. Even before the issuance MO No. 90, the Management approach in exhausting all available remedies to collect the said receivables resulted in minimal results, thus, the receivables remain outstanding for 11 to more than 20 years. This deprived the AFPRSBS of the much needed funds for its accelerated refund of MCs and payment of other obligations until the AFPRSBS generate sufficient funds from the disposal of its major assets.
1. **We reiterated with modifications our PY’s audit recommendations that Management:**
2. **Exhaust all available remedies to collect all long outstanding/dormant/past due accounts and ensure proper documentation of accounts to coordinate with debtors concerned;**
3. **Devise other options and if warranted, resort to legal means to enforce settlement of accounts including those pertaining to PYs without request for write-off;**
4. **Submit to the Audit Team copies of Demand/Collection Letters and/or other documents to support efforts exerted to collect the dormant accounts; and**
5. **Request authority from COA to write-off dormant receivables as provided for under COA Circular No. 2016-005, when all collections efforts have failed and the accounts are considered non-recoverable.**
6. The Management commented that the dormant receivables of the AFPRSBS are as follows:

| **Particulars** | **Amount** **(In millions)** | **Percentage** |
| --- | --- | --- |
| 1. Four accounts that are currently undergoing legal proceedings/titling/ awaiting writ of execution (PAPC/RCJ/Calidguid/MIIC)
 | P 764.742 | 80.00 |
| 1. Receivables/advances to various subsidiaries and affiliates that are already closed and are subject to terminal audit/dissolution procedures
 | 125.228 | 13.00 |
| 1. To be recovered after sale of the subsidiaries/reconciliation with JV partners (MDC/API/SLDC)
 | 24.894 | 2.60 |
| *(Forward)* |  |  |
| 1. Subject to offsetting or write-off, as applicable, from payables with the contractors after reconciliation
 | 8.839 | 1.00 |
| 1. Other receivables for collection or write-off. Accounts are undergoing evaluation
 | 37.225 | 3.40 |
| **Total** | **P 960.928** | **100.00** |

1. AFPRSBS has been constantly monitoring and tracing the history of the accounts that were included in this category to determine the appropriate action that needs to be undertaken by the Management or the various concerned units.
2. In CY 2013, the Management had exerted efforts to recover some of the past due car loan accounts. Collection Notices/Final Demand Letters were sent to several borrowers via registered mail, but to no avail.
3. AFPRSBS is exhausting all available remedies to collect the long outstanding/dormant/past due accounts and will request authority to write-off from COA should all effort to collect fails.
4. The existence of the dormant receivables will not hinder the refund of all contributions of the members. As at 31 December 2022, the AFPRSBS has an estimated excess funds of P1.115 billion after payment of all existing liabilities.
5. As a rejoinder, we acknowledge the efforts of the Management to constantly monitor and trace the accounts that were considered as dormant receivables to determine the appropriate actions that will be undertaken. Nevertheless, the Audit Team would like to emphasize that the objective of COA Circular No. 2016-005 is to prescribe the guidelines and procedures in reconciling and cleaning the books of accounts for fair presentation of accounts in the FS. Accordingly, the Audit Team will closely monitor and evaluate the courses of action to be taken by the Management to comply with the recommendations.
6. Further, the Audit Team noted that the excess funds in the amount of P1.115 billion was generated primarily from the disposal of its major assets made in CY 2018 and not from the collection of the subject receivables. The mere sufficiency of the available funds for the refund of all contributions of the members is not a justifiable reason for non-collection of long outstanding receivable.
7. **The AFPRSBS did not strictly comply with the guidelines in the grant and liquidation of cash advances for official travel as it was not supported by approved Itinerary of travel and revised Itinerary of travel, respectively, when the previous approved itinerary was not followed, contrary to COA Circular No. 2012-001 and COA Circular No. 96-004.**
	1. Items 1.1.4.1 and 1.2.4.1 of COA Circular No. 2012-001 dated June 14, 2012 on the Revised Documentary Requirements for Common Government Transactions provide that the grant and liquidation of cash advances for official local travel shall be supported by duly approved itinerary of travel and revised itinerary of travel, respectively, when the previous approved itinerary was not followed.
	2. Likewise, Section 3.1.1.1 of COA Circular No. 96-004 dated April 19, 1996 on determining the basis for the amount of cash advance states that:

*The cash advance voucher for official local travel shall be supported by the following:*

1. *Travel order properly approved in accordance with Section 5 of EO 248, as amended;*
2. ***Itinerary of travel detailing the transportation expenses and travel expenses to be incurred as basis for determining the amount of cash advance*** (Emphasis supplied)
	1. In the review of the disbursement vouchers of cash advances granted for official travel, the Audit Team noted that no approved itineraries of travel were attached to support the amounts advanced by the concerned officers/employees. Thus, the details of the transportation and travel expenses to be incurred as basis for the amount of travel expenses could not be determined, contrary to the aforesaid Circular. The Audit Team also noted that only the total estimated cost of travel which usually include the budgeted amount for airfare, lodging and land transportation/meals costs were specified in the approved travel order but the details of the itinerary of travel were not presented.
	2. Moreover, the Audit Team noted that only a breakdown of actual expenses incurred during travel was attached to the liquidation report. Consequently, the revised itinerary of travel was not also submitted as required in the said Circular. By analogy, since no initial itinerary of travel was prepared prior to the grant of cash advance, the liquidation thereof was not supported by revised itinerary of travel when the previous approved itinerary was not followed.

* 1. The above-cited rules and regulation in the granting and liquidation of cash advances for official travel requires the submission of the initial itinerary of travel and the revised itinerary of travel, respectively, when the previous approved itinerary was not followed. Accordingly, any difference between the budgeted amount granted as cash advance as per itinerary of travel and the actual expenses reported in the revised itinerary shall be returned or refunded depending on the given circumstances. This is consistent with the policy of the State to ensure economy and efficiency in handling the funds of the government.
1. **We recommended and Management agreed to prepare and submit the itinerary of travel prior to the grant of cash advance and its revision after each official travel is completed, when there are changes in the initial itinerary and/or the previous itinerary of travel was not followed.**
2. **The AFPRSBS did not strictly comply with the prescribed rules and regulations and rates of expenses and allowances for official local travels of government personnel as there were: a)** **excessive claims for hotel accommodations and meals during travel amounting to P57,713; b) reimbursement of the cost of gasoline/fuel in the amount of P8,701, although there was no proof that government service vehicle was used; and c) inclusion of payment of tips and gratuities in the amount of P2,883 which are unnecessary expenditures under COA Circular No. 2012-003 dated October 29, 2012.**
	1. In 2019, EO No. 77 was issued to amend the prescribed rules and regulations on expenses and allowances for official local and foreign travels of government personnel. Under the said Executive issuance, emphasis is given to the following rules and regulations on the utilization of cash advances for travel expense and allowances.
	2. Sections 2 and 5 of EO No. 77 provide:

***Section 2. Definition of Terms.***

*Xxx*

*(b)* ***Daily Travel Expenses*** *– the amounts authorized to cover expenses for local travel, which consist of (i) costs for hotel accommodation or lodging, including the prescribed taxes and service charges, (ii) meals and (iii) incidental expenses, including cost for local or inland transportation and reasonable miscellaneous expenses at the place of assignment.*

*Xxx*

***Section 5.* *Travel Beyond 50-Kilometer Radius from the Permanent Official Station.*** *Official local travel to destinations beyond the 50-kilometer radius from the permanent official station shall be allowed the following expenses:*

* + - 1. ***Transportation Expenses and Miscellaneous Expenses.*** *The allowable transportation expenses and reasonable miscellaneous expenses (e.g., terminal fees, parking fees, road tolls, etc.) from the permanent official station to the destination or place of assignment shall cover the following areas:*
1. *From the office or residence to the point of embarkation, and vice versa;*

1. *From the point of embarkation to the point of disembarkation in the place of destination, and vice versa; and*
2. *From the point of disembarkation to the office of destination or place of assignment in the field, and vice versa.*

*The transportation expenses and reasonable miscellaneous expenses under this provision shall be in addition to the daily travel expenses under Section 5(b) of this Order.*

*Personnel concerned shall not be entitled to transportation expenses for the entire trip or portion of such trip where government vehicle was used.*

