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

ANNUAL AUDIT REPORT

on the

PHILIPPINE RETIREMENT AUTHORITY

For the Years Ended December 31, 2019 and 2018

EXECUTIVE SUMMARY

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.

The 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.

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for the world's retirees, the PRA offers various retirement products with required visa deposits that can be withdrawn when the retiree leaves/withdraws from the program or in case of end-of-term obligations.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 (DBP). 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 the PRA closer to its member-retirees as well as encouraging active involvement of local governments and the private sector in the retirement industry, the Authority established satellite offices in some cities, such as Baguio, Angeles, Cebu and Davao.

With the passage of Tourism Act of 2009, also known as Republic Act (RA) No. 9593 on May 12, 2009, the supervision of PRA was transferred from the Department of Trade and Industry (DTI) to the Department of Tourism (DOT).

The PRA administration is composed of the following principal officers and Board of Trustees as of December 31, 2019:

Position / Designation	Name
1. General Manager and CEO	Bienvenido K. Chy
2. Deputy General Manager	Ma. Milagros R. Lisaca
3. Chairperson, Board of Trustees	Bernadette Fatima Romulo-Puyat Secretary, DOT
4. Member, Board of Trustees	Benjamin E. Diokno Governor, Bangko Sentral ng Pilipinas
5. Member, Board of Trustees	Jaime H. Morente Commissioner, BI
6. Member, Board of Trustees	Verna Emeralda C. Buensuceso Asst. Secretary, DOT

As of December 31, 2019, the PRA has a total of 156 manpower complement consisting of eighty-three (83) regular employees and seventy-three (73) job orders.

FINANCIAL HIGHLIGHTS (In Philippine Peso)

I. Comparative Financial Position

	2019	2018	Increase (Decrease)
Assets	20,595,949,749	18,210,625,456	2,385,324,293
Liabilities	18,527,455,543	16,316,389,257	2,211,066,286
Equity	2,068,494,206	1,894,236,199	174,258,007

II. Comparative Financial Performance

	2019	2018	Increase/ (Decrease)
Income	1,624,115,330	1,662,962,236	(38,846,906)
Personnel services	70,408,310	64,998,489	5,409,821
Maintenance and other operating expenses	164,889,537	108,217,309	56,672,228
Financial expenses	65,045	40,942	24,103
Direct costs	139,851,089	110,200,881	29,650,208
Unrealized loss on foreign exchange	670,648,742	773,283,104	(102,634,362)
Non-cash expenses	21,112,864	7,050,642	14,062,222
Total expenses	1,066,975,587	1,063,791,367	3,184,220
Profit before tax	557,139,743	599,170,869	(42,031,126)
Income tax expense	124,392,927	141,960,605	(17,567,678)
Net income	432,746,816	457,210,264	(24,463,448)
Other comprehensive income/(loss) for the period	-	2,900,000	(2,900,000)
Comprehensive income	**432,746,816**	**460,110,264**	**(27,363,448)**

III. Comparison of 2019 Budget and Actual Amounts

	Approved COB	Actual	Variance
Personnel Services (PS)	73,818,000	70,480,310	3,337,690
Maintenance & Other Operating Expenses (MOOE)	332,069,000	325,918,536	6,150,464
Capital Outlays	15,134,000	9,283,903	5,850,097
Total	**421,021,000**	**405,682,749**	**15,338,251**

SCOPE OF AUDIT

The audit covered the examination, on a test basis, of the accounts, transactions and operations of the PRA to enable us to express an opinion on the financial statements for the years ended December 31, 2019 and 2018 in accordance with International Standards of Supreme Audit Institutions (ISSAIs). It was also conducted at determining the PRA's compliance with pertinent laws, rules and regulations and adherence to prescribed policies and procedures.

INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS

We rendered a qualified opinion on the fairness of presentation of the financial statements in view of the following:

1. The Unrealized Loss on Foreign Exchange (Forex) account was understated by P72.336 million, while the Gain on Forex - Unrealized, Interest Income, various assets, and various liability accounts were overstated in the amounts of P64.556 million; P0.294 million; P72.712 million, and P64.639 million, respectively, as of December 31, 2019, due to erroneous closing rate used of P50.821 instead of P50.635 to US$1.00 in the translation of foreign currency monetary items to Philippine Peso, the functional currency of the PRA, contrary to Paragraph 23 of International Accounting Standard (IAS) 21.

2. The faithful representation of the balance of the Other Non-Current Assets – Restricted Fund account in the total amount of P17,344.762 million as of December 31, 2019 was not established due to the: (a) variance of P227.354 million between balance per books of Other Non-Current Assets - Restricted Fund - Visa Deposits Receiving account and per bank confirmation as well as variance of P130.402 million between balance per Inventory Report of Certificate of Retiree's Deposits and per books; and (b) variance of P132.371 million between the balance per books and the confirmed bank balance of the Other Non-Current Assets - Restricted Fund – Visa Deposits - Disbursing account, which remained unreconciled and unadjusted at year-end, contrary to Paragraph 15 of IAS 1.

3. The faithful representation of the balances of the Trust Liabilities –Visa Deposits account of P17,474.184 million and Trust Liabilities - Interest Payable account of P170.415 million as at December 31, 2019 was not ascertained due to discrepancies of P152.205 million and P7.813 million between their contra-accounts, Other Non-Current Assets – Restricted Fund – Visa Deposits of P17,321.979 million, and Interest Receivable – Visa Deposits & Investments in Time Deposits - Foreign Currency – Restricted Fund totaling P162.602 million, respectively, contrary to Paragraph 15 of IAS 1.

4. The Retained Earnings and Repairs and Maintenance (R&M) Expense accounts were overstated by P2.648 million and P7.506 million, respectively, while the Semi-Expendable–Furniture & Fixtures (F&F) expense, Semi-Expendable–Machinery & Equipment (ME) expense, and Subscription expense accounts were understated in the amounts of P0.904 million; P0.265 million; and P3.689 million, respectively, due to erroneous reclassification of various items to the R&M Expense account, contrary to Paragraph QC12 of Chapter 3 of the Conceptual Framework for Financial Reporting and Section 111 of Presidential Decree (PD) No. 1445.

5. The correctness, reliability, and existence of the Property, Plant and Equipment (PPE) account with carrying amount of P59.465 million as at December 31, 2019 was not ascertained due to the variance of P27.982 million between the results of physical count for several PPE units with their balances per books.

SUMMARY OF SIGNIFICANT AUDIT OBSERVATIONS AND RECOMMENDATIONS

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

1.1 Direct the concerned personnel of the Financial Management Division (FMD) to effect the necessary adjusting entries to correct the understatement of P72.336 million on Unrealized Loss on Forex account, overstatement of P64.556 million on Gain on Forex - Unrealized account, and misstatements on other affected accounts so that the accurate effect on changes in foreign exchange rates shall be reflected in the financial statements for the year ended December 31, 2019.

1.2 Henceforth, strictly apply the appropriate closing rates for purposes of year-end foreign currency translation to ensure that foreign exchange differences are properly measured and recognized in the financial statements.

2.1 Direct the concerned FMD personnel to: (a) fast track the reconciliation of the Other Non-Current Assets - Restricted Fund – Visa Deposits Receiving and Disbursing accounts in order to determine the causes of the variances between balances per books and per confirmed bank balances and thereafter, effect immediately the necessary adjustments to fairly present the affected accounts in the financial statements; and (b) reconcile and determine the causes of the variance between the Non-Current Assets - Restricted Fund – Visa Deposit Receiving account and the amount of total Visa Deposits per physical inventory of Certificate of Retirees Deposits.

3.1 Direct the concerned FMD personnel to: (a) exert all efforts to reconcile the balances of the contra accounts, Non-Current Assets - Restricted Fund and Trust Liabilities – Visa Deposits and Interest Payable considering the material discrepancies noted; and (b) maintain subsidiary ledgers for the accounts of Retiree-Members (SRRV holders) to facilitate reconciliation and monitoring of account balances.

