



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, 2017

EXECUTIVE SUMMARY

A. Introduction

The Philippine Retirement Authority (PRA) was created under 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destination for the world's retirees, PRA offers various retirement products with required visa deposits that can be withdrawn when the retiree leaves/withdraws from the program or in case of end-of-term obligations.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 was composed of the following principal officers and Board of Directors (BOD):

Position / Designation	Name
1. Gen. Manager and Vice-Chairman	Bienvenido K. Chy
2. Acting Deputy General Manager	Ma. Milagros R. Lisaca
3. Chairman, BOD	Wanda Corazon T. Teo Secretary, Department of Tourism
4. Member, BOD	Amando M. Tetangco, Jr. Governor, Banko Sentral ng Pilipinas
5. Member, BOD	Jaime H. Morente Commissioner, Bureau of Immigration
6. Member, BOD	Ma. Lourdes F. Japson Asst. Secretary, Department of Tourism

B. Financial Highlights

	2017	2016	Increase (Decrease)
Comparative Financial Position			
Assets	₱14,411,606,308	₱11,949,641,370	₱ 2,461,964,938
Liabilities	12,846,083,797	10,571,717,204	2,274,366,593
Equity	1,565,522,511	1,377,924,166	187,598,345
Comparative Financial Performance			
Revenue	792,653,027	770,460,922	22,192,105
Expenses	417,456,336	317,213,101	100,243,234
Net income	375,196,691	453,247,821	(78,013,051)

Budget and Actual Expenditures

	Approved COB	Actual	Variance
Personnel Services (PS)	52,004,000	47,933,661	4,070,339
Maintenance & Other Operating Expenses (MOOE)	213,263,166	211,716,948	1,546,218
Capital Outlays	29,064,834	6,784,020	22,280,814
Total	294,332,000	266,434,629	27,897,371

C. Scope and Objective of the Audit

The audit covered the examination, on a test basis, of the accounts, transactions and operations of PRA for CY 2017 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.

D. Independent Auditor's Report on the Financial Statements

The Auditor rendered a qualified opinion on the fairness of presentation of the financial statements of the PRA for the year 2017 due to:

1. The non-adoption of the accrual accounting for revenues resulted in the net overstatement of CY2017 income of P693.717 million by P9.988 million due to the non-distribution to applicable periods of CY2017 collections amounting to P139.973 million and non-recognition of earned but uncollected revenues of P129.984 million.
2. The year-end balance of the account *Cash deposits from retirees-restricted* totaling P12.492 billion was unreliable due to: a) understatement of the account by P8.174 million brought about by the time difference in recording Peso equivalent of the

transactions denominated in US Dollars; b) unreconciled variances of the year-end balances between books, bank statements and the schedule of Certificate of Time Deposits (CTDs); c) absence of subsidiary ledgers (SLs) to provide the breakdown of the total amount per the general ledger (GL).

3. The year-end balance of the *Trust liabilities* account for visa deposits reported at US\$249.590 million (Note 16-Notes to financial statements) did not reconcile with year-end balance of the account *Cash deposits from retirees-restricted* reported at US\$250.104 million for a US\$0.514 million variance; also the general ledger (GL) balance presented at P12.453 billion supposedly the Peso equivalent of the Trust Liabilities of US\$249.590 million was not equal to the actual converted Peso equivalent of P12,474.508 million (using the official closing rate of P49.98) resulting in the understatement of the Peso denominated GL by P21.032 million.
4. The contingent liability of PRA on the visa deposits of member-retirees with the closed bank/defunct Bankwise, Inc. totaling P95.924 million was not disclosed in the notes to the financial statements.
5. The correctness of the carrying amount of the IT equipment, furniture and fixtures and other office equipment totaling P18.520 million as well as their existence could not be determined due to the absence of physical inventory and improperly maintained subsidiary ledgers.
6. The existence, accuracy and reliability of the year-end balance of the sub-account Office Supplies Inventory in the amount of P9.331 million presented under the major account Prepayments could not be determined due to the absence of physical inventory count and improperly maintained subsidiary ledgers and stock position reports.

For the above observations which caused the issuance of a qualified opinion, we recommended to PRA Management the following:

1. Income Recognition - adopt the accrual basis of accounting in recording revenues.
2. Cash deposits from retirees-restricted –
 - a. Translate the year-end balance of foreign currency monetary items to the official closing exchange rate;
 - b. Rectify the variances noted in the sub-account *Cash deposits from retirees-restricted-receiving*;
 - c. Establish the correct book balance of the sub-account *Cash deposits from retirees-restricted-disbursing*; and
 - d. Maintain subsidiary record of transactions indicating US Dollar amounts to determine the running balance in US Dollar currency.
3. Trust liabilities account -
 - a. Translate the year-end balance of foreign currency monetary items to the official closing exchange rate; and

b. Maintain subsidiary ledgers for each member-retiree indicating US Dollar amounts to determine the running balance in US Dollar currency of the individual investments.

4. Unrecovered deposits with a closed bank-

a. Require the Accounting Division to disclose in the notes to the financial statements information relative to the contingent liability of PRA on the deposits placed with the closed bank;

b. Coordinate with the PDIC on the status of the retirees' deposits with the defunct Bankwise, Inc and initiate legal action against the officers of the Bankwise to recover the deposited funds.

5. Absence of a Report on the Physical Count of the equipment as well as furniture and fixtures-

For Management to form an inventory team to conduct physical count of the assets at least once a year and reconcile the results of the physical count with the balances in the subsidiary ledgers of the Accounting Division and the Property Unit.

6. Absence of a Report on the Physical Count of Inventories -

For the Property Unit to conduct physical count of inventories at least twice a year to establish correctness of the account balances as of June 30 and December 31 and to reconcile the inventory counted with subsidiary ledgers of the Accounting Division and the Property Unit.

E. Summary of Significant Audit Observations and Recommendations

In addition to the above observation which was the basis for the qualified opinion on the financial statements, following are the other significant audit observations and recommendations which are also discussed in detail in Part II of the Report.

1. Advertising Expenses were incurred without properly observing the requirements of RA 9184 on the preparation of the Annual Procurement Plan (APP) and payments for several claims of the service providers were not supported with proper documents.

We recommended and PRA Management agreed that –

a. All procurements, including Advertising Expenses, have to be in accordance with the APP which should be reconciled with the figures in the Proposed Budget;

b. Ensure that the Certificate of Availability of Funds attesting to the approved budget is secured prior to entering into a contract/agreement with service providers; and

c. Advertising contracts have to be supported with documents required under existing laws/regulations such as the quotation/proposal of prices from supplier as basis for contract amounts and the Inspection and Acceptance Report to establish validity of claim/payment.

2. The process of reporting and recording of collections and deposits as well as the required monitoring of the accountable forms did not conform with the required procedures per existing regulations.

We recommended and Management agreed that –

- a. All collecting officers be required to prepare and accomplish their respective Report of Collections and Deposits using the required template which should be reviewed by the Head of Division and thereafter, regularly submitted to the Accounting Unit together with the 2nd copy of the issued ORs and the validated deposit slips for recording in the books of accounts;
 - b. The monthly Report on Accountability for Accountable Forms be prepared by all accountable officers and regularly submitted to COA within ten (10) days of the following month.
3. The attainment of the targets set by management in promoting the programs and services of the PRA totaling P7.584 million in CY 2017 through its foreign sales missions could not be established in the absence of proper monitoring tool/s to gauge the outcomes of the said foreign trips/missions.

We recommend and PRA Management agreed to -

- a. Require the members of the foreign missions to submit an evaluation report reflecting the actual output generated from said travels duly matched against the target set by the PRA;
- b. Formulate and establish written policies relative to the: a) selection of officers or personnel to undertake the travel/missions; b) identification of the different tasks/assignments charged to the members of the delegation which should match the capabilities of the assigned personnel; c) guidelines on the reporting requirements (what/when and the format to be submitted), etc.

F. Summary of Suspensions, Disallowances and Charges

Audit Action	Beginning balance		Settled	Ending balance	
	January 1, 2017	Issued		December 31, 2017	
Suspensions	P 178,132.39	0	P 0	P 178,132.39	
Disallowances	3,405,414.18	0	1,082,506.84	2,322,907.34	
Charges	0	0	0	0	
Total	P3,583,546.57	0	P1,082,506.84	P2,501,039.73	

G. Status of Implementation of Prior Year's Audit Recommendations

Of the 19 audit recommendations embodied in the prior year Annual Audit Report, 3 were fully implemented, 9 were partially implemented and 7 were not implemented.

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

INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Philippine Retirement Authority
Makati City

Qualified Opinion

We have audited the accompanying financial statements of the **Philippine Retirement Authority (PRA)** comprised of the statement of financial position as at December 31, 2017, ~~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.

In our opinion, except for the effects of the matters described in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects, the ~~financial position of the Philippine Retirement Authority (PRA) as at December 31, 2017,~~ and its financial performance and its cash flows for the year then ended in accordance with accounting principles generally accepted in the Philippines.