*If a private vehicle is used, no reimbursement of the cost of gasoline and fuel shall be allowed. The official or employee concerned, however, is entitled to the equivalent cost of the customary mode of transportation.*

* + - 1. ***Daily Travel Expenses (DTE)***
1. *The maximum allowable daily travel expenses (DTE) of government personnel, regardless of rank and position, shall be at the following rates:*

| **Destination** | ***Maximum* DTE** |
| --- | --- |
| ***Cluster I*** | *Region I**Region II**Region III**Region V**Region VIII**Region IX**Region XII**Region XIII**ARMM* | *P1,500* |
| ***Cluster II*** | *Cordillera Administrative Region**Region VI**Region VII**Region X**Region XI* | *P1,800* |
| ***Cluster III*** | *National Capital Region**Region IV-A**Region IV-B* | *P2,200* |

1. *Claims for payment of DTE as provided under Section 5(b)(i) hereof shall not require presentation of bills and receipts.*
	* + 1. ***Apportioned Travel Expenses.*** *The allowable DTE for travel beyond the 50-kilometer radius from the permanent official station shall be based on the following apportionment:*

| **Particulars** | **Percentage** | **To Cover** |
| --- | --- | --- |
| Day of arrival at point of destination (regardless of time) and succeeding day/s thereof on official business | 100% | Hotel/lodging (50%), meals (30%), and incidental expenses (20% |
| Day of departure for permanent official station (regardless of time) if other than date of arrival | 50% | Meals (30%), and incidental expenses (20%) |

* + - 1. ***Travel Expenses in Excess of Authorized Travel Rates.*** *Claims for reimbursement of actual accommodation expenses (excluding expenses for valets, room attendants, laundry, pressing, haircuts, and similar services furnished by hotels) in excess of the accommodation component of the DTE may be allowed, but in no case shall the difference exceed one hundred per cent (100%) of such component of the prescribed DTE rate, and only upon:*
1. ***Submission of certification by the agency head or authorized representative as absolutely necessary in the performance of an assignment****; and*
2. *Presentation of bills and receipts. A certification or affidavit of loss shall not be considered as appropriate replacement for lost bills and receipts.*
	* + 1. ***Precluding Double Payment of Travel Expenses.*** *To preclude double payment, the corresponding portion of DTE shall not be allowed when the fair paid for transportation includes meals and/or quarters en route, or where the meals and/or lodging are paid for or furnished by the government or other parties.*

*Excessive claims for hotel accommodations and meals during travel amounting to P57,713*

* 1. In the review of the liquidation reports of cash advance for travels made in CY 2022, the Audit Team noted that the concerned officials and employees of the AFPRSBS were authorized to travel to Region IV-B, VI, and XII with corresponding maximum allowable DTE of P2,200, P1,800 and P1,500, respectively. It was also noted that claims for hotel accommodation and meals were based on actual expenses incurred during official travel. The maximum DTE was not considered in the computation of the 50 per cent allowable daily hotel lodging of P1,100, P900 and P750, respectively. Also, these claims were not supported by a certification of the agency head or authorized representative as absolutely necessary in the performance of an assignment.
	2. The comparative analysis of the actual claims for traveling expenses and the maximum allowable DTE is presented in Table 15.1.

**Table 15.1 – Comparative analysis between actual grant**

**and maximum allowable DTE**

**For the Period Ended December 31, 2022**

| **RVCP no.** | **Destination** | **Actual expenses incurred** | **Total allowed DTE under** **EO No. 77****(e)** | **Excess****(f=d-e)** |
| --- | --- | --- | --- | --- |
| **Accommo-dation** **(a)** | **Meals** **(b)** | **Incidental** **(c)**  | **Total amount claimed** **(d=a+b+c)** |
| NI 257791 | General Santos City, Region XII | P 17,240 | P 15,791 | P 12,933 | P 45,964 | P 18,750 | P 27,214 |
| NI 260646 | Iloilo City, Region VI | 11,120 | 2,250 | 5,700 | 19,070 | 13,500 | 5,570 |
| NI 245721 | General Santos City, Region XII |  7,377 | 2,530 | 12,699 | 22,606 | 9,000 | 13,606 |
| NI 255457 | General Santos City, Region XII | 6,000 | 0 | 2,235 | 8,235 | 3,750 | 4,485 |
| NI 260228 | General Santos City, Region XII | 6,000 | 0 | 0 | 6,000 | 2,250 | 3,750 |
| NI 256567 | Calapan City, Region IV-B | 4,500 | 822 | 3,266 | 8,588 | 5,500 | 3,088 |
| **Total** |  | **P 52,237** | **P 21,393** | **P 36,833** | **P 110,463** | **P52,750** | **P 57,713** |

