



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

ANNUAL AUDIT REPORT

on the

PHILIPPINE RETIREMENT AUTHORITY

For the year ended December 31, 2016

EXECUTIVE SUMMARY

Introduction

The Philippine Retirement Authority (PRA) was created by Executive Order (EO) No. 1037 dated July 4, 1985 as a corporate body tasked primarily to develop and promote the Philippines as a retirement haven by providing the best quality of life for targeted retirees. The EO also aims to accelerate the social economic development of the country and at the same time strengthen its foreign exchange position.

PRA recommends to the Bureau of Immigration the issuance of Special Resident Retirees Visa, a special non-immigrant visa with multiple/indefinite entry privileges, to qualified foreigners and former Filipino citizens who wish to make the Philippines their second home.

Mandated to attract foreign nationals and former Filipinos to retire, invest and reside in the Philippines and with a vision to make our country a leading and significant destination for the world's retirees, PRA offers various retirement products with required visa deposits that are withdrawable only when the retiree leaves/withdraws from the program or in case of end-of-term obligations. Qualified retiree applicants make inward remittance of their requisite visa deposit to the Philippines through the Development Bank of the Philippines. Existing members under the old product offerings maintain their visa deposits with private banks. Accredited marketers provide enrolment services to applicants.

For purposes of bringing PRA closer to its member-retirees as well as encouraging active involvement of local governments and the private sector in the retirement industry, PRA established satellite offices in some cities, such as Baguio, Angeles, Cebu and Davao.

The PRA administration is composed of the following principal officers and Board of Directors:

Position / Designation	Name	Period Served
1. Gen. Manager and Vice-Chairman of Board of Directors (BOD)	Bienvenido K. Chy Valentino L. Cabansag	- effective Nov. 7, 2016 - until Aug. 22, 2016
2. Deputy General Manager	Valentino G. Baac	- effective Nov. 29, 2016
3. Chairman, BOD Secretary, Dep't of Tourism	Wanda Corazon T. Ramon R. Jimenez	- effective Jul. 1, 2016 - until Jun. 30, 2016
4. Member, BOD Governor, BSP	Amando M. Tetangco, ,	
5. Member, BOD Commissioner, BI	Jaime H. Morente Siegfred B. Mison	- effective Jul. 1, 2016 - until Jun. 30, 2016
6. Member, BOD Asst. Secretary, DOT	Ma. Lourdes F. Eugene T. Kaw	- effective Sep. 28, 2016 - until Jun. 30, 2016

Financial Highlights

The comparative financial position and performance of PRA for the CYs 2016 and 2015 are as follows:

	2016	2015	Increase (Decrease)
Financial Position			
Assets	₱ 11,949,641,370	₱ 9,358,034,274	₱ 2,591,607,096
Liabilities	10,571,717,204	8,222,922,558	2,348,794,646
Equity	1,377,924,166	1,135,111,716	242,812,450
Financial Performance			
Revenue	770,460,922	702,310,647	68,150,275
Expenses	317,213,101	321,620,866	(4,407,765)
Excess of revenue over expenses	453,247,821	380,689,781	72,558,040

2016 Approved Corporate Operating Budget (COB) vs. Actual Expenditures

	Per COB (DBM approved)	Actual	Variance
Personnel Services (PS)	₱ 45,122,000	₱ 38,849,476	₱ 6,272,524
Maintenance & Other Operating Expenses (MOOE)	156,146,000	47,876,914	108,269,086
Capital Outlays	43,638,000	7,312,056	36,325,944
Total	₱244,906,000	₱ 94,038,446	₱150,867,554

The increase in assets as well as liabilities pertains to visa deposits of new enrollees to the PRA retirement program during the year numbering 4,834.

The increase in revenue for the CY 2016 was attributed mainly to interest income and foreign exchange gain totalling ₱81.688 million as income from operations decreased by ₱13.801 million.

For the CY 2016, PRA paid income taxes of ₱122.312 million and remitted dividends to the Bureau of Treasury amounting to ₱190.441 million.

Scope of Audit

The audit covered the examination, on a test basis, of the accounts, transactions and operations of PRA for CY 2016 in accordance with Philippine Public Sector Standards on Auditing (PPSSA).

It was also aimed at expressing an opinion on the fairness of presentation of PRA's financial position, results of operations and cash flows in accordance with PPSSA and at determining its compliance with laws, rules and regulations.

State Auditor's Report on the Financial Statements

The Auditor rendered a modified opinion on the fairness of presentation of the financial statements of the PRA for the year 2016 due to discrepancies in the balance of Cash Deposits from Retirees-Restricted from its bank balance amounting to ₱128.757 million in its receiving account and ₱9.300 million in its disbursing account; the variances of ₱10.872 million and ₱6.347 million between the balances of the general ledgers and subsidiary ledgers and inventory reports of property, plant and equipment and supplies inventory, respectively, that cast doubt on the reliability of the balances of these accounts.

Summary of Significant Audit Observations and Recommendations

For the above observation, which caused the issuance of a qualified opinion, we recommended that Management:

Cash Deposits from Retirees-Restricted-Receiving account

- a. Account for the unreconciled amount of Cash deposits from Retirees-Restricted (Receiving Account) of US\$156,097 together with the Peso amount of ₱128.757 million;
- b. Account for the Certificates of Time Deposits totaling US\$1.167 million or ₱58.115 million;
- c. Maintain subsidiary ledger for the visa deposit of each member-retiree; and
- d. Prepare and submit Bank Reconciliation Statement for the balance of Cash deposits from Retirees-Restricted (Receiving account) as of December 31, 2016 and every month thereafter;
- e. Consider the procurement or development of an automated information system.

Cash Deposits from Retirees-Restricted-Disbursing account

- a. Prepare and submit Bank Reconciliation Statement for the balance of Cash deposits from Retirees-Restricted (Disbursing account) as of December 31, 2016 and every month thereafter;
- b. Account for the discrepancies between the Book and Bank balances and effect the necessary adjustments;
- c. To avoid misstatement of balances, discontinue the monthly reclassifications from one account to another account if there is no actual transfer of funds in the corresponding bank accounts; and

- d. Transfer to the bank account for Cash in bank-foreign currency savings account amounts in the bank account for Cash deposits from Retirees-Restricted (Disbursing account) pertaining to unclaimed interest income of active members which are intended to be invested in time deposits so that any subsequent withdrawal for placement in time deposits will have to be correctly deducted/credited to Cash in bank-foreign currency savings account.

Property, Plant and Equipment

- a. Maintain subsidiary ledger for the PPE accounts in a correct manner such that necessary information as acquisition date, unit cost, quantity, estimated useful life, carrying amount/book value, location/custodian and document reference are indicated;
- b. Conduct physical count of the assets and reconcile with the Schedules; and
- c. Reconcile the discrepancies and determine accountabilities.

Supplies Inventory

- a. Reconcile the records of both the Accounting Department and the custodians; and
- b. Institute policies such that custodians of the inventories have to: a) maintain correct and updated records and complete documentation particularly on issuances; b) conduct physical inventory at least on year-end; and c) prepare/submit report to Accounting Department for recording/accounting purposes.

The other significant audit observation and recommendations are as follows:

1. ₱26.361 million of the total receivables on visitorial fees of ₱36.914 million or about 71.41 per cent was not collected due to unknown whereabouts of member-retirees resulting in 100 per cent provision for doubtful accounts despite the “active status” of members.

1.1 We recommended and Management agreed to:

- a. Revisit the policy in granting conversion of visa deposit into investment; and
- b. Consider, if warranted, withholding a portion of such visa deposit, in case members opt to convert the visa deposit into investment, so that members could still maintain account with PRA and such withheld amount could answer for unpaid visitorial fees and other obligations.

Status of Implementation of Prior Year’s Audit Recommendations

Of the 30 audit recommendations embodied in the prior year Annual Audit Report, 14 were fully implemented and 16 were partially implemented.



REPUBLIC OF THE PHILIPPINES
COMMISSION ON AUDIT

INDEPENDENT AUDITOR'S REPORT

The Board of Directors

Philippine Retirement Authority
City Bank Tower, Makati City

We have audited the accompanying financial statements of the Philippine Retirement Authority which comprise the statement of financial position as at December 31, 2016, and the statement of financial performance, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with state accounting principles generally accepted in the Philippines, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Philippine Public Sector Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Basis for Qualified Opinion

The balance of Cash Deposits from Retirees-Restricted of ₱10.223 billion could not be relied due to discrepancies between the balance per book and balance per bank amounting to ₱128.757 million and ₱9.300 million in its receiving and disbursing accounts, respectively. Further, no subsidiary ledgers were maintained to support the balances. Had the discrepancies been reconciled and the balance per book adjusted and subsidiary ledgers maintained to support the balances, the account could have been fairly presented.