Basis for Qualified Opinion

1. The non-adoption of the accrual accounting for revenues resulted in the net overstatement of CY2017 income of P693.717 million by P9.988 million due to the non-distribution to applicable periods of CY2017 collections amounting to P139.973 million and non-recognition of earned but uncollected revenues of P129.984 million.
2. The year-end balance of the account *Cash deposits from retirees-restricted* totaling P12.492 billion was unreliable due to: a) understatement of the account by P8.174 million brought about by the time difference in recording Peso equivalent of the transactions denominated in US Dollars; b) unreconciled variances of the year-end balances between books, bank statements and the schedule of Certificate of Time Deposits; and c) absence of subsidiary ledgers (SLs) to provide the breakdown of the total amount per the general ledger (GL).
3. The year-end balance of the *Trust liabilities* account for visa deposits reported at US\$249.590 million (Note 16-Notes to financial statements) did not reconcile with year-end balance of the account *Cash deposits from retirees-restricted* reported at US\$250.104 million for a US\$0.514 million variance; also the GL balance presented at P12.453 billion supposedly the Peso equivalent of the Trust Liabilities of US\$249.590 million was not equal to the actual converted Peso equivalent of P12.474 million (using the official closing rate of P49.98) resulting in the understatement of the Peso denominated GL by P21.032 million.

4. The contingent liability of PRA on the visa deposits of member-retirees with the closed bank/defunct Bankwise, Inc. totaling P95.924 million was not disclosed in the notes to the financial statements.
5. The correctness of the carrying amount of the IT equipment, furniture and fixtures and other office equipment totaling P18.520 million as well as their existence could not be determined due to the absence of physical inventory and improperly maintained subsidiary ledgers.
6. The existence, accuracy and reliability of the year-end balance of the sub-account Office Supplies Inventory in the amount of P9.331 million presented under the major account Prepayments could not be determined due to the absence of physical inventory count and improperly maintained subsidiary ledgers and stock position reports.

We conducted our audit in accordance with the Philippine Public Sector Standards on Auditing (PPSSA). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the PRA in accordance with the ethical requirements that are relevant to our audit of the financial statements and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

In preparing the financial statements, management is responsible for assessing PRA's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate PRA or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing PRA's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

The objectives of our audit were to obtain reasonable assurance about whether the financial statements as a whole were free from material misstatement, whether due to fraud or error, and to issue an auditor's report that included our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Philippine Public Sector Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if,

individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.


~~Our audit involved performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depended 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 considered internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that were appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. The audit also included 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.~~

**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 20 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

COMMISSION ON AUDIT


PEDRO P. BABELONIA
OIC - Supervising Auditor

April 19, 2018



REPUBLIC OF THE PHILIPPINES
DEPARTMENT OF TOURISM

PHILIPPINE RETIREMENT AUTHORITY

April 19, 2018

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, 2017, 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

En. Ordoña
04-20-18 / 11:10am

PHILIPPINE RETIREMENT AUTHORITY
STATEMENT OF FINANCIAL POSITION
December 31, 2017
(With corresponding figures for CY 2016)
(In Philippine Peso)

	Notes	2017	2016
ASSETS			
Current Assets			
Cash and cash equivalents	4	257,381,626	561,190,556
Short-term investments	5	1,094,342,687	1,060,670,791
Receivables - net	6	25,592,311	30,893,046
Prepayments	7	16,410,242	11,513,947
Total current assets		1,393,726,866	1,664,268,340
Non-Current Assets			
Cash deposits from retirees - restricted	8	12,492,011,606	10,245,195,368
Long-term investments	9	480,408,000	600,000
Property, plant and equipment - net	10	40,438,053	34,202,851
Other assets	11	5,021,783	5,374,811
Total non-current assets		13,017,879,442	10,285,373,030
TOTAL ASSETS		14,411,606,308	11,949,641,370
LIABILITIES AND EQUITY			
Current Liabilities			
Accounts payable		92,474,751	39,117,868
Dividends payable		187,598,346	210,435,371
Due to officers and employees	12	9,654,377	5,437,243
Inter-agency payables	13	14,790,189	25,212,306
Interest payable	14	82,230,526	56,015,922
Other payables		436,997	435,797
Total current liabilities		387,185,186	336,654,507
Non-Current Liabilities			
Deferred credits	15	5,444,934	5,401,691
Trust liabilities	16	12,453,453,677	10,229,661,006
Total non-current liabilities		12,458,898,611	10,235,062,697
TOTAL LIABILITIES		12,846,083,797	10,571,717,204
EQUITY		1,565,522,511	1,377,924,166
TOTAL LIABILITIES AND EQUITY		14,411,606,308	11,949,641,370

The notes on pages 9 to 19 form part of these financial statements.

PHILIPPINE RETIREMENT AUTHORITY
STATEMENT OF COMPREHENSIVE INCOME
For the year ended December 31, 2017
(With corresponding figures for CY 2016)
(In Philippine Peso)

	Notes	2017	2016
INCOME FROM OPERATIONS			
Management fees		137,997,798	132,166,179
Passport and visa/application fees		242,992,925	218,009,242
Annual PRA fees		277,066,129	213,833,167
Harmonization fees		3,375,021	3,957,719
Inspection fees/visitorial fees		20,673,563	23,238,010
Registration fees/ID fees		6,809,718	6,302,130
Affiliation fees/accreditation fees		2,639,969	2,447,155
Processing fees/service fees		2,162,404	2,255,290
Total income from operations	17	693,717,527	602,208,892
EXPENSES			
Direct costs	18	156,040,639	108,175,194
Operating expenses	Sch. 1	103,609,970	86,726,390
Total expenses		259,650,609	194,901,584
NET INCOME FROM OPERATIONS		434,066,918	407,307,308
OTHER INCOME			
Interest income		97,915,662	81,754,528
Miscellaneous income		233,993	397,749
Net foreign exchange gain (loss)			
Realized Gain		22,635,233	53,325,324
Unrealized gain(loss)	19	(21,849,388)	32,774,429
Total Other Income (Expenses)		98,935,500	168,252,030
Net Income Before Tax		533,002,418	575,559,338
Income Tax		157,805,727	122,311,517
Net Income After Tax		375,196,691	453,247,821

The notes on pages 9 to 19 form part of these financial statements.

PHILIPPINE RETIREMENT AUTHORITY
STATEMENT OF CHANGES IN EQUITY
For the year ended December 31, 2017
 (With corresponding figures for CY 2016)
 (In Philippine Peso)

	Notes	2017	2016
EQUITY			
PAID-IN-CAPITAL		63,217,089	63,217,089
RETAINED EARNINGS			
Balance, beginning of year		1,314,707,077	1,071,894,627
Net income		375,196,891	453,247,821
Dividends		(187,598,346)	(210,435,371)
Balance, end of year		1,502,305,422	1,314,707,077
EQUITY		1,565,522,511	1,377,924,166

The notes on pages 9 to 19 form part of these financial statements.

PHILIPPINE RETIREMENT AUTHORITY
STATEMENT OF CASH FLOWS
For the year ended December 31, 2017
(With corresponding figures for CY 2016)
(In Philippine Peso)

	Notes	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES			
Collection of income		694,951,086	591,671,125
Collection of receivables		5,260,517	3,632,369
Interest income		8,026,404	16,003,560
Refund of cash advances		1,282,153	1,392,388
Gain on foreign exchange		31,105,761	91,396,488
Payment of operating expenses		(171,756,725)	(125,492,069)
Settlement of prior year payables		(19,280,750)	(27,302,197)
Remittance of mandatory contributions/taxes withheld		(21,752,517)	(25,790,480)
Release of cash advance		(7,724,603)	(5,429,911)
Payment of dividends		(210,435,371)	(190,440,943)
Payment of income tax		(148,374,896)	(123,552,194)
Loss on foreign exchange		(30,322,204)	(8,078,257)
Refund of deferred credits		(732,241)	(760,771)
Net cash provided by operating activities		130,246,614	197,249,108
CASH FLOWS FROM INVESTING ACTIVITIES			
Maturity of deposits		564,835,649	1,232,120,245
Placement in time deposits		(992,966,491)	(1,054,345,212)
Purchase of property, plant and equipment		(5,924,702)	(6,289,503)
Net cash provided by(used in) investing activities		(434,055,544)	171,485,530
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		(303,808,930)	368,734,638
CASH AND CASH EQUIVALENTS, BEGINNING		561,190,556	192,455,918
CASH AND CASH EQUIVALENTS, ENDING	4	257,381,626	561,190,556

The notes on pages 9 to 19 form part of these financial statements.

PHILIPPINE RETIREMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
(All amounts in Philippine Pesos 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 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 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 are non-withdrawable 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 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, 2017, 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 seventy two (72) regular employees and seventy (70) 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 CY 2017

The Authority has been operational for thirty-two (32) years attaining 53,931 foreign retirees with visa deposits aggregating to US\$ 858 Million. For the last 7 years (2011-2017), despite withdrawals, gross enrolment growth rate averages 16 per cent while net enrolment growth rate tips at 20 per cent which indicates improved membership retention.

For the year ended December 2017, visa deposits reached US\$ 57 Million which is 0.28 per cent higher than the previous year.

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:

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

c.2. Management fees from Bankwise, Inc. (Note 11).