4.1 Require the concerned FMD personnel to: (a) effect immediately the necessary adjusting entries to correct the overstatement of R&M Expense and Retained Earnings accounts by P7.506 million and P2.648 million, respectively, as well as the understatement of Semi-Expendable – F&F Expense, Semi-Expendable – ME Expense, and Subscription Expense accounts in the amount of P0.904 million, P0.265 million, and P3.689 million, respectively, to fairly present the accounts in the financial statements for the year-ended December 31, 2019; and (b) exercise prudence in the recording of financial transactions to avoid inaccurate and misleading information in compliance with Section 111 (2) of PD No. 1445.

5.1 Direct the Inventory Committee and the FMD to: (a) conduct immediate reconciliation of the PPE accounts to identify the causes of the variance of P27.982 million; and (b) henceforth, conduct periodic reconciliation of PPE records to ensure that discrepancies are immediately addressed.

5.2 Require the FMD to effect the necessary adjusting entries so that the balance of the PPE account shall be fairly presented in the financial statements.

The other significant audit observations and recommendations that need immediate action are as follows:

6. The annual target increase on Return on Marketing Expenses (ROME) as indicated in the Performance Scorecard of the Authority was not attained, while low level of contributed profits was noted in spite of the significant increase in the Marketing Expenses during CYs 2017 to 2019.

6.1 We recommended that Management:

a. Direct the concerned Departments to revisit the PRA's policies on the implementation of all activities, projects, and programs pertaining to marketing, promotional, advertising, and the like to come up with improved policies and strategies that may optimize the level of efficiency to which the marketing expenses are being utilized for; and

b. Exert all efforts and devise mechanisms to ensure that targets set in the Authority's Performance Scorecard are achieved considering that these are crafted based on its own assessment and evaluation prior to submission to the Governance Commission for GOCCs (GCG) for approval.

7. Disposal of unserviceable properties was not in accordance with the provisions of PD No. 1445, COA Circular No. 89-296, and National Budget Circular (NBC) No. 425, in particular: (a) notice to dispose the unserviceable properties was not provided to COA and the necessary documentary requirements for the disposal were submitted late to the Audit Team; (b) lack of description and information in the Inventory List of the disposed properties and non-conduct of appraisal by the Disposal Committee prior to the sale; and (c) disposed properties were not derecognized from the books.

7.1 We recommended that Management:

a. Require the Disposal Committee to: (i) adhere strictly to the requirements of COA Circular Nos. 89-296 and 86-264 on the necessary notices/invitation to COA and submission of documentary requirements; and (ii) comply with all the provisions of COA Circular No. 89-296 and NBC No. 425, particularly on the completeness of description of the items for disposal, conduct of appraisal, and computation of their appraised values to ensure that the best price is obtained by the government on the items sold; and

b. Require the FMD: (i) in coordination with the Assets and Supply Management Department, to identify the acquisition cost and the corresponding accumulated depreciation of the disposed unserviceable properties which remained recorded in the IT Equipment and Furniture & Fixtures accounts; and (ii) to prepare the necessary adjusting entries to derecognize the disposed unserviceable properties from the books as well as to correct the erroneous entry made in the recording of the proceeds of sale.

8. A total number of 1,055 Disbursement Vouchers (DVs) aggregating P79.237 million worth of transactions were not yet submitted to COA, in violation of Paragraph 6.5 of COA Circular No. 95-006 dated May 18, 1995 and precluded the Audit Team from conducting timely post audit thereof.

8.1 We recommended and Management agreed to immediately submit to the Audit Team the 1,055 DVs amounting to P79.237 million, pursuant to Paragraph 6.5 of COA Circular No. 95-006 dated May 18, 1995 and Section 100 of PD No. 1445; otherwise, the transactions would be suspended in audit.

SUMMARY OF SUSPENSIONS, DISALLOWANCES AND CHARGES

The unsettled audit disallowances and suspensions as of December 31, 2019 amounted to P2.101 million and P0.175 million, respectively. There was no unsettled audit charge at year-end. The details and status of the unsettled disallowances and suspensions are presented in Part IV, Annex A of this Report.