The variances of ₱10.872 million and ₱6.347 million between the balances of the general ledgers and subsidiary ledgers and inventory reports of property, plant and equipment and supplies inventory, respectively, cast doubt on the reliability of the balance of property, plant and equipment and supplies inventory. Had the variances been identified and reconciliation prepared, the balances of these accounts could have been fairly presented.

Opinion

In our opinion, except for the effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects, the financial position of Philippine Retirement Authority as at December 31, 2016, and its financial performance and its cash flows for the year then ended in accordance with state accounting principles generally accepted in the Philippines.

Report on Supplementary Information Required Under BIR Revenue Regulation 15-2010

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information on taxes and license fees paid or accrued during the taxable year described in Note 21 to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of basic financial statements. Such supplementary information is the responsibility of management. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

COMMISSION ON AUDIT


PEDRO P. PABELONIA
OIC - Supervising Auditor

April 6, 2017



PHILIPPINE RETIREMENT AUTHORITY

April 4, 2017

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of **PHILIPPINE RETIREMENT AUTHORITY** is responsible for information and representations contained in the accompanying Statement of Financial Position as of December 31, 2016, and the Statement of Income and Expenses, Government Equity, and Cash Flow for the year ended. The financial statements have been prepared in conformity with generally accepted state accounting principles and reflect amounts that are based on best estimates and informed judgment of management with an appropriate consideration to materiality.

In this regard, management maintains a system of accounting and reporting which provides for the necessary internal controls to ensure that transactions are properly authorized and recorded, assets are safeguarded against unauthorized use or disposition and liabilities are recognized.


EVELYN R. TANSIONGCO, CPA
Division Chief
Financial Management Division 


ATTY. BIENVENIDO K. CHY
General Manager / CEO
Philippine Retirement Authority

PHILIPPINE RETIREMENT AUTHORITY**BALANCE SHEET****As of DECEMBER 31, 2016**

(With corresponding figures for CY 2015)

(In Philippine Peso)

	Notes	2016	2015 (as restated)
ASSETS			
Current Assets			
Cash and cash equivalents	4	561,190,556	192,455,918
Short-term investments	5	1,060,670,791	1,155,246,411
Receivables	6	30,893,046	34,270,683
Prepayments	7	11,513,947	9,710,953
Total current assets		1,664,268,340	1,391,683,965
Non-Current Assets			
Cash deposits from retirees - restricted	8	10,245,195,368	7,920,782,982
Property, plant and equipment - net	9	34,202,851	31,004,470
Long-term investments	10	600,000	9,540,604
Other assets	11	5,374,811	5,022,253
Total non-current assets		10,285,373,030	7,966,350,309
TOTAL ASSETS		11,949,641,370	9,358,034,274
LIABILITIES AND EQUITY			
Current Liabilities			
Account payable		39,117,868	33,224,094
Dividends payable		210,435,371	190,440,943
Due to officers and employees	12	5,437,243	9,410,803
Inter-agency payables	13	25,212,306	37,099,727
Interest payable	14	56,015,922	30,903,619
Other payables		435,797	446,090
Total current liabilities		336,654,507	301,525,276
Non-Current Liabilities			
Deferred credits	15	5,401,691	614,300
Trust liabilities	16	10,229,661,006	7,920,782,982
Total non-current liabilities		10,235,062,697	7,921,397,282
TOTAL LIABILITIES		10,571,717,204	8,222,922,558
EQUITY		1,377,924,166	1,135,111,716
TOTAL LIABILITIES AND EQUITY		11,949,641,370	9,358,034,274

The notes on page 8 to 19 form part of these financial statements.

PHILIPPINE RETIREMENT AUTHORITY
STATEMENT OF INCOME AND EXPENSES

As of DECEMBER 31, 2016

(With corresponding figures for CY 2015)

(In Philippine Peso)

	Notes	2016	2015
INCOME FROM OPERATIONS			
Passport and visa/application fees		218,009,242	251,504,052
Annual PRA fees		213,833,167	175,310,962
Management fees		132,166,179	130,430,558
Inspection fees/visitorial fees		23,238,010	38,216,663
Harmonization fees		3,957,719	8,180,269
Registration fees/ID fees		6,302,130	8,556,306
Affiliation fees/accreditation fees		2,447,227,	1,790,057
Processing fees/service fees		2,255,290	2,021,162
Total Income from operations	18	602,208,892	616,010,029
EXPENSES			
Direct Cost	19	108,175,194	106,984,513
Operating expenses	Sch.1	86,726,390	88,411,882
Total expenses		194,901,584	195,396,395
NET INCOME FROM OPERATIONS		407,307,308	420,613,634
OTHER INCOME			
Interest income	,	81,754,528	49,938,695
Miscellaneous income		397,749	134,602
Net foreign exchange gain			
Realized gain		53,325,324	36,227,321
Unrealized gain	20	32,774,429	-
Total Other Income		168,252,030	86,300,618
NET INCOME BEFORE TAX		575,559,338	506,914,252
Income Tax		122,311,517	126,224,471
NET INCOME AFTER TAX		453,247,821	380,689,781

The notes on page 8 to 19 form part of these financial statements.

PHILIPPINE RETIREMENT AUTHORITY
STATEMENT OF CHANGES IN EQUITY
As of DECEMBER 31, 2016

(With corresponding figures for CY 2015)
(In Philippine Peso)

	Notes	2016	2015 (as restated)
EQUITY			
PAID-IN-CAPITAL			
		63,217,089	63,217,089
RETAINED EARNINGS			
Balance, beginning of year as restated		1,071,894,627	1,009,859,870
Net income		453,247,821	380,689,781
Dividends		(210,435,371)	(334,942,069)
Other adjustments			16,506,885
Balance, end of year as reported			1,072,114,467
Adjustments of prior year			(219,840)
Balance, end of year	17	1,314,707,077	1,071,894,627
EQUITY			

The notes on pages 8 to 19 form part of these financial statements

PHILIPPINE RETIREMENT AUTHORITY
STATEMENT OF CASH FLOWS
As of DECEMBER 31, 2016

(With corresponding figures for CY 2015)
(In Philippine Peso)

	Notes	2016	2015 (as restated)
CASH FLOWS FROM OPERATING ACTIVITIES			
Collection of income from operations		591,671,125	524,079,461
Collection of receivables		3,632,369	13,024,972
Interest income		16,003,560	11,216,958
Refund of cash advance		1,392,388	807,611
Gain on foreign exchange		91,396,488	41,619,104
Payment of operating expenses		(125,492,069)	(147,867,384)
Settlement of prior year payables		(27,302,197)	(1,688,452)
Remittance of mandatory contributions/W.Taxes		(25,790,480)	(21,378,228)
Release of cash advances		(5,429,911)	(4,705,599)
Payment of dividends		(190,440,943)	(144,501,127)
Payment of income tax		(123,552,194)	(97,376,416)
Loss on foreign exchange		(8,078,257)	(5,896,436)
Refund of deferred credits		(760,771)	(1,417,871)
Net cash provided by operating activities		197,249,108	165,916,593
CASH FLOWS FROM INVESTING ACTIVITIES			
Maturity of investments		1,232,120,245	285,240,395
Investments in time deposits and HY deposits		(1,054,345,212)	(1,178,770,677)
Purchase of property, plant and equipment		(6,289,503)	(67,757)
Net cash provided by (used in) investing activities		171,485,530	(893,598,039)
NET INCREASE (DECREASE) IN CASH & CASH EQUIVALENTS		368,734,638	(727,681,446)
CASH AND CASH EQUIVALENTS, BEGINNING		192,455,918	920,137,364
CASH AND CASH EQUIVALENTS, ENDING	4	561,190,556	192,455,918

The notes on page 8 to 19 form part of these financial statements.

PHILIPPINE RETIREMENT AUTHORITY NOTES TO FINANCIAL STATEMENTS

(All amounts in Philippine Peso unless otherwise stated)

1. GENERAL INFORMATION

Executive Order No. 1037 dated July 4, 1985 created the Philippine Retirement Park System, a corporate body tasked primarily to develop and promote the Philippines as a retirement haven providing the best quality of life for targeted retirees. It also aims to accelerate the social economic development of the country and at the same time strengthen its foreign exchange position.