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 percent 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 fixtures	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. There are certain transactions that cash basis of accounting is deemed practical for usage as there are fees due from delinquent stakeholders (mostly foreign nationals) that is almost uncollectible. This method will best reflect the financial transactions and facilitate the fair presentation of the Financial Statements.

f. PRA owned Investments

Surplus peso and dollar cash funds of PRA are placed in Time Deposits, and HY Deposits in government banks, i.e. Land Bank of the Philippines (LBP) and Development Bank of the Philippines (DBP), to generate additional interest income. US Dollar investments are revalued and recorded using US dollar rates conversion at the end of the year for the CY 2017.

g. Inventories

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

h. Foreign currency transactions

PRA converts into Peso its foreign currency denominated transactions using the actual foreign exchange rate prevailing during the date of transaction. Monetary assets and liabilities that are denominated in foreign currency are revalued at balance sheet date using the closing exchange rate. Foreign currency gains and losses arising from foreign currency fluctuations are recognized in profit or loss for the period.

4. CASH AND CASH EQUIVALENTS

This account consists of:

	2017	2016
Cash on hand	1,014,136	2,438,075
Cash in bank savings and current accounts-LBP	103,707,571	49,452,816
Cash in bank savings and current accounts-DBP	282,838	303,815
Foreign currency time deposits	137,377,081	490,218,672
Investment in bonds	0	8,746,678
Investment in HY deposits	15,000,000	10,030,500
	257,381,626	561,190,556

Deposits and investments in foreign currency for CY 2017 were translated to peso amounts at the year-end closing rate of P49.980:1US\$.

Foreign currency time deposits with the Land Bank of the Philippines (LBP) and the Development Bank of the Philippines (DBP) amounted to US\$2.749 million in 2017 and US\$9.841 million in 2016 with maturities within three months.

Investment in bonds in CY 2016 consisted of the 3-year ROP11 bonds with face value of US\$175,000 purchased at a premium and matured on January 18, 2017.

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

Investment in high-yield (HY) Deposits in CY 2017 is a 364-day term 1.250 per cent interest LBP investment with face value of Php15 million purchased February 8, 2017 maturing on February 7, 2018.

5. SHORT-TERM INVESTMENTS

This account consists of:

	2017	2016
Foreign currency time deposits	841,247,949	795,070,469
Investment in HY deposits	253,094,738	265,600,322
	1,094,342,687	1,060,670,791

These items have maturities of beyond 90 days but within the next 12 months.

Foreign Currency Time Deposits with LBP and DBP amounts to US\$16.832 million and US\$15.960 million for CY 2017 and 2016, respectively.

Investments in High Yield (HY) Deposits in CY 2017 are deposits with LBP yielding interest rates of 1.125 per cent to 1.500 per cent including the amount of US\$2.243 million.

6. RECEIVABLES – NET

This account consists of:

	2017	2016
Accounts receivable	9,816,243	18,455,101
Advances to officers and employees	536,605	33,745
Due from officers and employees	7,337,947	8,545,356
Interest receivables	7,901,516	3,858,844
	25,592,311	30,893,046

6.1 Accounts Receivable consists of:

	2017	2016
Visitorial fees (VF)	35,709,394	36,913,980
Allowance for doubtful accounts-VF	(26,361,482)	(26,361,482)
Visitorial fees - net	9,347,912	10,552,498
Management fees	26,021	7,460,293
Harmonization fees	442,310	442,310
	9,816,243	18,455,101

- 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 per cent 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** represent 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 per annum 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 P6.288 million were already issued with COA Order of Execution (COE) and prior years unliquidated cash advances of active and retired/resigned PRA officers and employees.

7. PREPAYMENTS

This account consists of:

	2017	2016
Office supplies inventory	9,331,724	7,262,490
Deferred charges	4,275,951	3,776,800
Other prepaid expenses	2,802,567	474,657
	16,410,242	11,513,947

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.

Other prepaid expenses account for CY 2017 includes four (4) procured items such as firewall, anti-virus and other software items from Imax Technologies, American Technologies, Inc. and The Procurement Service, all to be amortized within 1-year period time of consumption.

8. CASH DEPOSITS FROM RETIREES – RESTRICTED

This account represents the required visa deposit from retiree-members 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*).

9. LONG -TERM INVESTMENTS

This account consists of:

	2017	2016
Investment in HY deposits	79,968,000	0
Foreign currency time deposits	399,840,000	0
Investment in stocks	600,000	600,000
	480,408,000	600,000

These items have maturities of beyond 12 months.

Investment in High Yield Deposits account in CY 2017 pertains to LBP Investment yielding interest rate of 2 per cent with face value amount of US\$1.600 million with term of 2 years. This will mature on August 18, 2019.

Foreign Currency Time Deposits in CY 2017 pertains to LBP Dollar time deposits amounting to US\$8.000 million, purchased on October 9, 2017 with term of 3 years yielding interest rate of 2.500 per cent.

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

10. 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, 2017	55,464,983	35,979,500	13,789,398	105,233,881
Additions	0	6,784,020	0	6,784,020
Balance, December 31, 2017	55,464,983	42,763,520	13,789,398	112,017,901
<u>Accumulated Depreciation:</u>				
Balance, January 1, 2017	35,406,026	23,214,546	12,410,458	71,031,030
Additions	4,406	1,028,682	0	1,033,088
Disposals (Adjustments)	(484,270)	0	0	(484,270)
Balance, December 31, 2017	34,926,162	24,243,228	12,410,458	71,579,848
Net book value, Dec. 31, 2017	20,538,821	18,520,292	1,378,940	40,438,053
Net book value, Dec. 31, 2016	20,058,957	12,764,954	1,378,940	34,202,851

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 including four (4) parking units.

11. OTHER ASSETS

This account consists of:

	2017	2016
Management fees receivable	3,450,556	3,450,556
Other receivables	1,888,664	2,191,055
	5,339,220	5,641,611
Allowance for doubtful accounts	(4,529,357)	(4,529,357)
Other receivables – net	809,863	1,112,254
Guaranty deposits	4,211,920	4,262,557
	5,021,783	5,374,811

Management fees receivable is due from Bankwise, Inc.. Collection had already been endorsed to the OGCC 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 PLDT.

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:

	2017	2016
Due to BIR	13,788,367	24,670,787
Due to GSIS	403,767	0
Due to Pag-Ibig & Philhealth	25,423	0
Due to other NGAs	572,632	541,519
	14,790,189	25,212,306

Due to BIR represents the amount of last quarter income tax payable.

Due to GSIS, Philhealth and Pag-Ibig accounts in CY 2017 are payroll items representing mainly of contributions from PRA regular employees due for remittance as of CY 2017, majority of which pertain to the effect of the salary adjustment/differential of regular employees pursuant to EO no. 36 of 2017 released on December 29, 2017.

Due to other 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\$ 1,633,946.39 and US\$ 1.124 million for 2017 and 2016, respectively.

15. DEFERRED CREDITS

This account pertains mainly to reconciling items of the Cash account amounting to P5.252 million for CY 2017 and P5.337 million for CY 2016 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 under Note 8 above. CY 2017 amounts to 249,589,559.04, peso reported at P12,453,453,677.12. CY 2016 amounts to US\$207,644,227.33, peso reported at P10,229,661,005.99.

17. OPERATING INCOME

Income from operations pertains mainly to the following fees:

17.1 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.

17.2 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.

17.3 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.

17.4 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 per cent to 1.5 per cent of the total amount invested (Note 6).

18. DIRECT COSTS

This account consists of the following:

	2017	2016
Bureau of Immigration fees	30,579,023	30,594,279
Marketers' fees	60,651,766	50,410,279
Medical examination fees	4,892,900	4,368,500
Visa stickers and ID cards	518,482	516,985
Marketing expenses	59,398,468	22,285,151
	156,040,639	108,175,194

Bureau of Immigration (BI) Fees pertain to amounts paid to the BI on the processing of the retiree-applicants' visa @ P5,080 for every principal applicant or spouse and P4,830 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 2017, PRA has 214 accredited marketers that were able to enroll a total of 2,253 principal retiree-applicants during the year.

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

Marketing expenses consist of the following:

	2017	2016
Travelling expenses – local	514,788	314,705
Travelling expenses – foreign	5,575,800	3,656,003
Marketing expenses – advertising	43,474,177	12,448,371
Marketing expenses – promotions	9,797,324	5,719,877
Postage and deliveries expenses	36,379	146,195
	59,398,468	22,285,151

Increase in marketing expenses from CYs 2016 to 2017 in the amount of P37.113 million pertains mainly to the advertisements in publications in the amount of P43.474 million, which is P31.026 million or 249 per cent higher than the CY 2016 amount of P12.448 million.

19. UNREALIZED LOSS ON FOREIGN EXCHANGE

This account pertains to the exchange differential on the translation to peso amount of deposits and investments in foreign currency totaling US\$ 32.871 million at the year-end closing rate of P49.980:1US\$.

20. TAXES

20.1 Payment of Taxes and Exemption from VAT.

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 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 (5%) 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 (5%) of the gross payment thereof ...”.