* 1. As can be gleaned in Table 15.1, the total amount claimed for local travels during CY 2022 exceeds the total allowed DTE under EO No. 77 by P57,713. This indicates non-compliance of the Management with the guidelines in the grant of allowable maximum DTE during the said official travel.
1. **We recommended that Management direct the AD to ensure that only the authorized allowable DTE are considered in the grant and liquidation of cash advances in accordance with EO No. 77 to avoid incurrence of audit suspension and/or disallowance.**
2. The Management commented that the expenses incurred during official travels are all necessary in the attainment of the activity. All expenses to be incurred are approved/authorized by the approving authority. The existing policy of the AFPRSBS is being followed in the availment of cash advances.
3. As a rejoinder, although the Audit Team noted that the existing policy of AFPRSBS on Travel Allowance was issued on March 25, 2003, it should conform to the governing laws, rules and regulation of the government. Since, EO No. 77 was issued to amend prescribed rules and regulations and rates of expenses and allowances for official local and foreign travels of government personnel, the AFPRSBS must comply with the same as the latest governing rule on travel expenses.

*Reimbursement of the cost of gasoline/fuel in the amount of P8,701, although there was no proof that government service vehicle was used*

1. Review of the disbursement vouchers and liquidation reports of cash advances for travel revealed reimbursement for cost of gasoline and fuel in the amount of P8,701 was claimed and used in violation of the provisions of the said Order. Details are summarized in Table 15.2.

**Table 15.2 – Summary of Reimbursement of Gasoline/Fuel**

**During Official Travel**

**As at December 31, 2022**

| **RVCP no.** | **Date** | **OR No.** | **Date** | **Amount** |
| --- | --- | --- | --- | --- |
| NI 255457 | 08/25/2022 | 12479 | 09/01/2022 | P 2,235 |
| NI 260646 | 10/13/2022 | 125331 | 10/20/2022 | 2,000 |
| NI 257791  | 09/12/2022  | 128595 | 09/14/2022 | 1,700 |
| NI 256567 | 09/01/2022 | 34555 | 09/09/2022 | 1,000 |
| NI 260646 | 10/13/2022 | 1422 | 10/19/2022 | 1,000 |
| NI 256567 | 09/01/2022 | 121489 | 09/08/2022 |  766 |
| **Total** |  |  |  | **P 8,701** |

1. It should be noted that gasoline and fuel expenses shall only be allowed during official travel if government vehicle is used under any circumstances. Moreover, these expenses were not supported with certification justifying its necessity to the accomplishment of the purpose of travel.
2. **We recommended that Management instruct the AD to ensure that no reimbursement of the cost of gasoline and fuel shall be allowed** **if a private vehicle is used.**

1. The Management commented that the cash advances pertaining to the official travels made by the officers and employees in General Santos City, Iloilo City, Calapan City and Bansud, Oriental Mindoro for the period April to November 2022 were all processed in accordance with the existing internal policy of AFPRSBS dated March 25, 2003 and are all deemed necessary.

*Inclusion of payment for tips and/or gratuities in the amount of P2,883 is unnecessary expenditures under COA Circular No. 2012-003 dated October 29, 2012.*