To fully reflect the nature of its operation, the Board of Trustees (BOT), in its Resolution No. 003 dated July 30, 1985, approved the change of its corporate name to Philippine Retirement Authority (PRA).

PRA recommends to the Bureau of Immigration (BI), the issuance of Special Resident Retirees Visa (SRRV), a special non-immigrant visa with multiple/indefinite entry privileges, to qualified foreigners and former Filipino citizens who wish to make the Philippines their second home.

With the passage of Tourism Act of 2009, also known as Republic Act (RA) 9593 last May 12, 2009, the supervision of PRA was transferred from the Department of Trade and Industry to the Department of Tourism. Formal turn-over ceremony was held at the Malacañang Palace on March 10, 2010.

On October 22, 2010, in its 245th meeting, the BOT approved the new product offerings described and labeled as Simplified and Simple, Marketing-oriented, Integrated, Long-lasting and Efficient (SMILE), Diplomats Retirement Product, Long-stay Trial Retirement Product, Human Touch, RADAR, Services with a Smile (SWS), Deposit Management and Allied Services and Retirement Public-Private Partnerships as embodied under Board Resolution No. 24 series of 2010.

The SMILE retirement product requires a visa deposit of US\$20,000 for retiree-applicants who are 35 years old and above while the required visa deposit for Ambassadors, members of international organizations and former Filipino citizens are maintained at US\$1,500. Such deposits cannot be withdrawn except when the retiree leaves and/or withdraws from the program or in case of end-of-term obligations.

On June 8, 2011, a Memorandum of Agreement (MOA) was entered into by and between PRA and the Development Bank of the Philippines (DBP), making DBP as one of the authorized depository banks for the requisite visa deposit of the retiree-members under the new product offerings. Under the MOA, the DBP shall accept the requisite deposit for the account of PRA primarily from foreign currency funds inwardly remitted to the Philippines by the qualified retiree for which a certification of inward remittance for each retiree shall be issued to and submitted by DBP to PRA.

As of December 31, 2016, PRA is headed by Chief Executive Officer/General Manager Atty. Bienvenido K. Chy, assisted by a Deputy General Manager and four (4) Department Managers. The Authority has a total of one hundred eleven (111) manpower complement consisting of sixty eight (68) regular employees and forty three (43) job order employees.

The PRA Head Office is located at the 29th Floor of the Citibank Tower in Valero, St., Paseo De Roxas, Makati City. It has four (4) satellite offices operating in major cities: Angeles (Subic/Clark), Baguio, Cebu and Davao. PRA can be reached through its website www.pra.gov.ph.

2. OPERATIONAL HIGHLIGHTS FOR THE CALENDAR YEAR 2016

The Authority has been operational for thirty-one (31) years attaining 48,072 foreign retirees with visa deposits aggregating to US\$800M. For the last 6 years, despite withdrawals, gross enrolment growth rate averages 20 per cent while net enrolment growth rate tips at 24.22 per cent which indicates improved membership retention.

For the year ended December 2016, visa deposits reached US\$38.1M which is 5.42 per cent higher than the previous year attributable to 4,384 net enrollees.

The Authority has 36,343 existing/outstanding memberships (net enrollees) as of December 31, 2016.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Basis of Financial Statement Presentation and Measurement

The financial statements are prepared and presented in accordance with generally accepted state accounting principles using the historical cost basis except for deposits in foreign currency which are translated to peso amount at the year-end closing rate.

b. Cash and cash equivalents

Cash and cash equivalents include all highly liquid deposits and investments with maturities within three (3) months or less from balance sheet date.

c. Provision for doubtful accounts

This is provided for visitorial fees receivable, pertaining to accounts of member-retirees considered delinquent, that is, if it is outstanding/unpaid for three consecutive years. Provision was also made for the following accounts:

b.1. Accreditation fee of marketers who opted not to renew their accreditation with PRA after the one-year expiration period;

b.2. Management fees from Bankwise, Inc. (Note 10).

d. Property and equipment

Property and equipment are carried at cost less accumulated depreciation. Significant improvements and renewals, including incidental costs are capitalized. The straight-line method of depreciation is used based on the estimated life of the assets less ten per cent residual/scrap value in accordance with the New Government Accounting System as follows:

<u>Assets</u>	<u>Estimated Life</u>
Office building	30 years
Office equipment	5 years
Furniture and fixture	10 years
IT and software	5 years
Library Books	7 years
Other equipment	10 years
Motor vehicle	7 years

e. Income and expense recognition

The modified accrual basis is used in recognizing income. All expenses are recorded on a full accrual basis in which they are measured when incurred. Revenues are recognized when they are measured and available. Cash basis of accounting is practically applied on all income accounts, except for interest income, as this method best reflects the nature of financial transactions and facilitate the fair presentation of the Financial Statements.

f. Investments

Surplus peso and dollar cash funds of PRA are placed in investment products such as Time Deposits, Bonds, and High-Yield (HY) Deposits in government banks, i.e. Land Bank of the Philippines (LBP) and Development Bank of the Philippines (DBP). US Dollar investments are translated to peso amounts and recorded using the closing exchange rates at the end of the year.

Investments are classified according to dates of maturity: a) maturing within ninety days are Cash and cash equivalents; b) maturing beyond ninety days but within the next twelve months are Short-term investments; and c) maturing beyond the next twelve months are Long-term investments.

g. Inventories

Office supplies inventory is recorded at cost and accounted for using the perpetual inventory method.

4. CASH AND CASH EQUIVALENTS

This account consists of:

	2016	2015 as restated
Cash on hand	2,438,075	1,034,735
Cash in bank-savings and current accounts- LBP	49,452,816	45,681,897
Cash in bank-savings and current accounts - DBP	303,815	17,203,922
Foreign currency time deposits	490,218,672	32,633,198
Investment in bonds	8,746,678	5,300,166
Investment in HY deposits	10,030,500	90,602,000
	561,190,556	192,455,918

Deposits and investments in foreign currency for CY2016 were translated to peso amounts at the year-end closing rate of P49.815:1US\$.

Foreign currency time deposits with the LBP and the DBP amounted to US\$9.841 million in 2016 and US\$.735 million in 2015.

Investment in bonds consists of the 3-year ROP11 bonds with face value of US\$175,000 purchased at a premium and maturing on January 18, 2017. The CY2015 balance of P5.300 million was a reclassification from account Investments-non-current.

Regular deposit accounts with LBP and DBP earn interest at rates ranging from 0.15 per cent to 0.25 per cent.

The prior year Cash and cash equivalents of ₱1,176.800 million were restated to ₱192.456 million to reflect the reclassifications to: a) Short-term investments of the foreign currency time deposits of ₱1,080.246 million; and b) Cash and cash equivalents of Investments-current amounting to ₱90.602 million and Investment-noncurrent of ₱5.300 million.

5. SHORT-TERM INVESTMENTS

This account consists of:

	2016	2015 as restated
Foreign currency time deposits	795,070,469	1,080,246,411
Investment in HY deposits	265,600,322	75,000,000
	1,060,670,791	1,155,246,411

Foreign Currency Time Deposits with LBP and DBP amounted to US\$15.960 million and US\$23.226 million for CY 2016 and 2015, respectively. The CY 2015 balance of ₪1,080 million was a reclassification from account Cash and cash equivalents.

Investments in High Yield Deposits with LBP yield interest rates of 1.125 per cent to 1.500 per cent including the amount of US\$2.220 million. The CY 2015 balance of ₪75 million was a reclassification from account Investments-current.

6. RECEIVABLES – NET

This account consists of:

	2016	2015 as restated
Accounts receivable	18,455,101	21,312,522
Advances to officers and employees	33,745	215
Due from officers and employees	8,545,356	12,406,833
Interest receivables	3,858,844	551,113
	30,893,046	34,270,683

6.1 Accounts Receivable consists of:

	2016	2015
Visitorial fees (VF)	36,913,980	36,872,212
Allowance for doubtful accounts-VF	(26,361,482)	(25,964,132)
Visitorial fees - net	10,552,498	10,908,080
Management fees	7,460,293	9,944,974
Harmonization fees	442,310	459,468
	18,455,101	21,312,522

- a. **Visitorial fees receivable** represents annual fees due from retirees who have converted their requisite visa deposits into active investments, at the rates ranging from 0.5 to 1.5 per cent of the total amount invested.