20.2 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, 2017 are as follows:

Compensation and benefits	P 6,818,144.89
Creditable (Expanded)	10,620,791.44
Creditable (VAT)	6,477,255.35
TOTAL	P 23,916,191.68

b. Income Tax Return:

The details of the Income Tax Returns for the CY 2017 are as follows:

QUARTER	INCOME TAX EXPENSE	CREDITABLE withholding tax on Management Fees	NET AMOUNT PAID
Full payment of CY 2016	20,724,884.06	n/a	20,724,884.06
1 st qtr – 2017	38,477,431.27	2,370,048.97	36,107,382.30
2 nd qtr - 2017	40,681,568.26	2,382,610.92	38,298,957.34
3 rd qtr- 2017	44,593,252.41	2,289,994.54	42,303,257.87
4 th qtr- 2017	13,328,591.26	n/a	n/a
	157,805,727.26	7,042,654.43	137,434,481.57

PART II – OBSERVATIONS AND RECOMMENDATIONS

A. FINANCIAL AUDIT

1. The non-adoption of accrual accounting for revenues resulted in the net overstatement of CY2017 income of P693,717 million by P9,988 million due to the non-distribution to applicable periods of CY2017 collections amounting to P139,973 million and non-recognition of earned but uncollected accounts of P129,984 million.

1.1 Audit disclosed that revenues were recorded in the books using the cash basis of accounting. The total recorded revenues from operations amounting to P693.717 million for CY2017 included collections of recurring revenues received from member enrollees in various PRA programs such as the Annual PRA Fees, Management Fees and Inspection/Visitorial Fees (Note 17) totaling P435.737 million. Collections from these revenue sources for the year were recognized as income of CY 2017 even if the fees accrue to other accounting periods. The collections included amounts for the year under audit, prior years fees accruing to CY2016 and prior years as well as those accruing to CYs 2018 to 2020.

- 1.2 The collections that were recognized as income of CY 2017 totaling P435.737 million that should have been distributed among the different accounting periods were as follows:

Nature of income/ Collections	Collections recorded as income in CY2017 (Total a to d)	Periods to be credited per audit			Collection of receivables D
		Current year 2017 a	CY2016 & prior years b	CY2018 to 2020 c	
Annual PRA Fees	P277,066,129	P154,290,968	P6,048,144	P116,727,017	P -
Management Fees	137,997,798	131,643,928	6,353,870	-	-
Inspection/ Visitorial Fees	20,673,563	9,829,410	1,958,107	8,842,258	43,788
Totals	P435,737,490	P295,764,306	P14,360,121	P125,569,275	P43,788

a. The foregoing tabulated data shows that of the recurring revenues recorded as income for CY 2017 in the total amount of P435.737 million, only P295.764 million pertained to CY 2017, P14.360 million were earnings of previous accounting periods (CY 2016 and prior years which should have been recorded as adjustment to Retained Earnings), P125.569 million were advance collection of fees pertaining to CYs 2018 until 2020 which should have been recorded as deferred credits, and P43,788.00 represented payment of a receivable account of the Inspection/Visitorial Fees.

b. The non-distribution of collected revenues to applicable accounting periods and erroneous recording of the credits to the receivable account overstated the

CY2017 income by P139.973 million (b+c+d). It also resulted in the understatement of the liability account Deferred Credits for the unearned revenues of future periods; understatement of Retained Earnings for revenues accruing to previous years and overstatement of Accounts Receivable.

- 1.3 The non-adoption of the accrual accounting for revenues also resulted in the non-recognition of income and receivables representing fees already earned but not collected during CY2017 which understated both income and receivable accounts by P129.984 million based on the account classified as "active". About 4,521 "active" member-retirees failed to remit the Annual PRA Fees and 696 "active" principal retirees did not pay the Inspection/Visitorial Fees for the CY 2017. Similarly, twenty four (24) depository banks had under-remittances of PRA's share in Management Fees. Thus the uncollected but earned income pertaining to CY2017 totaling P129.984 million should have been accrued and recognized as receivables and income computed as follows:

Nature of Revenue	No. of Revenue Sources	Estimated Revenues Earned
Annual PRA Fees	4,521 principal retirees	P 81,345,448
Management Fees	24 private banks	35,180,308
Inspection/Visitorial Fees	696 principal retirees	13,459,147
Total		P129,984,903

- 1.4 Summarized in the following tabulated data are the effects of the non-adoption of the accrual basis of accounting on the CY2017 collections which resulted in the net overstatement by P9.988 million (P435,737,488 – P425,749,207) of income/revenues as follows:

	As reported for CY2017	Amounts per audit			Overstatement(Under-statement) of CY2017 revenues
		Annual Fees receipted accruing to CY 2017	Fees due in CY 2017 but not collected (for Accrual)	Should be INCOME for CY2017	
Annual PRA Fees	P277,066,129	P154,290,968	P81,345,448	P235,636,416	P41,429,713
Management Fees	137,997,798	131,643,928	35,180,308	166,824,235	(28,826,438)
Inspection/Visitorial Fees	20,673,563	9,829,410	13,459,147	23,288,556	(2,614,994)
Total	P435,737,490	P295,764,306	P129,984,903	P425,749,207	P9,988,281

- 1.5 We recommended and Management agreed to adopt the accrual basis of accounting in recording revenues. Thus,

- a. CY2017 collections of Annual PRA Fees, Management Fees and Visitorial Fees be allocated to the accounting periods in which these were earned;
- b. Accrue and recognize earned but uncollected Fees pertaining to CY2017 as well as CY2016 and prior years; and

c. Effect the necessary adjustments and disclosures in the financial statements in addition to the following:

Particulars	Dr	CR
Income/Retained Earnings	P43,788	
Accounts Receivable from Inspection/Visitorial Fees		P43,788
To adjust erroneous recording of collections. (Indicate the name of the member who remitted the fees due)		
Income/Retained Earnings	125,569,275	
Deferred Credits		125,569,275
To reclassify to liability account the advance collection of Fees for CY 2018 to 2020 (Note: collection of prior periods considered compensating error - already closed to Retained Earnings)		
Accounts Receivable	129,984,903	
Income/Retained Earnings To record Fees earned in CY 2017 but not yet received from members broken down as follows:		129,984,903
Annual PRA Fees - P81,345,448		
Management Fees - 35,180,308		
Inspection/Visitorial Fees - 13,459,147 (Should include information on how this is different from the recorded rec'bls in note 6.1		

2. The year-end balance of the account *Cash deposits from retirees-restricted* totaling P12.492 billion was unreliable due to: a) understatement of the account by P8.174 million brought about by the time difference in recording Peso equivalent of the transactions denominated in US Dollars; b) unreconciled variances of the year-end balances between books, bank statements and the schedule of Certificate of Time Deposits (CTDs); c) absence of subsidiary ledgers (SLs) to provide the breakdown of the total amount per the general ledger (GL).

2.1 The account *Cash deposits from retirees-restricted* pertains to the visa deposits of US\$20,000 per member-retiree who were enrolled in the PRA retirement program and issued with the Special Resident Retiree Visa (SRRV). The collections were placed under a time deposit arrangement with the Development Bank of the Philippines (DBP), issued with individual Certificates of Time Deposit (CTD), and refundable only upon withdrawal from the PRA program and upon cancellation of the SRRV of the member.

2.2 The subject account had two (2) sub-accounts, namely: a) *Cash deposits from retirees-restricted-receiving*, and b) *Cash deposits from retirees-restricted-disbursing*.

Cash deposits from retirees-restricted-receiving pertained to CTDs of outstanding members while the *Cash deposits from retirees-restricted-disbursing* were the terminated CTDs not yet refunded as of year-end to previous member-retirees that had withdrawn from the retirement program. The corresponding amount of terminated CTDs of terminated members were transferred from the *receiving* account to the *disbursing* account.

2.3 Review of the balances of said accounts, showed several deficiencies that included the following:

- a. The year-end balance of the accounts which were denominated in US Dollars did not tally with the Peso equivalent using the year-end exchange rate of P49.98 to a US Dollar resulting in the understatement of the account by P8.174 million, computed as follows:

CTD account	Year-end balance in US\$	Peso equivalent @P49.98 rate	Peso balances Per Books	Variance/Understatement of Books
Receiving	\$248,959,438	P12,442,992,737	P12,442,701,687	P 291,050
Disbursing	1,144,327	57,193,461	49,309,919	7,883,541
Total	\$250,103,765	P12,500,186,198	P12,492,011,606	P 8,174,591

One of the causes for the variance was attributed to the timing difference in recording the Peso equivalent of the transactions denominated in US Dollars. As disclosed in Note 3h. (Notes to financial Statements) transactions denominated in foreign currencies were converted and recorded in the books of accounts using the prevailing official exchange rate on the date when the transaction transpired and were supposed to be revalued at balance sheet date using the closing exchange rate, however, it appears based on the above computations using the year-end official exchange rate that balance sheet/statement of financial position data were not presented in accordance with the prescribed accounting standards in recording foreign denominated transaction.