1. COA Circular No. 2012-003 dated October 29, 2012 provides the Guidelines for the Prevention and Disallowance of Irregular, Unnecessary, Excessive, Extravagant and Unconscionable Expenditures, and cited situational cases declared as such.
2. Section 4.0 of the same COA Circular provides that, the term “unnecessary expenditures” pertain to expenditures which could not pass the test of prudence or the diligence of a good father of a family, thereby denoting non-responsiveness to the exigencies of the service. Unnecessary expenditures are those not supportive of the implementation of the objectives and mission of the Agency relative to the nature of its operation. This would also include incurrence of expenditure not dictated by the demands of the good government, and those the utility of which cannot be ascertained at a specific time. An expenditure that is not essential or that expenditure which can be dispensed with without loss or damage to properties is considered unnecessary. The mission and thrust of Agency incurring the expenditure must be considered in determining whether or not the expenditure is necessary.
3. Review of the liquidation reports of the subject cash advances including the journal entries for the expenses incurred during travel revealed that a total of P2,883 was included and paid for tips and gratuities to drivers, hotel and restaurants as presented in the breakdown of expenses thereto. These expenses were charged under Cost of Real Estate – Travel/ Transportation and Miscellaneous expenses accounts.
4. The Audit Team would like to emphasize that tips and gratuities are voluntary and freely given for the services rendered apart from the amount due. These amounts should have come from the personal pockets of the officials or employees concerned and not from the funds of the government. As this incurrence of expense is contrary to the foregoing Circular, claims for unnecessary tips and gratuities during official travel shall not be allowed.
5. **We recommended that Management:**
6. **Require the concerned employees/officers to refund the amount of P2,883 which are considered unnecessary expenditures under COA Circular No. 2012-003 dated October 29, 2012; and**
7. **Instruct the AD to ensure that only valid and authorized allowable expenses are included in the Liquidation Report of Cash Advances granted for travelling expenses to avoid the incurrence of audit suspension and/or disallowances.**
8. The Management committed to ensure that only allowable reimbursements are considered in the grant and liquidation of succeeding cash advances. Furthermore, the AFPRSBS will stop the inclusion of tips and gratuities in the reimbursement and/or claim for official travels in the future.
9. As a rejoinder, the Audit Team will closely monitor and evaluate Management’s compliance on the audit recommendations.
10. **Procurements for the construction of electrical room and connections, and services of a licensed electrical engineer amounting to P7.853 million and P40,000, respectively, were included in the 2021 AFPRSBS’ Supplemental Corporate Operating Budget (COB) but not included in the AFPRSBS’ Annual Procurement Plan (APP) for CY 2022, contrary to Section 7.2 of the 2016 Revised IRR of RA No. 9184.**
	1. Section 7.2 of the 2016 Revised IRR of RA No. 9184 provides:

*No procurement shall be undertaken unless it is in accordance with the approved APP, including approved changes thereto. The APP must be consistent with the duly approved yearly budget of the Procuring Entity and shall bear the approval of the HoPE or* second-ranking official designated by the HoPE to act on his behalf.

* 1. The APP is the document that consolidates the various Project Procurement Management Plans submitted by the various Procurement Management Office and end-user units within the Procuring Entity. It reflects the entirety of the procurement activities that will be undertaken by the Procuring Entity within the CY which should be consistent with the duly approved COB.
	2. For CY 2022, the AFPRSBS has undertaken procurement for the construction of electrical room and connection in view of the road widening project of the National Government particularly the widening of the Boni Serrano Avenue which affected the electrical room of AFPRSBS. In relation thereto, the AFPRSBS also contracted the services of a licensed electrical engineer to ensure that the AFPRSBS’s load requirements will be met by the electrical specifications of the replacement structures.
	3. In the auditorial review of the awarded contracts, the Audit Team noted that the procurement for the construction of electrical room and connections was undertaken through competitive bidding with a contract price of P7.853 million, while procurement for the services of a licensed engineer was done through direct contracting pursuant to Section 5.0 of the 2016 Revised IRR of RA No. 9184 in the amount of P40,000. However, said transactions were not included in the approved APP for CY 2022 nor a Supplemental APP was prepared to incorporate the said projects.
	4. It is noteworthy that while both procurements were within the AFPRSBS’ approved COB for CY 2022 and with the concurrence of the BOL, the 2016 Revised IRR of RA No. 9184 specifically provides that no procurement shall be undertaken unless it is in accordance with the approved APP, including approved changes thereto. Hence, it is mandatory that all procurement conducted by a procuring entity must be in accordance with the approved APP and any approved changes thereto.
1. **We recommended and Management agreed to ensure that all succeeding projects to be implemented by the AFPRSBS are included in the approved APP to comply with Section 7.2 of the 2016 Revised IRR of RA No. 9184.**
2. **Compliance with Tax Laws**

In compliance with the requirements set forth under Revenue Regulation No. 15-2010, the information on taxes, duties and license fees paid or accrued during the taxable year 2022 are disclosed under Note 28 to the FS. The taxes from income, withholding and other sources amounting to P139.735 million were paid in accordance with the deadlines for payment/remittance of taxes prescribed by the National Internal Revenue Code.