Since May 29, 2006, the Special Reduced Deposit (SRD) scheme was implemented, modifying the amount of required deposits as well as the visitorial fees for the conversion of deposits into active investments. The minimum qualifying deposit and visitorial fee rates applicable to those enrolled under the SRD Program for the principal retiree-applicant are as follows:

Minimum Qualifying Deposit:

<u>Age</u>	<u>From</u>	<u>To</u>
35 to 49 years old	US\$ 75,000	US\$ 50,000
50 years old and above	US\$ 50,000	US\$ 20,000

Visitorial Fees:

<u>Amount of Deposit Converted</u>	<u>Annual VF Collected</u>
US\$ 20,000	US\$ 500 or its peso equivalent
US\$ 50,000	US\$ 750 or its peso equivalent

Retirees who had been delinquent in paying VF for more than three years were sent collection letters/notices. After three notices and the retirees still failed to pay, they were placed on a watch list published in three leading newspapers of general circulation. If after publication, the retirees remain delinquent, their SRRVs shall be recommended to the BI for cancellation and the receivables shall be recommended to be written off from the books of accounts subject to the approval by the PRA Board of Trustees.

In the implementation of the new product offerings described in the General Information portion, the SRD Program is now referred to as "Classic".

- b. Management fees receivable** represents accruals of estimated fees due from PRA accredited banks equivalent to 1.5 per cent of the outstanding daily balance of retirees' deposits.
- c. Harmonization fees** are amounts collected pursuant to Board Resolution No. 92 series of 2007, otherwise known as the harmonization of the old and new schemes of deposit. A management fee of 1.5 per cent is levied by PRA on the retiree in consideration for the release of the amounts in excess of the required deposit under the modified SRD scheme.

6.2 Due from Officers and Employees

This account pertains to the disallowed payment of allowances and expenses of which the amount of ₱6.288 million were already issued with Commission On Audit Order of Execution (COE) and prior years unliquidated cash advances of active and retired/resigned PRA officers and employees.

The prior year reported amount of ₱12,626,673 was restated to reflect the adjustment of ₱219,840 pertaining to the refund that was part of the disallowances with issued COE. The recorded disallowance should have amounted to ₱16,287,045 instead of ₱16,506,885, that is, net of the peso amount of the refund of US\$4,000 (Note 17).

7. PREPAYMENTS

This account consists of:

	2016	2015 as restated
Office supplies inventory	7,262,490	6,564,528
Deferred charges	3,776,800	2,671,769
Other prepaid expenses	474,657	474,656
	11,513,947	9,710,953

Office supplies inventory was previously classified in CY 2015 as Inventories.

Deferred charges account pertains to the Creditable Withholding taxes from the receipt of management fees collected from banks and the other deferred charges resulting from the bank debit memo items of prior years that are for reconciliation.

8. CASH DEPOSITS FROM RETIREES – RESTRICTED

This account represents the required visa deposit from retiree-members in the total amount of US\$207,644,227.33 which are placed in time deposits with the DBP on a yearly basis. These deposits are held in trust for the account of retiree-members, hence, a trust liability account is recognized (Note 16).

Included in this account are the interest earned from the visa deposits in the aggregate amount of US\$392,048.41 valued at ₱15,534,362 which are subsequently placed into another time deposits with DBP.

9. PROPERTY AND EQUIPMENT – NET

The details of the account are shown below:

	Office Building	Office/IT Equipment, Furniture, Fixtures and Others	Motor Vehicles	Total
<u>Cost:</u>				
Balance, January 1, 2016	56,503,341	28,715,233	13,789,398	99,007,972
Additions	-	7,312,056	-	7,312,056
Disposals (Adjustments)	(1,038,358)	(47,789)	-	(1,086,147)
Balance, December 31, 2016	55,464,983	35,979,500	13,789,398	105,233,881
<u>Accumulated Depreciation:</u>				
Balance, January 1, 2016	34,074,676	21,955,579	11,973,247	68,003,502
Additions	1,468,775	1,258,967	437,211	3,164,953
Disposals (Adjustments)	(137,425)	-	-	(137,425)

Balance, December 31, 2016	35,406,026	23,214,546	12,410,458	71,031,030
Net book value, Dec. 31, 2016	20,058,957	12,764,954	1,378,940	34,202,851
Net book value, Dec. 31, 2015	22,428,665	6,759,654	1,816,151	31,004,470

The Office Building Account pertains to the condominium unit acquired by PRA in December 1996 at the Citibank Tower, Makati City with total area of 598.20 square meters and four (4) parking units.

10. LONG -TERM INVESTMENTS

This account consists of:

	2016		2015 as restated
Investment in bonds	-		8,940,604
Investment in stocks	600,000		600,000
	600,000		9,540,604

Investment in Bonds pertains to the DBP ROP11 Bonds with face value of US\$175,000.00 purchased at a premium of US\$41,125.00 on 15-Jan-14 for a term of 3yrs. with an interest rate of 8.250% which will mature on 18-Jan-17. This was reported in CY 2015 as *Investments-non-current*.

Investment in Stocks account pertains to investments in shares of stock of the Baguio Country Club Corporation.

11. OTHER NON-CURRENT ASSETS

This account consists of:

	2016		2015 as restated
Management fees receivable	3,450,556		3,450,556
Other receivables	2,191,055		1,811,165
	5,641,611		5,261,721
Allowance for doubtful accounts	(4,529,357)		(4,529,357)
Other receivables– net	1,112,254		732,364
Guaranty deposits	4,262,557		3,983,126
Other assets	-		306,763
	5,374,811		5,022,253

Management fees receivable is due from Bankwise, Inc.. Collection had already been endorsed to the Office of the Government Corporate Counsel for legal action considering that Bankwise, Inc. is now under receivership by the Philippine Deposit Insurance Corporation.

The Other Receivables account consists of receivables from marketers, for management fees due from private banks, and active/resigned/retired PRA officers and employees as well as former PRA Board of Trustees.

Guaranty deposits pertain mainly to the security deposits paid to METROBANK-TRUST BANKING GROUP for the lease by PRA of office space at the Citibank Tower and other service providers such as the Philippine Long Distance Telephone. This account was reported/classified in CY 2015 as Other current assets.

12. DUE TO OFFICERS AND EMPLOYEES

This account pertains to the money value of unused leave credits and other certified obligations for unpaid salaries and allowances, and other benefits.

13. INTER-AGENCY PAYABLES

The account consists of:

	2016	2015
Due to BIR	24,670,787	36,525,879
Due to other NGAs	541,519	573,848
	25,212,306	37,099,727

Due to Bureau of Internal Revenue (BIR) represents the amount of last quarter income tax payable.

Due to other National Government Agencies (NGAs) pertains liability to the Bureau of Immigration for the processing of retiree's visa.

14. INTEREST PAYABLE

This account pertains to unclaimed share of retiree-members in the interest income earned from their visa deposits which are placed in time deposits with DBP amounting to US\$ 1.124 million and US\$ 690,007 for 2016 and 2015, respectively. This account was classified in prior year as DBP consolidated interest payable.

15. DEFERRED CREDITS

This account pertains mainly to reconciling items of the Cash account amounting to ₱5.337 million for CY2016 and ₱432,856 for 2015 representing bank credits for the period 2001 to 2015 that remain unrecorded pending verification and proper documentation.

16. TRUST LIABILITIES

This account is the counter liability account of the Non-Current Asset "Cash Deposits from Retirees – Restricted" account (Note 8) which amounts to US\$207.644 million and US\$170.322 million for CY 2016 and 2015, respectively.

17. RETAINED EARNINGS

The prior year reported amount of ₱1,072,114,467 was restated to reflect the adjustment of ₱219,840 pertaining to the refund of US\$4,000 that was part of the CY2015 adjustment of ₱16,506,885 as disallowances with issued COE. The recorded disallowance should have amounted to ₱16,287,045, that is, net of the peso amount of the refund of US\$4,00 (Note 6.2).

18. OPERATING INCOME

Income from operations consists mainly of the following:

18.1 Management Fees are collected from private banks where retiree-members maintain their visa deposits computed at agreed rates based on the outstanding amount of deposits. Presently there are twenty-four (24) private banks maintaining visa deposits of retiree-members.

18.2 Passport and Visa/Application Fees are one-time processing/service fees paid by retiree-applicants as initial requirement for their application in the program @ US\$1,400 for the principal applicant and US\$300 for dependent applicants.