- b. Review of the source documents for the *Cash deposits –receiving* account showed three un-reconciled/differing balances in US Dollars as follows:

Data Source	Amount in US\$	Data compared	Variance in US\$
Books/General Ledger	248,953,615	Books vs Bank	5,823
Bank statements	248,959,438	Bank vs Schedules	11,524
Schedule of CTDs	248,970,962	Books vs Schedule	17,737

- b.1 The Bank Reconciliation Statement for December 31, 2017 balances showed that there were no reconciling items for the Bank balance of US\$248.959 million. Thus, until the Book reconciling items are verified and recorded, the book balance will remain understated by \$5,823.33 equivalent to ₱291,050.
- b.2 The Schedule of CTDs involving 12,525 certificates with a total value of \$248.970 million also showed discrepancy of \$11,524 when compared to the bank balance of \$248.959 million.

b.3 Comparison between the schedule of CTDs (\$248,970,962) against the Book/GL balance of \$248,953,615 showed that the GL balance was understated by \$17,737 or P886,495.

b.4 The data in the CY2017 Schedule of CTDs were still undergoing verification at year-end.

2.4 The year-end balance of P49.310 million of the sub-account *Cash deposits from retirees-restricted-disbursing* representing terminated CTDs not yet refunded to member-retirees was understated by P7.883 million. The variance was derived from comparing the year-end Bank Statement balance amounting to \$1.144 million with Peso equivalent of P57.193 million (using the exchange rate of P49.98) with the book balance of P49.310 million. The US Dollar equivalent of the amount per Books of P49.310 million could not be established since there were no subsidiary ledgers maintained to keep track of the recorded transactions in US Dollar. Likewise, no Bank Reconciliation Statement was prepared for the account.

2.5 The discrepancies noted in the previous year's AAR in the balance of the account *Cash deposits from retirees-restricted-disbursing* that remained un-adjusted was the inclusion of unclaimed interest income of member-retirees which should be transferred to a trust liability account/Cash in bank-foreign currency savings account pending release thereof to member retirees.

2.6 We recommended that Management require the Accounting Division to:

- a) Translate the year-end balance of foreign currency monetary items to the official closing exchange rate;
- b) To rectify the variances noted in the sub-account *Cash deposits from retirees-restricted-receiving* -
 - i. Examine/verify the net Book reconciling items of \$5,823.33 which should be effectively adjusted to tally the Book with the Bank balance;
 - ii. Examine/review the Schedule of CTDs and determine the nature of discrepancy of \$11,524.10 over the Bank balance of \$248.959 million as well as the discrepancy of \$17,347 over the GL balance of \$248.953 million.
- c) To establish the correct book balance of the sub-account *Cash deposits from retirees-restricted-disbursing* -
 - i. Regularly prepare monthly Bank Reconciliation Statements and verify/record reconciling items to tally the Book with Bank balance;
 - ii. Reclassify to appropriate account/s the recorded transactions that do not pertain to this account such as the interest income for visa deposits.
- d) Maintain subsidiary record of transactions indicating US Dollar amounts to determine the running balance in US Dollar currency.

3. The year-end balance of the *Trust liabilities* account for visa deposits reported at US\$249.590 million (Note 16-Notes to financial statements) did not reconcile with year-end balance of the account *Cash deposits from retirees-restricted* reported at US\$250.104 million for a US\$0.514 million variance; also the general ledger (GL) balance presented at P12.453 billion supposedly the Peso equivalent of the Trust Liabilities of US\$249.590 million was not equal to the actual converted Peso equivalent of P12,474.508 million (using the official closing rate of P49.98) resulting in the understatement of the Peso denominated GL by P21.032 million.

3.1 Upon receipt of the visa deposits of US \$20,000 per enrollee, collections were debited to the *Cash deposits from retirees-restricted* account with a corresponding credit to *Trust liabilities* account. For the refunds of the visa deposits, the original entry was reversed debiting the *Trust liabilities* account and crediting *Cash deposits from retirees-restricted*, thus, the asset account should always be equal to the liability account.

3.2 Review of the year-end balances of the Trust Liability Peso (per GL) and US Dollar (per Notes) accounts revealed that upon conversion of the US Dollar balance using the authorized closing exchange rate of P49.98, the Trust Liability account presented in Peso was understated by P21,032,484. Applying the authorized closing rate, the Trust Liability presented in the reporting currency (Peso) should have been P12,474,486,508. Comparing further the Trust liabilities balances with the year-end balances (both in US Dollar and Peso) with the account *Cash deposits from retirees-restricted* revealed variances of US \$514,206 and P38,557,929, respectively, computed as follows:

Account Name	In US\$	Per GL in Peso	Peso Equivalent per official closing rate	Understatement of Book balance
Cash deposits from retirees-restricted	\$250,103,765	P12,492,011,606	P12,500,186,198	P 8,174,591
Trust liabilities (Note 16)	249,589,559	12,453,453,677	12,474,486,160	21,032,484
Variances	\$ 514,206	P 38,557,929	-	-

3.3 One of causes for the discrepancy may again be the timing difference in recording the dollar denominated transactions due to the effects of adjustment in foreign exchange rates. Moreover, the reconciliation process was hampered since there were no subsidiary ledgers to provide the necessary details to support of the GL balance.

3.4 We recommended and Management agreed to -

1. Translate foreign currency monetary items to Philippine Peso, being the reporting currency, at the end of each accounting period using the official closing rate; and
2. Maintain subsidiary ledgers for each member-retiree indicating US Dollar amounts to determine the running balance in US Dollar currency of the individual investments.

4. The contingent liability of PRA on the visa deposits of member-retirees with the closed bank/defunct Bankwise, Inc. totaling P95.924 million was not disclosed in the notes to the financial statements.

4.1 The Report on Outstanding Deposits with Current and Previously Accredited Banks as of December 31, 2017 indicated deposits by 25 member-retirees with the defunct Bankwise, Inc. totaling P95.924 million (US\$1,831,500 and P4,386,227).

4.2 Bankwise was closed in CY 2008 due to bankruptcy and was put under receivership by the Banko Sentral Ng Pilipinas. It was gathered from inquiry that, after coordination with the Philippine Deposit Insurance Corporation (PDIC), the deposits of the 25 retirees cannot be recovered because no record of such deposits was turned-over by Bankwise to PDIC. In view thereof, PRA could be implicated of liability as regards the visa deposits of the 25 retirees.

4.3 Sample verification from the Retiree Information Management System (RIMS) indicated that four (4) retirees with "active" status have outstanding visa deposits with Bankwise, Inc. totaling US\$381,500.00.

4.4 The only reference in the notes to the financial statements relative to Bankwise was an explanation in Note 11 of the Management Fees Receivable from said bank. Therewas, however, no disclosure on the contingent liability of PRA over the unrecoverable deposits.

4.5 We recommended that PRA Management -

a. Require the Accounting Division to disclose in the notes to the financial statements information relative to the contingent liability of PRA as regards the visa deposits placed with the closed bank.

b. Coordinate with the PDIC on the status of the retirees' deposits with the defunct Bankwise, Inc;

c. If warranted, initiate legal action against the officers of the Bankwise to recover the deposited funds.

4.6 Management submitted a Summary of Actions Taken during the years 2005-2009 and a copy of the letter to PDIC dated April 8, 2018 inquiring on the matter of the retirees' deposits with Bankwise, Inc.

5. The correctness of the carrying amount of the IT equipment, furniture and fixtures and other office equipment totaling P18.520 million as well as their existence could not be determined due to the absence of physical inventory and improperly maintained subsidiary ledgers.

5.1 The account *Property, Plant and Equipment* was comprised of the following:

	Carrying amount
Office building	P20,491,718
Other structures	47,104
Sub-total	20,538,822

	Carrying amount
IT equipment and software	15,957,993
Furniture and fixtures	1,171,905
Office equipment	789,016
Other equipment	601,377
Sub-total	18,520,292
Motor vehicles	1,378,940
Total	P40,438,053

- 5.2 Physical inventory was not conducted on the items of equipment and fixtures totaling P18.520 million to establish their existence and the reliability of the recorded amounts. The motor vehicles consisting of 12 fully depreciated units, of which 4 units were unserviceable were, however validated.
- 5.3 Schedules for the PPE accounts as of December 31, 2017 were submitted except for the *IT equipment and software*. In the previous year, the Schedule of the *IT equipment and software* account was lower by P0.939 million compared to the general ledger (GL) balance.
- 5.4 To reiterate prior year's audit observation, although the Schedules of the other accounts tallied with the GL, all the Schedules were not supported with the necessary details such as quantity, unit cost, bookvalue/carrying amount, property number and name of the end user because these were prepared based on the data posted in the GL which entries consisted of several equipment and different unit costs per transaction. Thus, the correct number/quantity of a particular type of equipment cannot be determined such as number of desktop computers and office tables.
- 5.5 Subsidiary ledgers such as the PPE Ledger Cards (PPELC) and the Property Cards (PC) required to be maintained by the Accounting Division and the Property Unit, respectively were also not properly maintained hindering the preparation of a proper inventory list that will facilitate the physical inventory count.
- 5.6 We reiterated prior year's recommendations that Management require -
- a. The Administrative Division/Property Unit to create/form an inventory team to conduct physical count of the assets at least once a year and reconcile the results of the physical count with the balances in the PPELC, PC and the GL; and
 - b. The Accounting Division and the Property Unit to properly maintain the required subsidiary ledgers (PPELC and PCs) for the PPE accounts using the required template which discloses information such as the acquisition date, unit cost, quantity, estimated useful life, carrying amount/book value, location/assignment, designation/position and name of end user and document references.