STATUS OF IMPLEMENTATION OF PRIOR YEAR'S AUDIT RECOMMENDATIONS

Of the thirty-one (31) audit recommendations embodied in the prior year's Annual Audit Report (AAR), nine (9) were fully implemented, fifteen (15) were partially implemented, and seven (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 TRUSTEES
Philippine Retirement Authority
29th Floor, Citibank Tower
8741 Paseo de Roxas, Makati City

Report on the Audit of the Financial Statements

Qualified Opinion

We have audited the accompanying financial statements of the **Philippine Retirement Authority (PRA**), which comprised of the statements of financial position as at December 31, 2019 and 2018, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, except for the effects and possible effects of the matters described in the Bases for Qualified Opinion section of our report, the accompanying financial statements present fairly, in all material respects, the financial position of the PRA as at December 31, 2019 and 2018, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards (PFRSs).

Bases for Qualified Opinion

The Unrealized Loss on Foreign Exchange (Forex) account was understated by P72.336 million, while the Gain on Forex - Unrealized, Interest Income, various assets, and various liability accounts were overstated in the amounts of P64.556 million; P0.294 million; P72.712 million, and P64.639 million, respectively, as of December 31, 2019, due to erroneous closing rate used of P50.821 instead of P50.635 to US$1.00 in the translation of foreign currency monetary items to Philippine Peso, the functional currency of the PRA, contrary to Paragraph 23 of International Accounting Standard (IAS) 21.

Also, the faithful representation of the balance of the Other Non-Current Assets – Restricted Fund account in the total amount of P17,344.762 million as of December 31, 2019 was not established due to the: (a) variance of P227.354 million between balance per books of Other Non-Current Assets - Restricted Fund - Visa Deposits Receiving account and per bank confirmation as well as variance of P130.402 million between balance per Inventory Report of Certificate of Retiree's Deposits and per books; and (b) variance of P132.371 million between the balance per books and the confirmed bank balance of the Other Non-Current Assets - Restricted Fund – Visa Deposits - Disbursing account, which remained unreconciled and unadjusted at year-end, contrary to Paragraph 15 of IAS 1.

Likewise, the faithful representation of the balances of the Trust Liabilities–Visa Deposits account of P17,474.184 million and Trust Liabilities - Interest Payable account of P170.415 million as at December 31, 2019 was not ascertained due to discrepancies of P152.205 million and P7.813 million between their contra-accounts, Other Non-Current Assets – Restricted Fund – Visa Deposits of P17,321.979 million, and Interest Receivable – Visa Deposits & Investments in Time Deposits - Foreign Currency – Restricted Fund totaling P162.602 million, respectively, contrary to Paragraph 15 of IAS 1.

Moreover, the Retained Earnings and Repairs and Maintenance (R&M) Expense accounts were overstated by P2.648 million and P7.506 million, respectively, while the Semi-Expendable–Furniture & Fixtures (F&F) Expense, Semi-Expendable–Machinery & Equipment (ME) Expense, and Subscription Expense accounts were understated in the amounts of P0.904 million; P0.265 million; and P3.689 million, respectively, due to erroneous reclassification of various items to the R&M Expense account, contrary to Paragraph QC12 of Chapter 3 of the Conceptual Framework for Financial Reporting and Section 111 of Presidential Decree (PD) No. 1445.

The correctness, reliability, and existence of the Property, Plant and Equipment (PPE) account with carrying amount of P59.465 million as at December 31, 2019 was not ascertained due the variance of P27.982 million between the results of physical count for several PPE units with their balances per books.

We were not able to perform alternative audit procedures to determine if any adjustments to the Other Non-Current Assets – Restricted Fund, Trust Liabilities–Visa Deposits, Trust Liabilities - Interest Payable, and PPE accounts are necessary due to the status of records of the PRA's Financial Management and Administrative Divisions.