For the CY 2016, there were 2,744 principal applicants and 2,044 dependent applicants.

18.3 Annual PRA Fee (APF) pertains to the annual fee collected from active members @ US\$360.00 for the principal retiree and two (2) qualified dependents and US\$100.00 for every additional dependent. For the CY 2016, 8,326 retiree-members paid the APF.

18.4 Visitorial Fees represents annual fees due from retirees who have converted their requisite visa deposits into active investments, at the rates ranging from 0.5 to 1.5 per cent of the total amount invested (Note 6).

19. DIRECT COSTS

This account consists of the following expenses which are directly attributable to the Operating income (Note 18):

	2016	2015
Bureau of Immigration fees	30,594,279	28,528,230
Marketers' fee	50,410,279	45,362,234
Medical examination fees	4,368,500	4,133,097
Visa stickers and ID cards	516,985	814,423
Marketing expenses	22,285,151	28,146,529
	108,175,194	106,984,513

Bureau of Immigration (BI) Fees pertain to amounts paid to the BI on the processing of the retiree-applicants' visa @ ₱5,080 for every principal applicant or spouse and ₱4,830 for dependents aged 15 years old and below.

Marketers' Fee pertains to payments by PRA to its accredited marketers for enrolment services rendered to retiree-applicants at US\$500 per applicant. As of CY 2016, PRA has one hundred sixty-eight (168) accredited marketers that were able to enroll a total of 2,254 retiree-applicants during the year.

Medical Examination Fees pertains to payments by PRA to its accredited merchant partners for providing medical services to retiree-applicants.

Marketing expenses consist of the following:

	2016	2015
Travelling expense – local	314,705	484,212
Travelling expense – foreign	3,656,003	3,995,358
Marketing expenses – advertising	12,448,371	17,601,960
Marketing expenses – promotions	5,719,877	5,806,641
Postage and delivery expenses	146,195	258,358
	22,285,151	28,146,529

20. UNREALIZED GAIN ON FOREIGN EXCHANGE

This account pertains to the exchange differential on the year-end translation to peso amount of deposits and investments in foreign currency totaling US\$30.083 million at the closing rate of ₱49.815:1US\$.

21. TAXES

21.1 Payment of Taxes and Exemption from Value-Added Tax.

Section 12 of the Executive Order 1037,s. 1985, states the following:

“Section 12. Exemption from Fees, Duties and Taxes. The SYSTEM is hereby declared exempt from all income and other internal revenue taxes, tariff and customs duties and all other kinds of taxes, fees, charges and assessments levied by the government and its political subdivisions, agencies and instrumentalities.

The President of the Philippines, upon recommendation of the Minister of Finance, may partially or entirely lift the exemptions herein granted, if he shall find that the SYSTEM is already self-sustaining and finally capable of paying such taxes, customs duties, fees,

charges and other assessments, after providing for the debt service requirements and the projected capital and operating expenditures of the SYSTEM.”

Accordingly, after reaching self-sustainability, PRA religiously remits quarterly and yearly with the Bureau of Internal Revenue the income tax as required under the Corporate Income Tax Law, and monthly all taxes withheld by the Authority from its suppliers/stakeholders in compliance with the existing Revenue Regulations on the taxes withheld on Government Money Payments.

Value Added Tax (VAT)

The VAT law stated in the provisions of Republic Act No. 8424, imposition of VAT payable to Government bodies may not qualify with the provisions stated thereat as it is not expressly stated for Government-Owned and Controlled Corporations (GOCCs) and other government bodies on the imposition of remitting VAT with the BIR. As compared with the provisions stated in the Section 12 of Republic Act 9337, amending Section 114 of the National Internal Revenue Code of 1997, with subsection (C), the code expressly and specifically mandates GOCCs to which PRA belongs, to just withhold the final VAT of five per cent and remit the same to the BIR, to wit,

“(C) Withholding of Value-Added Tax. - The Government or any of its political subdivisions, instrumentalities or agencies, including GOCCs shall, before making payment on account of each purchase of goods and services which are subject to the value-added tax imposed in Sections 106 and 108 of this Code, deduct and withhold a final value-added tax at the rate of five per cent of the gross payment thereof:....”.

21.2 Requirements under Revenue Regulations (RR) 15-2010

The taxes, duties and licenses fees paid or accrued during the taxable year required under RR 15-2010 are as follows:

a. Withholding Taxes:

The details of total withholding taxes for the year ended December 31, 2016 are as follows:

Compensation and benefits	₱ 4,215,679.15
Creditable (expanded)	8,406,561.61
Creditable (VAT)	4,789,842.79
TOTAL	₱17,412,083.55

b. Income Tax Return:

The details of total Income Tax Return for the year ended December 31, 2016 are as follows:

QUARTER	INCOME TAX EXPENSE	CREDITABLE withholding tax on Mgmt Fees	NET AMOUNT PAID
1st Qtr	34,639,890.47	2,344,270.13	32,295,620.34
2nd Qtr	29,450,605.21	2,517,618.60	26,932,986.61
3rd Qtr	33,598,378.11	2,569,846.31	31,028,531.80
4th Qtr	24,622,643.57	n/a	n/a
	122,311,517.36	7,431,735.04	90,257,138.75

22. RECLASSIFICATION OF PRIOR YEAR ACCOUNTS

Certain accounts in the prior year financial statements were reclassified to conform with the CY 2016 financial statements presentation.

AUDIT OBSERVATIONS AND RECOMMENDATIONS

1. The balance of the account *Cash Deposits from Retirees-Restricted (Receiving account)* in the total amount of ₱10.223 billion could not be relied due to discrepancy between the balance per bank and the balance per books amounting to ₱128.757 million. Further, there were no subsidiary ledgers maintained to support the balance of the account.

1. 1 Section 111, P.D. 1445, otherwise known as the Government Auditing code of the Philippines, on the Keeping of accounts provides 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. 2 The audit disclosed that the required visa deposits of applicant-retirees under the current Simplified and Simple, Marketing-oriented, Integrated, Long-lasting and Efficient (SMILE) retirement program of the Philippine Retirement Authority (PRA) are placed in individual time deposit with the Development Bank of the Philippines. The visa deposits, which are in US\$ currency, can be refunded/withdrawn only when the retiree leaves or terminates his/her membership from the PRA retirement program. The time deposits are in the name of PRA and a Certificate of Time Deposit (CTD) is issued for the visa deposit of each retiree. The principal amount is renewed and/or rolled over on a yearly basis. Transactions such as placement of visa deposit and refund of visa deposit due to termination of membership are recorded under account *Cash deposits from Retirees-Restricted (Receiving account)*. As of December 31, 2016, the Account has a balance per Books of ₱10.222 billion or US\$207.644 million.

1. 3 The balance per Bank, however, indicated the amount of US\$207.800 million while the inventory report of outstanding CTDs as of December 31, 2016 has a total amount of US\$206.623 million corresponding to 10,326 Certificates. The balances are as follows:

	Books	Bank	Total CTDs per Inventory Report
In US\$	US\$207,644,227	US\$207,800,324	US\$206,633,709
In Peso	₱10,222,816,054	₱10,351,573,140	₱10,293,458,214

1. 4 Comparing the three dissimilar balances showed that the Books is lesser by US\$156,097 with a Peso amount of ₱128.757 million and that there were unaccounted Certificates of Time Deposits in the total amount of US\$1.167 million or ₱58.115 million. These discrepancies are shown as follows:

	in US\$	in Peso
Balance per Books	207,644,227	10,222,816,054
Balance per Bank	207,800,324	10,351,573,140
Discrepancy	156,097	128,757,086
Balance per Bank	207,800,324	10,351,573,140
Total CTDs per Inventory Report	206,633,709	10,293,458,214
Unaccounted CTDs	1,166,615	58,114,926