6. **The existence, accuracy and reliability of the year-end balance of the sub-account Office Supplies Inventory in the amount of P9.331 million presented under the major account Prepayments could not be determined due to the absence of physical inventory count and improperly maintained subsidiary ledgers and stock position reports.**
 - 6.1 To reiterate prior year's audit observation the sub-account Office Supplies Inventory with a year-end balance of P9,331,724 was not supported with properly maintained subsidiary ledgers, schedules and the Report on the Physical Count of Inventories to establish the validity, existence and reliability of the year-end balance presented in the financial statement.
 - 6.2 We recommended that Management require a) the Property Unit to conduct physical count of inventories at least twice a year to establish correctness of the account balances as of June 30 and December 31 pursuant to existing COA regulations on supplies management; b) the Accounting Division and the Property Unit to regularly reconcile inventory records and reports to establish correct balances of the account.

B. COMPLIANCE AUDIT

7. **Advertising Expenses were incurred without properly observing the requirements of RA 9184 on the preparation of the Annual Procurement Plan (APP) and payments for several claims of the service providers were not supported with proper documents.**
 - 7.1 The fundamental principles for government financial transactions as enunciated in Section 4, P.D. 1445, include the following:
 - a. *All laws and regulations applicable to financial transactions shall be faithfully adhered to;*
 - b. *Claims against government funds shall be supported with complete documentation.*
 - 7.2 The approved Annual Procurement Plan (APP) was not consistent with the proposed budget of P67.357 million. The APP had a lower budget for the same expenditure item amounting only to P29.237 million. The APP amount was not revised to conform with the approved Corporate Operating Budget (COB) as required under RA 9184.
 - 7.3 Advertising expenses were incurred without reference to the APP and coordination with the accounting/budget unit. The Certificate of Availability of Funds (CAF) was not secured prior to finalization of the advertising contracts. Thus, procurement of the advertising services by the Marketing Department was undertaken without considering the limitation of the approved APP.
 - 7.4 Several Disbursement Vouchers (DV) for payment of advertising expenses were not supported with appropriate documents that could attest to the propriety and veracity

of the claims. Review of sample DVs showed that, aside from the CAF, some payments were not supported with documents such as:

- a. For some contracts, there were no proposals from advertisement providers that could have been the basis for the contract amounts as required under RA 9184. Aside from the contract, appended to the DVs was a copy of the approved Memorandum dated May 2, 2017 requesting for Ad placement and indicated a specific amount as package cost. However, there was no document that could have been made as the reference for the amount indicated in the request, be it a submitted proposal or copy of advertiser's published rate.
- b. Inspection and Acceptance Report (IAR) rendered by the inspection team of PRA to attest that the contracted services were completely delivered and that all deliverables were complied with by the service provider. Instead of the IAR, the service provider was required to submit a certification that advertising services were rendered and, in the bottom portion of the document, two (2) PRA personnel affixed their signatures as "Checked by" and "Noted by". Management averred that the signatures of the PRA personnel in the document of the media provider would attest that the advertising services were actually rendered. There were no other documents provided by the Inspectors that the services delivered were in accordance with the approved contract.

7.5 We recommended and PRA Management agreed that –

- a. All expenditures, including Advertising Expenses, have to be in accordance with the APP which should be reconciled with the figures in the Proposed Budget;
- b. Ensure that the Certificate of Availability of Funds attesting to the approved budget is secured prior to entering into a contract/agreement with service providers.
- c. Advertising contracts have to be supported with documents required under existing laws/regulations such as the quotation/proposal of prices from supplier as basis for contract amounts and the Inspection and Acceptance Report to establish validity of claim/payment.

8. Review of the expenses incurred for the twelve (12) Petty Cash Funds (PCF) maintained in CY-2017 for the different Divisions and Satellite Offices showed that eight (8) were found to be excessive while three (3) were unnecessary.

8.1 COA Circular No. 97-002 provides that:

4.3 Petty Operating Expenses

*4.3.1 The cash advance shall be sufficient for the **recurring expenses of the agency for one month**. The AO may request replenishment of the cash advance when the disbursements reach at **least 75%**, or as the need requires, ...xxx..." (emphasis supplied)*

4.4 Field/Activity Current Operating Expenses (COE)

4.4.2 *The amount of the cash advance shall be limited to the requirements for two months. Within 5 days after the end of each month, the AO shall submit a Report of Disbursements. Additional cash advances shall be granted on the basis of the activity budget or the requirements for two months, whichever is lower.* (emphasis supplied)

8.2 The foregoing requirements of the COA Circular were not complied with.

- a. No regular cash advance was granted to the cashier for the purpose of addressing the petty operating expenses of the PRA. In lieu thereof, eight (8) special cash advances were granted to designated employees in the different Departments and Division within PRA Head Office and four (4) Satellite Offices.
- b. Maintenance of the PCFs did not conform to the required amount equivalent to recurring expenses for one month at the PRA Head Office and two months for the Satellite Offices. Eight (8) PCFs were excessive, such that:
 - i. Monthly disbursements were way below the amount of the PCF. For most of the PCFs, the monthly disbursements were so minimal and did not reach 50 per cent of the established amount.
 - ii. Replenishments were made for disbursements ranging from 8.53 per cent to 41.12 per cent only of the PCF.
 - iii. For a period of six (6) months, the PCF of one Department had only three (3) replenishments with each replenishment covering disbursements for two (2) months.
- c. Replenishments were made very often such that even if there were 2 to 3 pending replenishments, the custodian still had considerable amount of cash on hand.
- d. Three (3) PCFs were found unnecessary. The monthly disbursements were so minimal and non-recurring that the expenses could have been conveniently accommodated/paid from the PCF of the Administrative and Finance Services Department or by a special cash advance granted for the scheduled activity covering the expenditure.

8.3 The foregoing practices were not only in violation of the requirements of the COA Circular but the possession of excessive funds which remained idle for considerable period of time also exposed the funds to risk of loss and misuse.

8.4 We recommended that PRA Management comply with the requirements of COA Circular No. 97-002, such as, but not limited to the following:

- a. **Instead of maintaining Petty Cash Funds in every Division within PRA head office, a PCF sufficient for the recurring expenses for one month for the petty operating expenses of the entire PRA Head Office be established.**
- b. **Reduce the Petty Cash/Current Operating Funds to amounts equivalent to two months transactions for the Satellite Offices.**

8.5 The PRA Management commented that –

- a. Each Division within PRA justified having their own PCF;
- b. The PCFs that were noted as excessive will be reduced;
- c. It will maintain the PCFs of the four (4) Satellite Offices at P30,000 each in view of the changing market and population; and
- d. Of the three (3) PCFs that were noted as unnecessary, two (2) will be discontinued and the other will remain, however, at a reduced amount.

9. The process of reporting and recording of collections and deposits as well as the required monitoring of the accountable forms did not conform with the required procedures per existing regulations.

9.1 The daily Report of Collections and Deposits (RCD) were not properly prepared nor regularly submitted as required under the Government Accounting Manual (GAM).

- a. The report was incomplete because it did not disclose the amounts deposited during the day. The report can be construed as a Report of Collections because it only reported all the issued Official Receipts (OR) and the amount of total collections for a particular day. The report did not indicate the deposits made during the same day. Although the bank-validated deposits slips were appended thereto such deposits were not reflected in the report. Thus, from the report, the accountability for undeposited collections cannot be readily determined.
- b. The report was not signed by the accountable collecting officer and did not include the required certification on the last page on the collecting officer's assumption of responsibilities and of accountability for government funds.
- c. Preparation and submission of the report was not consistent. One cashier prepared and submitted the RCD daily while another cashier prepared said report on a monthly basis.

9.2 The RCDs together with the 2nd copy of the ORs, were submitted by the cashier/collecting officer directly to COA while the 3rd copy of the ORs were submitted to the Division where the cashier/collecting officer belong and no copy of the reports as well as the ORs were submitted to the Accounting Unit.

This practice was contrary to the existing regulations on handling of the RCD which requires that the RCD together with the 2nd copy of the ORs and validated deposit slips shall be submitted to the Accounting Unit for the preparation of the Journal Entry Voucher (JEV) and subsequent recording of the transactions in the books of accounts. Thereafter, the Chief Accountant is mandated to submit to COA the original copies of the JEV and its supporting documents.

In the PRA Organizational Structure the cashier/collecting officer is under the supervision of the Administrative Division. Nevertheless, the RCD prepared by the Cashier together with the validated deposit slips and 2nd copy of the ORs have to be submitted to the Accounting Unit as basis for recording in the books and

subsequently submit the same to the COA. It is just proper that the report passes thru the respective heads of divisions concerned for review and signature.