1. **Social Security System (SSS) Contributions and Remittances**

In 2022, AFPRSBS complied with IRR of RA No. 1119, otherwise known as the Social Security Act of 2018, on the collection and remittance of contributions to SSS as follows:

* + - 1. Mandatory monthly contribution of covered employees and employers in accordance with Sections 1 to 3 of Rule 31 and Sections 1 to 4 of Rule 32, respectively; and
			2. Remittance of employees’ and employers’ contributions within the due date pursuant to Sections 1 to 9 of Rule 36.
1. **Philippine Health Insurance Corporation (PhilHealth) and Pag-IBIG Premiums**
	1. In 2022, AFPRSBS complied with Title III, Rule III, Section 18 of the IRR of RA No. 7875, otherwise known as The National Health Insurance Act of 2013, as amended, in the payment of monthly premium contributions to the PhilHealth. Employer’s and employees’ shares for 2022 totaling P676,248 were promptly remitted to PhilHealth.
	2. It also complied with Rule VII, Section 3 of the IRR of RA No. 9679 (Home Development Mutual Fund Law of 2009) otherwise known as Pag-IBIG Fund in the collection and remittance of contributions to the Pag-IBIG Fund. Employer’s and employees’ shares for 2022 totaling P276,500 were promptly remitted.
2. **Status of Audit Suspensions, Disallowances and Charges**
	1. As at year-end, the audit suspensions and charges have no balances, while the audit disallowances amounted to P251.468 million. Details are presented in Table 20.1.

**Table 20.1 – Status of Audit Suspensions, Disallowance and Charges**

**As at December 31, 2022**

| **Audit action** | **Beginning balance 01/01/2022** | **Amounts** | **Ending balance 12/31/2022** |
| --- | --- | --- | --- |
| **Issued** | **Settled** | **Adjustment** |
| Disallowances | P 247,866,051 | 0 | (P20,000) | P 3,621,656 | **P 251,467,707** |
|  |  **P 247,866,051** | **0** | **(P20,000)** | **P 3,621,656** | **P 251,467,707** |

* 1. Notice of Disallowance (ND) No. 2010-07-084(1996) on the overpriced land acquisition by the AFPRSBS in the amount of P250,318,200 was affirmed by the Commission Proper (CP) under COA Decision Nos. 2012-188 dated November 5, 2012. Moreover, the Motion for Reconsideration filed by the AFPRSBS on the COA Decisions was denied under CP En Banc Resolution dated February 27, 2015. Accordingly, Notice of Finality of Decision (NFD) and COA Order of Execution were issued.
	2. Subsequently, the Supreme Court 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.
	3. On January 17, 2017, one of the liable persons filed a petition for relief praying for the exclusion and exemption from the execution of the subject ND. Such petition is pursuant to Section 1, Rule XV of the 2009 Revised Rules of Procedures of COA read together with Rule 38 of the Rules of Court, on the ground of mistake in one’s inclusion in ND No. 2010-07-084(1996).
	4. In CY 2022, CP granted the aforesaid petition under COA Decision No. 2022-044 dated January 24, 2022. Further, it has become final and executory under NFD No. 2022-178 dated June 22, 2022. Accordingly, the partial settlement of the subject ND was being implemented through salary deduction by the concerned liable person until such exclusion. As a result, thereof, the total partial settlement in the amount of P3,621,656 was added back to the outstanding balance of the ND as of June 30, 2022. The ND No. 2010-07-084(1996) is reported back to is gross amount of P250,318,200 as at reporting date.
	5. The details of the other disallowances that were issued in CY 2016 in the total amount of P1,149,507 includes: (a) disallowances awaiting decision of the CP on gasoline withdrawn from AFP Commissary and Exchange Services 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 one AFPRSBS employees amounting to P25,000.