1. 5 Despite the significant number of member-retirees and the corresponding number of CTDs, subsidiary ledger (SL) is not maintained for each member. Thus, there is no record from which the correctness of the Account balance as well as the completeness of the inventory report may be verified.
1. 6 Transactions to the Account are recorded in bulk and on a monthly basis, that is, a single entry for the visa deposits of all applicants/enrollees and another single entry for the refund of deposits of all terminated memberships during a particular month. In the absence of subsidiary ledgers and considering the number of retirees, errors and omissions may not be identified and corrected.
1. 7 Although efforts have been initiated to prepare the SLs, the required and appropriate subsidiary records may not be properly maintained under the current manual system because of the considerable number of retirees that needs to have an individual and separate record. It is therefore fitting that an automated information system be installed for efficiency and reliability of data.
1. 8 **Likewise, it was also observed that the balance of account *Cash deposits from Retirees-Restricted (Disbursing account)* of ₱22.379 million has unreconciled amount of ₱9.300 million compared to the balance per bank of ₱31.679 million.**
1. 9 The account *Cash deposits from Retirees-Restricted (Disbursing account)* which has a balance of ₱22.379 million pertains to the visa deposits which are yet to be released to member-retirees that have withdrawn from the retirement program of PRA. This account has a corresponding foreign currency savings account with DBP.
1. 10 The balance per bank, however, amounted to US\$.636 million or a peso equivalent of ₱31.679 million translated at the year-end closing rate of Php49.815:1US\$, thus, the balance per Books showed understatement of ₱9.300 million.
1. 11 For the CY 2016, the monthly ending balances per Books did not tally with the monthly ending balances reflected in the Bank Passbook. The US\$ amounts indicated in the Bank Passbooks, when translated to its Peso equivalent, showed significant discrepancy compared to the balance per Book as follows:

	A	B	C	D	E
	Per Book in Peso	Per Bank		Discrepancy	Reference FX rate
		in US\$	Peso equivalent		
			C = B x E	D = A - C	
January	3,548,986	476,095.21	22,724,024	(19,175,038)	47.730
February	5,916,540	660,222.59	31,370,476	(25,453,936)	47.515
March	5,930,445	817,271.05	37,618,986	(31,688,541)	46.030
April	5,936,046	1,015,842.04	47,510,932	(41,574,886)	46.770
May	6,864,184	1,180,981.82	55,210,900	(48,346,716)	46.750
June	5,926,211	1,356,532.39	63,784,153	(57,857,942)	47.020
July	7,810,637	843,390.11	39,698,372	(31,887,735)	47.070
August	7,344,637	944,792.88	43,904,525	(36,559,888)	46.470
	6,876,664	1,070,074.64	51,716,707	(44,840,043)	48.330
October	6,867,586	1,227,970.79	59,519,744	(52,652,158)	48.470
November	6,869,091	1,377,747.76	68,487,841	(61,618,750)	49.710
December	22,379,314	635,943.85	31,679,543	(9,300,229)	49.815

1. 12 Despite the discrepancies in the monthly ending balances, Bank Reconciliation Statement was not prepared for this account. Among the causes of discrepancy include the following:
- a. Monthly reclassifications from this account to another foreign currency account, *Cash in bank-foreign currency savings account*, were recognized even if there were no actual transfer of funds in the corresponding bank accounts. The reclassifications were an incomplete implementation of the audit recommendation in CY 2013 to transfer to a separate foreign currency account the amount pertaining to unclaimed interest income in view of the overstatement of the Cash-Restricted account compared to its contra liability account *Funds Held in Trust-Retirees' Deposits*. The reclassifications resulted in the misstatement of the balance of two cash accounts compared to the actual balances of the corresponding bank accounts.
 - b. Actual bank transactions were not recorded in the corresponding Accounts per Book. The amount of unclaimed interest income included in the *Cash deposits from Retirees-Restricted (Disbursing account)* are withdrawn and invested in time deposits. However, the actual withdrawals from the bank account were then recorded in the Books as deduction from *Cash in bank-foreign currency savings account* instead of the corresponding account *Cash deposits from Retirees-Restricted (Disbursing account)*.
1. 13 A Bank Reconciliation Statement as of December 31, 2016 was prepared for account *Cash in bank-foreign currency savings account* only but there was no BRS submitted for *Cash deposits from Retirees-Restricted (Disbursing account)*.

1. 14 We recommended and Management agreed to:

Cash Deposits from Retirees-Restricted-Receiving

- a. Account for the unreconciled amount of *Cash deposits from Retirees-Restricted (Receiving Account)* of US\$156,097 together with the Peso amount of ₱128.757 million;
- b. Account for the Certificates of Time Deposits totaling US\$1.167 million or ₱58.115 million;
- c. Maintain subsidiary ledger for the visa deposit of each member-retiree; and
- d. Prepare and submit Bank Reconciliation Statement for the balance of *Cash deposits from Retirees-Restricted (Receiving account)* as of December 31, 2016 and every month thereafter;
- e. Consider the procurement or development of an automated information system.

Cash Deposits from Retirees-Restricted-Disbursing

- a. Prepare and submit Bank Reconciliation Statement for the balance of *Cash deposits from Retirees-Restricted (Disbursing account)* as of December 31, 2016 and every month thereafter;
- b. Account for the discrepancies between the Book and Bank balances and effect the necessary adjustments;
- c. To avoid misstatement of balances, discontinue the monthly reclassifications from one account to another account if there is no actual transfer of funds in the corresponding bank accounts; and
- d. Transfer to the bank account for *Cash in bank-foreign currency savings account* amounts in the bank account for *Cash deposits from Retirees-Restricted (Disbursing account)* pertaining to unclaimed interest income of active members which are intended to be invested in time deposits so that any subsequent withdrawal for placement in time deposits will have to be correctly deducted/credited to *Cash in bank-foreign currency savings account*.

2. ₱26.361 million of the total receivables on visitorial fees of ₱36.914 million or about 71.41 per cent was not collected due to unknown whereabouts of member-retirees resulting in 100 per cent provision for doubtful accounts despite the “active status” of members.

2. 1 *Accounts receivable-Visitorial Fee* pertains to the annual fees to be paid by member-retirees who have converted their visa deposits into investments such as purchase of condominium unit or long-term lease of real property.

2. 2 The receivable accounts, however, which were considered doubtful were reported in the Schedule of Receivables as on "active status". Under this condition, the recognition of bad debts is not consistent with the “active” status of the concerned member-retirees. This therefore creates question why receivables from active members are considered doubtful.

2. 3 Inquiry disclosed that PRA can no longer keep track of the whereabouts of the members, and despite the collection letters sent and other efforts exerted, the concerned members remain delinquent in the payment of the annual visitorial fees. In view of the very transient or impermanent nature of participation, some members could have abandoned their membership in the program and could have either disposed or abandoned their investments and transfer to other places of their choice.

2. 4 It was also noted, that the recognition of receivables-visitorial fees were discontinued on members that have no record of payments for at least three years. Receivables were set up only for members with expected collections hence, the total Visitorial Fee receivables recognized during the year amounted only to ₱2.818 million in order to avoid accumulation of uncollectible receivables.

2. 5 Considering the foregoing issues and the constraints in collection, it is our view that PRA should have considered withholding a reasonable amount of the visa deposits rather than allowing the total deposit to be converted to investment. The retention could have served as a means for members to maintain their connection/relation with PRA and so that the withheld amount could be applied for payment of any delinquency and other related obligations to PRA.

2. 6 We recommended and Management agreed to:

a. Revisit the policy in granting conversion of visa deposit into investment; and

b. Consider, if warranted, withholding a portion of such visa deposit, in case members opt to convert the visa deposit into investment, so that members could still maintain account with PRA and such withheld amount could answer for unpaid visitorial fees and other obligations.

3. The accuracy and existence of Property, Plant and Equipment (PPE) account in the total amount of ₱105.234 million could not be determined due to discrepancies between the balances of the general ledger, subsidiary ledgers, schedules and inventory reports and subsidiary ledgers that are not properly maintained.

3. 1 The balances of the PPE account totalling ₱105.234 million consisted of the following:

Particulars	Amount
Office building	₱ 55,389,982
Other structures	75,000
Office equipment	2,249,134
Furniture and fixtures	7,050,192
IT equipment and software	23,556,041
Other equipment	560,838
Motor vehicles	13,789,399
Other property, plant and equipment	2,563,294
Total	₱105,233,880

3. 2 Except for the schedule of IT equipment and software which has a balance of ₱22.617 million or a discrepancy of ₱0.939 million compared to the GL balance, the schedules of the other accounts tallied with the GL balances. However, such schedules were lacked the necessary details such as quantity, unit cost, book value/carrying amount, property number and location/custodian because these were prepared on transaction basis as posted in the General Ledger (GL). The Schedule indicated only a single amount for each line item even if a single GL entry consisted of several equipment and different unit costs. Therefore, the number comprising a particular equipment item cannot be determined such as number of desktop computers, or laptops or office tables.