- 9.3 The Report on Accountability for Accountable Forms (RAAF) were not prepared by the respective accountable officers. The monthly RAAFs were prepared by only one cashier/collecting officer for all ORs including the ORs under the accountability of another cashier/collecting officer.
- 9.4 Similarly, the RAAFs were not regularly submitted to COA. The monthly RAAFs for the CY2017 were only submitted after written request. The significance of RAAF cannot be disregarded as this report ensures that all issued Accountable Forms (Official Receipts, Checks, etc) are fully accounted because unaccounted ORs implies loss of funds that should accrue to PRA.
- 9.5 Since no copy of the Report of Collections & Deposits (RCD) was submitted to the Accounting Unit, the recording of the required collection data in the Journal of Collections and Deposits (JCD) were based only on the furnished e-copy of the daily report on collections from the cashier/collecting officer but without the supporting documentary evidence such as the 2nd copy of the ORs and the validated bank deposit slips. The same e-copy of the report was uploaded in the JCD. Since the report did not include the deposits, the entries in the JCD did not also include data on the deposits made.
- 9.6 However, the daily recapitulation showed Debit entries to *Cash in Bank* accounts and a Credit entry to account *Cash-Collecting Officer* pertaining to the deposit of collections. Thus, the JEV/accounting entry pertaining to the deposits made were not properly supported with the validated bank deposit slips. It is a basic control procedure that recorded transactions be supported with approved and complete proper documents. Although there were bank validated deposit slips, the deposits have to be appropriately reflected in the report as basis for the credit/deduction to collecting officer's accountability and for proper recording of transactions in the books.
- 9.7 **We recommended and Management agreed that –**
 - a. **At the end of each day, all collecting officers be required to prepare and accomplish their respective Report of Collections and Deposits (RCD) using the required template;**
 - b. **The RCD be reviewed by the Head of Division and thereafter, regularly submitted to the Accounting Unit together with the 2nd copy of the issued ORs and the validated deposit slips for recording in the books of accounts.**
 - c. **The monthly Report on Accountability for Accountable Forms (RAAF) be prepared by each accountable officer and regularly submitted to COA within ten (10) days of the following month.**
 - d. **Collections and deposits are recorded in the JCD based on a properly and completely accomplished RCD duly supported with duplicate ORs and bank validated deposit slips;**
 - e. **The RCD together with the ORs and validated deposit slips are submitted to COA.**

10. The attainment of the targets set by management in promoting the programs and services of the PRA totaling P7.584 million in CY 2017 through its foreign sales missions could not be established in the absence of proper monitoring tool/s to gauge the outcomes of the said foreign trips/missions.

10.1 Records showed that in CY 2017, PRA participated in various promotional activities in foreign countries and sent selected PRA officials and employees to represent the agency in line with its mandate to attract foreign nationals and former Filipino citizens to retire, reside and invest in the Philippines with the view of accelerating the socio economic development of and contributing to the foreign currency reserves of the country. The total cost incurred for the participation in said activities/events amounting to P7.584 million consisted of airfares, travel per diems and promotional expenses. The activities/events participated in CY2017 were as follows:

Nature of Event	Nature of Participation	Country	Date
1. Travel and Tourism Fair	Co-exhibitor	Berlin Germany	March 6-15, 2017
2. Travel and Tourism Fair	Exhibitor	Seoul, Korea	March 24-28, 2017
3. Sales Mission / Business Networking	Speaker	Taiyuan, China	March 30-April 2, 2017
4. PRA Sales Mission	Lead	Beijing, China	May 25-29, 2017
5. Travel and Tourism Fair	Co- exhibitor	Seoul and Goyang, South Korea	May 30-June 12, 2017
6. Sales Mission	Philippine Star	Osaka, Nagoya and Tokyo, Japan	June 25-30, 2017
7. Sales Mission	Philippine Seller	Hsin Chu, Taichung, Kaohsiung and Taipei, Taiwan	July 23-29, 2017
8. Travel and Tourism Fair	Co-exhibitor	Tokyo, Japan	September 20-25, 2017
9. Filipino Community Trade Fair	Exhibitor	Tokyo, Japan	September 29-October 02, 2017
10. Investment Forum	Speaker/Exhibitor	Tokyo, Japan	October 16-18, 2017
11. Immigration and Retirement Expo/Conference	Exhibitor	Phoenix, Arizona, USA	October 25-November 01, 2017
12. Travel and Tourism Fair	Exhibitor	Taipei, Taiwan	October 26-30, 2017
13. Senior/ Retirement Expo	Exhibitor	Kaohsiung, Taiwan	November 01-06, 2017
14. Sales Mission	Lead	Chongqing and Guangzhou, China	November 12-16, 2017
15. Sales Mission/ Emigration Fair	Exhibitor	Tokyo, Japan	November 19-22, 2017
16. Investment Forum	Conference Participant	Hong Kong SAR, China	November 25-30, 2017
17. Travel and Tourism Fair	Co- exhibitor	Hong Kong SAR, China	December 14-18, 2017

10.2 With every event and/or proposed activity to be participated in, management set specific targets such as the targeted number of retirees to be recruited, number of retirees endorsed by the marketers, the number of marketers accredited by PRA and the expected investments by new enrollees. In CY 2017 the targeted investments as a result of participating in the various events/activities amounted to P217.515 million. New investments generated during CY 2017 totaled P2.848 billion.

10.3 A report from the PRA delegations that participated in the events were submitted. The reports, however, disclosed only a narration of the specific activities undertaken

during the event such as the presentations made by the PRA delegation, briefings conducted and the meetings with delegates of other countries and foreign-based Philippine officials. There were no reports on the outcome of the targets set by management such as: expected number of new recruits; number and names of targeted enrollees briefed and oriented by the PRA delegation; number of inquiries received by the delegation, etc.

- 10.4 Considering the significant amount incurred in promoting the products as well as the programs and services of the PRA, it is only proper that PRA management relate and link these costs and/or expenses with the benefits expected to be generated from these activities.
- 10.5 Inasmuch as the targets per activity conducted in 2017 had been set, adequate monitoring and the conduct of post evaluation thereof should have been conducted by management to determine among others: a) the nature and purpose of activities undertaken during the travel; b) the efficiency and effectiveness of the activities undertaken vis-à-vis targets set; c) identification of the value/learnings gained from said activities; d) identification of problems encountered, possible solutions therefore, etc. The monitoring report has to reflect among others, the specific output vis-a-vis the targets set by PRA.
- 10.6 Further, we have gathered information that previously the officers and personnel of the Marketing Department were given priority to undertake the foreign travels/missions. We were also informed that the Officers from the other PRA departments, apart from those connected with the Marketing Department have lately been given the chance to assist in the foreign missions. We noticed, however, the absence of a written policy or guideline that will serve as criteria in selecting the Officers and/or personnel to undertake the foreign assignment as well as the tasks assigned to the members of the team undertaking such foreign missions/assignments.
- 10.7 We recommended and PRA Management agreed to -
 - a. **Require the members of the foreign missions to submit an evaluation report reflecting the actual output generated from said travels duly matched against the target set by the PRA;**
 - b. **Formulate and establish written policies relative to the: a) selection of officers or personnel to undertake the travel/missions; b) identification of the different tasks/assignments charged to the members of the delegation which should match the capabilities of the assigned personnel; c) guidelines on the reporting requirements (what/when and the format to be submitted), etc.**
- 10.8 The Management replied that decisions of potential retirees to finally enroll in the program can take at least 2-3 years before finally deciding to move to the Philippines and secure an SRRV. It is approximately within this turn-around period that the target will balance out with the actual output.

Hence, in the previous years, the Marketing Department's performance has been measured by the GCG in terms of leads generated per activity. Thus, Marketing staff are then tasked to follow thru these leads upon return to the Head Office.

On the selection of personnel, at least one marketing personnel was sent in all of the promotional activities conducted. No PRA employee below Division Chief level were assigned to join a promotional trip abroad. Officers from other Departments who were ordered to join said marketing-related trips were there merely to assist the Marketing officer in carrying out the activity and not to take on the lead role of promoting the SRRV.

The Marketing Department is currently finalizing an Internal Guideline on Foreign and Local Travels in compliance with the minimum criteria set under Memorandum Circular No. 35 s. 2017 issued by the Office of the President and Department Order No. 2018-05 issued by the Department of Tourism, and applicable travels laws and audit/accounting rules and regulations.

11. Gender and Development

11.1 The PRA planned the following GAD-related activities for CY 2017 with a budgeted amount of P1.677 million.

GAD Plan Activities	GAD Budget
Organization-Focused	
a. Conduct of in-house / send-out trainings on: Gender Mainstreaming; Gender Analysis; Gender-responsive Planning and Budgeting; Gender Audit; and other related seminars and trainings	P 169,500
b. Attendance to seminars on VAW and sexual harassment; Gender Sensitivity Training/Basic GAD Concepts; Magna Carta for Women and Special Leaves for Women	150,000
c. Participation of employees in indoor/outdoor activities during the National Women's Month and the 18-day Campaign on Anti-VAWC	100,000
d. Conduct of the following trainings to develop personal well-beings inspite of the multiple challenges faced by employees: 1) Stress Management Training; 2) Personal Enhancement Training; 3) Values Formation Training; and 4) Conflict Management	840,000
Client-Focused	
e. Distribution of GAD-related IEC materials such as brochures, flyers, t-shirts, umbrellas and souvenirs	189,200
f. Conduct of Basic GAD Concepts / Gender Training for member- retirees and spouses as well as marketers/merchant partners	80,000
g. Coordinate with the Bureau of Immigration, NBI or DFA on the conduct of seminars on laws that would protect the retiree clients from harassment and abuse	80,000
h. Installation of breastfeeding section and play area for kids	69,000
Total	P1,677,700

11.2 However, the GAD plan was not fully implemented. The GAD accomplishment was limited to the following activities at the total cost of P121,668 or at 7.25 per cent only of budget.