3. 3 Subsidiary ledgers (SL) for PPE accounts were not properly maintained. The SLs were not in the proper format as these did not contain records on a per item basis which should reflect all transactions and information pertaining to each asset/equipment item. Rather, the postings in SLs were just similar to a General Ledger where all transactions pertaining to the account are posted chronologically. Instead of maintaining SLs as continuous record, these are closed at the end of each year and a separate SL is maintained for another period. The prior year balance of each PPE classification is forwarded as beginning balance of the succeeding period and there are no details of such balance. There is no record for each asset item or equipment, thus, the necessary information such as acquisition date, unit cost, additional cost, the book value or asset custodian cannot be determined. Further, it cannot be determined whether or not an asset or equipment item is fully depreciated or has remaining useful life. With this type of SL, a schedule of the PPE accounts which could be the basis for a physical count cannot be properly prepared.

3. 4 The Administrative Support Division submitted inventory reports for only three PPE accounts and indicated significant discrepancies as compared with the balance per Books, as follows:

PPE Account	Per Books/GL	Per Inventory report	Variance
IT equipment and software	₱ 23,556,041	₱11,284,928	₱ 12,271,113
Furniture and fixtures	7,050,192	6,285,792	764,400
Other PPE	2,563,294	4,726,718	(2,163,424)
Total	₱ 33,169,527	₱22,297,438	₱10,872,089

3.5 Despite the discrepancy of the inventory reports with the Accounting records, reconciliation was not prepared. The balance of IT equipment and software of ₱23.556 million is 22.38 per cent of the total PPE of ₱105.234 million.

3.6 The inventory reports were deficient because necessary information such as quantity, and unit cost were not indicated, thus, it cannot be determined whether the indicated cost pertains to only one item or to several items as the remarks column contained "assigned to several staff". Thus, similar to the observation discussed in preceding paragraph pertaining to Schedules, the number comprising each type of equipment (like laptops, desktops or office tables) could not be determined. Some items included therein did not indicate the corresponding cost/amount. Further, the property number or condition of the asset (whether in good condition, defective/for repair, or beyond repair) were also not indicated.

3.7 A number of items in the inventory report were not included in the Schedule of the Accounting Department and, similarly, the items in the Schedule could not be identified in the inventory reports.

3.8 We recommended and Management agreed to:

- a. Maintain subsidiary ledger for the PPE accounts in a correct manner such that necessary information as acquisition date, unit cost, quantity, estimated useful life, carrying amount/book value, location/custodian and document reference are indicated;**
- b. Conduct physical count of the assets and reconcile with the Schedules; and**
- c. Reconcile the discrepancies and determine accountabilities.**

4. The accuracy of the Supplies inventory amounting to ₱7.262 million could not be established due to incomplete stock position reports, absence of physical count and improperly maintained subsidiary records.

4.1 Similar to the PPE accounts, the Supplies inventory accounts totalling ₱7.262 million was not supported with schedules, physical count and correct subsidiary ledgers. The account consists of four inventory items, however, the records of the custodians did not tally with the balance per Books, as shown below:

Inventory Account	Books/GL	Custodians' Report/Record	Variance
Regular supplies	₱ 596,447	₱ 109,475	₱ 486,972
IT supplies	1,828,865	662,397	1,166,468
ID supplies	4,753,628	16,000	4,737,628
Promotional supplies	83,550	128,000	(44,450)
Total	₱ 7,262,490	₱ 915,872	₱ 6,346,618

4. 2 The stock position reports for the regular supplies and IT supplies as of December 31, 2016 showed significant understatement compared to the balance per Books. Records of the custodian for the ID supplies and Promotional supplies also showed significant variances.

4. 3 Recording in the Books were not done regularly. The custodian's records showed that there were regular issuances, however, there were only two recorded transactions in the Books during the months on November and December.

4. 4 We recommended and Management agreed to:

- a. **Reconcile the records of both the Accounting Department and the custodians;**
- b. **Institute policies such that custodians of the inventories have to: a) maintain correct and updated records and complete documentation particularly on issuances; b) conduct physical inventory at least on year-end; and c) prepare/submit report to Accounting Department for recording/accounting purposes.**

5. Of the ₱0.722 million adopted budget for Gender and Development (GAD), only P0.315 million or about 43.60 per cent was utilized in the implementation of GAD-related activities contrary to the guidelines of DBM-NEDA-Commission on Women Joint Circular No. 2012-01.

5. 1 For CY 2016, PRA adopted the previous year budget of P.722 million for the following GAD-related activities:

GAD Plan Activities		Budget
<u>Organization focused</u>		
1. Trainings/seminars on:		
a. Gender Mainstreaming		₱352,000
b. Gender analysis and GAD planning and budgeting		122,600
c. Gender audit		122,600
2. Conduct basic GAD orientation		39,000
<u>Client-focused</u>		

GAD Plan Activities		Budget
1. Distribution of GAD-related materials and maintenance of E-corner in the website dedicated to GAD-related information and updates		10,000
2. Gathering of data on sex-disaggregation on briefings for prospective retirees and marketers		1,000
3. Installation and maintenance of Play Area within PRA lounge		75,000
Total		₱722,200

5.2 However, PRA has not fully implemented its GAD Plan and had accomplished the following activities with the corresponding expenses:

Activities	Expenses
1. Playing of the All Women Cast Lupang Hinirang music video during flag ceremony.	
2. Presentation on the Use of Non-Sexist Language in All Official Documents, Communications and Issuances.	
3. Orientation on Sexual Harassment attended by all regular employees.	₱ 213,300
4. In-House Gender Sensitivity Training for all employees	51,395
5. Attended the 5 th GAD Planning and Budgeting Fora	
6. Provision of Room for Lactating Mother-Employee	
7. Production of materials for the Campaign "End Violence Against Women" during the Government Employees week.	50,192
Total	₱ 314,887

5.3 We recommended that Management formulate and conduct more GAD-related activities and utilize its allocated/approved budget to implement the annual GAD Plan.

6. Compliance with tax laws

6.1 PRA has consistently withheld taxes on employees' compensation and benefits as well as creditable VAT and expanded taxes from suppliers and has remitted to the Bureau of Internal Revenue the withheld amounts within required periods. It has also regularly paid and remitted its quarterly income tax.

7. Compliance with GSIS, HDMF and PhilHealth laws

7.1 PRA has withheld from its employees' salaries the corresponding contributions to the GSIS, HDMF and PhilHealth and has regularly remitted to these government agencies the withheld amounts together with the PRA share in the succeeding month.

8. Summary of Suspensions, Disallowances and Charges:

Audit Action	Beginning balance, January 1, 2016	Issued	Settled	Ending balance, December 31, 2016
Suspensions	₱ 925,744.89	0	₱ 747,612.50	₱ 178,132.39
Disallowances	5,613,075.08	0	2,207,660.90	3,405,414.18
Charges	0	0	0	0
Total	₱ 6,538,819.97	0	₱ 2,955,273.40	₱ 3,583,546.57

STATUS OF IMPLEMENTATION OF PRIOR YEAR'S AUDIT RECOMMENDATIONS

Of the 30 prior year's audit recommendations embodied in the previous year's Annual Audit Report, 14 were fully implemented, 16 were partially implemented.

REFERENCE	OBSERVATION	RECOMMENDATIONS	STATUS OF IMPLEMENTATION
2015 AAR Item No. 1 Page 17	<p>Long, unidentified and undocumented bank transaction affected the reliability, accuracy and fair presentation of cash in bank account</p> <p>The reliability, accuracy, and fair presentation of the cash in bank account as of December 31, 2015 could not be ascertained due to long unidentified and/or undocumented bank transactions aggregating P19.329 million contrary to Section 10 of the Framework for the Preparation and Presentation of Financial Statements.</p>	<p>We recommended that Management:</p> <p>a. pursue and exert enough efforts to reconcile these long unaccounted/ unidentified bank transactions in order to adjust to the appropriate account the Other Deferred Credits and Deferred Charges accounts previously recorded;</p> <p>b. adjust immediately the accounts affected for any items already identified and/or documented so as not to keep the balance of unreconciled items accumulating;</p> <p>c. institute measures to avoid if not eliminate the recurrence of these kind of reconciling items;</p> <p>d. coordinate with the bank and other</p>	<p>Partially Implemented.</p> <p>Partially Implemented.</p>