GAD Activities Conducted	Cost Incurred
a. In-house Gender Sensitivity Training for new employees	P 18,208
b. Gender Sensitivity Training for Market and Market Partners	15,712
c. Distribution of VAW t-shirts to employees, marketers and other stakeholders and Printing of VAW tarpaulin	55,600
d. In-house seminar on Gender Mainstreaming Tools	32,148
e. Presentation on the 18-day Campaign to End Violence against Women	-
Total	P121,668

11.3 We recommended that Management –

- a. formulate GAD-related activities that are in line with the mandate of PRA; and
- b. ensure that the approved Annual GAD Plans are properly and fully implemented.

12. Compliance with tax laws

12.1 The PRA consistently withheld taxes on employees' compensation and benefits as well as creditable VAT and expanded taxes from suppliers and remitted the same to the Bureau of Internal Revenue the withheld amounts within required periods.

The balance of account *Due to BIR* as of December 31, 2017 were remitted as follows:

	Amount	Date Remitted
Employee's withholding tax	P 1,411,636.95	December 29, 2017
Withholding tax on VAT	2,723,225.66	December 29, 2017
Expanded withholding tax	3,408,514.13	December 29, 2017
Income tax payable	10,354,122.00	April 16, 2018

13. Compliance GSIS, HDMF and PhilHealth laws

13.1 The PRA consistently complied with the requirements on the withholding from its employees' salaries the corresponding contributions to the GSIS, HDMF and PhilHealth and regularly remitted the same to these government agencies the withheld amounts together with the PRA share. Contributions for December 31, 2017 were remitted as follows:

a. GSIS

	Amount	Date Remitted
Life and Retirement Premium	P415,056.39	December 29, 2017
Optional Insurance	217.06	December 29, 2017
Calamatiy/ Emergency Loan	655.56	December 29, 2017
Policy Loan	4,700.00	December 29, 2017
ECC	6,700.00	December 29, 2017
Conso Loan	120,759.16	December 29, 2017

b. PhilHealth

The balance of *Due to PhilHealth* account as of December 31, 2017 amounting to P45,800.00 was remitted to PHIC on December 29, 2017.

c. Pag-IBIG

	Amount	Date Remitted
Contributions	P15,700.00	December 29, 2017
Housing Loan	30,077.60	December 29, 2017

14. Compliance with Property Insurance Law

14.1 For the CY 2017, the assets such as buildings and motor vehicles were insured with the GSIS in compliance with RA No. 656 otherwise known as "Property Insurance Law" as amended by Presidential Decree No. 245 dated July 13, 1973. The insured property were as follows:

Property	Amount Insured
Buildings/ Leasehold Improvements	P30,307,524.35
Motor Vehicles	7,029,900.00
Total	P37,337,424.35

15. Summary of Suspensions, Disallowances and Charges

Audit Action	Beginning balance January 1, 2017	Issued	Settled	Ending balance December 31, 2017
Suspensions	P 178,132.39	0	P 0	P 178,132.39
Disallowances	3,405,414.18	0	1,082,506.84	2,322,907.34
Charges	0	0	0	0
Total	P3,583,546.57	0	P1,082,506.84	P2,501,039.73

STATUS OF IMPLEMENTATION OF PRIOR YEAR'S AUDIT RECOMMENDATIONS

Of the nineteen (19) prior year's audit recommendations embodied in the previous year's Annual Audit Report, three (3) were fully implemented, nine (9) were partially implemented and seven (7) were not implemented.

REFERENCE	OBSERVATION	RECOMMENDATIONS	STATUS OF IMPLEMENTATION
2016 AAR Item No. 1 Page 20	The balance of the account <i>Cash Deposits from Retirees-Restricted (Receiving account)</i> 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.	We recommended that Management: Cash Deposits from Retirees-Restricted-Receiving: a. account for the unreconciled amount of <i>Cash deposits from Retirees-Restricted (Receiving Account)</i> of US\$156,097 together with the Peso amount of ₱128.757 million;	Fully Implemented.
	It was also observed that the balance of account <i>Cash deposits from Retirees-Restricted (Disbursing account)</i> of ₱22.379 million has unreconciled amount of ₱9.300 million compared to the balance per bank of ₱31.679 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 <i>Cash deposits from Retirees-Restricted (Receiving account)</i> as of December 31, 2016 and every month thereafter;	Partially Implemented. Not Implemented. Reiterated in Audit Observation (AO) No. 2 Partially Implemented.

REFERENCE	OBSERVATION	RECOMMENDATIONS	STATUS OF IMPLEMENTATION
		e. consider the procurement or development of an automated information system.	Partially Implemented.
		Cash Deposits from Retirees-Restricted-Disbursing	
		a. prepare and submit Bank Reconciliation Statement for the balance of <i>Cash deposits from Retirees-Restricted (Disbursing account)</i> as of December 31, 2016 and every month thereafter;	Not Implemented. Reiterated in AO No. 2
		b. account for the discrepancies between the Book and Bank balances and effect the necessary adjustments;	Not Implemented. Reiterated in AO No. 2
		c. to avoid mis-statement 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	Fully Implemented.
		d. transfer to the bank account for <i>Cash in bank-foreign currency savings account</i> amounts in the bank account for	Not Implemented. Reiterated in AO No. 2

REFERENCE	OBSERVATION	RECOMMENDATIONS	STATUS OF IMPLEMENTATION
		<p><i>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.</i></p>	
<p>2016 AAR Item No. 2 Page 24</p>	<p>₱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.</p>	<p>We recommended that Management take action of the following:</p> <ul style="list-style-type: none"> a. revisit the policy in granting conversion of visa deposit into investment; and b. consider, if warranted, withholding a portion of the 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. 	<p>Partially Implemented.</p> <p>Not Implemented. Reiterated in AO No. 2</p>

REFERENCE	OBSERVATION	RECOMMENDATIONS	STATUS OF IMPLEMENTATION
		complete documentation particularly on issuances;	
		b) conduct physical inventory at least on year-end; and	Not Implemented. Reiterated in AO No. 6
		c) prepare/submit report to Accounting Department for recording/accounting purposes.	Partially Implemented.
2016 AAR Item No. 5 Page 27	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.	We recommended that Management formulate and conduct more GAD-related activities and utilize its allocated/approved budget to implement the annual GAD Plan.	Partially Implemented.

PHILIPPINE RETIREMENT AUTHORITY
SCHEDULE OF OPERATING EXPENSES
For the year ended December 31, 2017
 (With corresponding figures for CY 2016)
 (In Philippine Peso)

	2017	2016
PERSONNEL SERVICES		
Salaries and wages	32,036,470	24,811,951
Year-end bonus	4,858,236	3,623,988
Life and retirement insurance contributions	3,086,405	2,963,237
Monetization of leave credits	2,916,146	732,019
Personnel Economic Relief Allowance (PERA)	1,698,657	1,540,129
Representation allowance	972,000	982,966
Transportation allowance	805,908	809,121
Clothing/uniform allowance	380,000	305,000
Cash gift	344,000	296,000
Productivity Enhancement Incentive	331,500	582,877
PhilHealth contributions	293,965	270,287
PAG-IBIG contributions	86,811	77,900
ECC contributions	83,600	78,300
Loyalty pay	39,529	25,000
Terminal leave benefits	434	224,689
Productivity Incentive Bonus	-	1,847
Collective Negotiation Agreement incentive	-	1,524,165
Total personal services	47,933,661	38,849,476
MAINTENANCE & OTHER OPERATING EXPENSES		
Rent expenses	16,925,905	18,749,490
General services	12,352,184	7,466,907
Membership dues and contributions to organizations	6,153,354	5,613,582
Representation expenses	5,241,608	2,423,668
Auditing services	2,105,511	2,040,325
Office supplies expense	1,851,208	1,632,514
Cable and internet expenses	1,676,285	481,426
Consultancy services	1,568,780	-
Repairs and maintenance	1,371,714	1,240,238
Telephone expenses	1,128,973	935,241
Depreciation expense	966,410	3,164,954
Travelling expense - local	842,663	447,939
Electricity expenses	651,595	499,230
Training expenses	627,671	516,309
Security services	411,575	366,292
Gasoline, oil and lubricants	347,515	263,264
Transportation and delivery expenses	270,422	284,498
Advertising and publication expenses - general	191,195	123,870
Fidelity bond premiums	173,927	182,546
Bank charges	172,444	3,113
Storage expenses	152,120	89,264
Extraordinary expenses	131,025	96,658
Insurance expense	125,919	101,754
Subscription expenses	110,332	99,754
Cultural and athletic expenses	69,755	88,413
Taxes, duties and licenses	21,266	11,805
Bad debts expense	-	397,350
Loss on disposal of assets	-	306,764
Printing and binding expenses	(44,422)	232,946
Other professional services	79,375	16,800
Total maintenance and other operating expenses	55,676,309	47,876,914
TOTAL OTHER OPERATING EXPENSES	103,609,970	86,726,390