REFERENCE	OBSERVATION	RECOMMENDATIONS	STATUS OF IMPLEMENTATION
		<p>concerned officers for the proper and speedy reconciliation process; and</p> <p>e. explain the recorded variance of P0.897 million.</p>	<p>Partially Implemented.</p> <p>Partially Implemented.</p> <p>Fully Implemented.</p>
<p>2015 AAR Item No. 2 Page 20</p>	<p>The existence, completeness, accuracy and reliability of the Property, Plant and Equipment account is doubtful due to various deficiencies</p> <p>The existence, completeness, accuracy and reliability of the Property, Plant and Equipment (PPE)</p>	<p>We recommended that Management take action of the following:</p> <p>a. maintain subsidiary ledgers for all PPEs;</p> <p>b. complete the inventory taking of all PRA properties and come up with inventory reports disclosing, among</p>	<p>Partially Implemented.</p> <p>Partially Implemented.</p>

REFERENCE	OBSERVATION	RECOMMENDATIONS	STATUS OF IMPLEMENTATION
	<p>account with a balance of ₱31.004 million as of December 31, 2015 could not be ascertained due to incomplete inventory taking; absence of inventory reports; inability to reclassify construction in progress account; non-issuance of Acknowledgement Receipt of Equipment (ARE) to some employees who are in actual custody of the equipment/ property and non-maintenance of subsidiary ledgers.</p>	<p>others, the location of the property, the persons accountable or in possession of the property, status and/or condition etc.;</p> <p>c. prepare report and reconcile the balances of the PPE reported in the books of PRA based on the results of the inventory taking;</p> <p>d. justify why no inventory taking was conducted at Subic/Clark and Baguio Satellites Offices and the delayed completion of inventory taking at the head office as well as the non-submission of the inventory report as of December 31, 2015 for PPEs located at the Davao and Cebu Satellite Offices;</p> <p>e. reclassify the CIP to that appropriate PPR account and provide depreciation thereafter; and</p> <p>f. issue an Acknowledgment Receipt of Equipment to persons who are in actual custody of the equipment.</p>	<p>Partially Implemented.</p> <p>Fully Implemented.</p>

REFERENCE	OBSERVATION	RECOMMENDATIONS	STATUS OF IMPLEMENTATION
			<p>Fully Implemented.</p> <p>Partially Implemented.</p>
<p>2015 AAR Item No. 3 Page23</p>	<p>Unserviceable equipment already disposed but still recorded in the books</p> <p>Various unserviceable equipment amounting P306,763.46 which were disposed and/or donated to a Local Government Unit (LGU) were still recorded in the books thus, overstating the financial statements of the PRA.</p>	<p>We recommended that Management undertake the following:</p> <ul style="list-style-type: none"> a. require the former supply officer to submit the documents relative to the disposal of the subject unserviceable equipment; and b. effect adjustments in the books upon receipt of the documents relative to the donation. 	<p>Fully Implemented.</p>

REFERENCE	OBSERVATION	RECOMMENDATIONS	STATUS OF IMPLEMENTATION
			Fully Implemented.
<p>2015 AAR Item No. 4 Page 24</p>	<p>Accounts Payable not supported with complete documents</p> <p>Accounts Payable (A/P) in the amount of P33.224 million as of December 31, 2015 is of doubtful validity due to the inclusion of various payables amounting to P18.874 million which was obligated on December 29, 2015 without complete documentation that will ensure that services have been rendered and goods were received by PRA. Furthermore, there were various payables of two years amounting to P2.184 million, which were not reverted to Retained Earnings, contrary to DBM-COA Joint Circular No. 99-6 dated November 13, 1999 implementing Executive Order No. 109.</p>	<p>We recommended that Management undertake the following:</p> <p>a. ensure that all obligations recorded in the book are supported with complete documentations;</p> <p>b. comply with the procedural guidelines as stated under the Joint Circular which we reiterate as follows:</p> <p>b.1 review and analyze all recorded payable accounts that remained outstanding for two years or more; and</p> <p>b.2 prepare the corresponding Journal Entry Voucher (JEV) and revert to Retained Earnings, all A/Ps that remained outstanding for two years duly supported by a List of A/Ps reverted.</p>	<p>Fully Implemented.</p> <p>Partially Implemented.</p>

REFERENCE	OBSERVATION	RECOMMENDATIONS	STATUS OF IMPLEMENTATION
			Partially Implemented.
<p>2015 AAR Item No. 5 Page 26</p>	<p>Interest due to retirees not paid on due date</p> <p>The interest due to retirees representing their share in the interest of their visa deposits amounting to P33.872 million was not remitted to them on due date such that a very small portion equivalent to 8.76 per cent or P2.969 million only was paid as of December 31, 2015. This slow remittance not only showed minimal compliance to the procedures established by the PRA's Banking Committee (PBC) but also affected the PRA's efficiency and effectiveness to its commitment with retirees.</p>	<p>We recommended that Management:</p> <ul style="list-style-type: none"> a. ensure that the procedures being set by the banking committee is strictly followed; b. seek approval by the PRA Board on the procedures established by the PBC as well as the rate of interest to be paid to the retirees; c. exert appropriate efforts and strategies for a speedy payment of the interest due to retirees; d. submit justification on the late remittance of the retirees' interest of their visa deposits; and e. request DBP to transfer the amount of P3.544 million representing the retirees' share on the interest of their 	<p>Fully Implemented.</p> <p>Fully Implemented.</p> <p>Partially Implemented.</p>

REFERENCE	OBSERVATION	RECOMMENDATIONS	STATUS OF IMPLEMENTATION
		visa deposits and have it placed in short term time deposit.	Fully Implemented. Fully Implemented.
2015 AAR Item No. 6 Page 30	<p>Fund utilization for Personnel Services and Capital Outlays</p> <p>The 2015 fund utilization for personnel services had exceeded the budgeted expenditures by 33.33 per cent amounting P11.107 million while the approved budget for Capital Outlay amounting to P52.294 million was under utilized with 0.13 per cent utilization only.</p>	<p>We recommended that Management take action of the following:</p> <p>a. require the accounting and budget division to closely monitor the utilization of funds;</p> <p>b. assess the expenditures in excess of the budget and those that were not utilized and consider the causes/problems in the preparations of the subsequent COB;</p> <p>c. justify why the expenditures for personnel services exceeded the budget by 33.33 per cent;</p> <p>d. evaluate causes of the under utilization</p>	<p>Fully Implemented.</p> <p>Fully Implemented.</p>

REFERENCE	OBSERVATION	RECOMMENDATIONS	STATUS OF IMPLEMENTATION
		<p>of the approved budget for CO;</p> <p>e. submit the approved supplemental budget or realignment if any.</p>	<p>Fully Implemented.</p> <p>Fully Implemented.</p> <p>Fully Implemented.</p>
<p>2015 AAR Item No. 7 Page 34</p>	<p>Variance noted on the payment of Marketers' Fee</p> <p>The Marketers' Fee reflected in the PRA's Financial Statements (FS) for the calendar year (CY) 2015 amounting to P45.362 million did not disclose the accurate amount of Marketers' Fee of P48.787 million thus, resulted in the understatement of expenses and accounts payable by P3.425 million and</p>	<p>We recommended that Management:</p> <p>a. reconcile the amount of discrepancy between the amount that should have been reported as expenditures as against the amount reported in the financial statements as of December 31, 2015; and</p> <p>b. provide the necessary adjustment so as to reflect the accurate amount of marketers' fee, income and</p>	<p>Partially Implemented.</p>

REFERENCE	OBSERVATION	RECOMMENDATIONS	STATUS OF IMPLEMENTATION
	<p>overstatement of income by the same amount contrary to Section 10, Paragraph 38 of the Framework for the Preparation and Presentation of the Financial Statements.</p>	<p>accounts payable accounts in the FS.</p>	<p>Partially Implemented.</p>
<p>2015 AAR Item No. 8 Page 38</p>	<p>Implementation of the Gender and Development</p> <p>PRA spent P22,406 only or 1.02 per cent of P 2.190 million for the implementation of Gender and Development (GAD) activities, programs and/or projects for CY 2015, contrary to Philippine Commission on Women (PCW), National Economic and Development Authority (NEDA) and DBM Joint Circular No. 2012-01.</p>	<p>We recommended that Management take action of the following:</p> <p>a. comply with the aforementioned Joint DBM-NEDA Circular No. 2012-01 on Gender and Development; and</p> <p>b. implement the GAD activities, programs and projects that will promote awareness on the rights of every employee/ person at PRA with due regard to his or her gender.</p>	<p>Partially Implemented.</p> <p>Partially Implemented.</p>