We conducted our audits in accordance with International Standards of Supreme Audit Institutions (ISSAIs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the 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 to PFRSs, 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 the PRA's abilitiy 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

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material mistatement, 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 ISSAIs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISSAIs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the PRA's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the PRA's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the PRA to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Other Matters

In our report dated April 4, 2019, we expressed a modified opinion on the 2018 financial statements because the faithful representation of the balance of the Cash in Bank account cannot be established due to variances of P18.330 million between the balances per books of Cash in Bank accounts and confirmed bank balances since details and nature of the reconciling items have not been identified and Bank Reconciliation Statements for three bank accounts were not prepared.

There were diligent efforts made by the PRA to reconcile the variances noted in the Cash in Bank account as the total amount of the variances was substantially reduced to P6.187 million in CY 2019 from P18.330 million in CY 2018. Likewise, the Bank Reconciliation Statements were prepared for all bank accounts. Accordingly, our present opinion on the 2018 financial statements, as presented herein is no longer modified concerning this matter.

Report on Other Legal and Regulatory Requirements

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information for the year ended December 31, 2019, required by the Bureau of Internal Revenue as disclosed in Note 34 to the financial statements is presented for purposes of additional analysis and is not a required part of the basic financial statements prepared in accordance with PFRSs. Such supplementary information is the responsibility of management.

COMMISSION ON AUDIT

JINKY B. ROCAL
OIC - Supervising Auditor
Audit Group D – PRA/VFP/BSoP
Corporate Government Sector – Cluster 6

August 5, 2020

REPUBLIC OF THE PHILIPPINES
DEPARTMENT OF TOURISM
PHILIPPINE RETIREMENT AUTHORITY

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The Management of the **PHILIPPINE RETIREMENT AUTHORITY** is responsible for the preparation of the financial statements as at **December 31, 2019 and 2018,** including the additional components attached thereto in accordance with the prescribed financial reporting framework indicated therein. The responsibility includes designing and implementing internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement whether due to fraud or error, selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

The Board of Trustees reviews and approves the financial statements before such statements are issued to the regulators, creditors and other users.

The Commission on Audit has audited the financial statements of the **PHILIPPINE RETIREMENT AUTHORITY** in accordance with the International Standards of Supreme Audit Institutions and has expressed its opinion on the fairness of presentation upon completion of such audit, in its report to the Board of Trustees.

OIC - Undersecretary **REYNALDO LACAO CHING**
Representing Secretary Bernadette Fatima Romulo Puyat
Chairman of the Board of Trustees

15 July 2020
Date Signed

PHILIP JOHN B. MORENO
Head, Administrative and Finance Services Department

July 15, 2020
Date Signed

ATTY. BIENVENIDO K. CHY
General Manager and CEO

July 15, 2020
Date Signed

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PHILIPPINE RETIREMENT AUTHORITY
STATEMENTS OF FINANCIAL POSITION
As at December 31, 2019 and 2018
(In Philippine Peso)

	Note	2019	2018
ASSETS			
Current Assets			
Cash and cash equivalents	5	115,893,033	75,435,917
Investment in time deposits	6	2,329,414,503	1,504,520,890
Receivables - net	7	162,813,930	142,728,268
Inventories	8	2,762,886	2,071,171
Other current assets	9	9,143,119	11,907,696
Total Current Assets		**2,620,027,471**	**1,736,663,942**
Non-Current Assets			
Investment in time deposits	6	-	552,982,500
Investment in stocks	10	3,500,000	3,500,000
Other receivables	11	7,525,779	7,631,860
Property, plant and equipment	12	59,465,397	48,507,294
Intangible assets	13	3,089,175	3,805,945
Deferred tax assets	31	553,157,823	340,375,316
Other non-current assets	14	17,349,184,104	15,517,158,599
Total Non-Current Assets		**17,975,922,278**	**16,473,961,514**
Total Assets		**20,595,949,749**	**18,210,625,456**
LIABILITIES			
Current Liabilities			
Financial liabilities	15	87,056,479	75,776,441
Inter-agency payables	16	42,990,857	49,077,678
Intra-agency payables	17	9,417	9,417
Other payables	19	427,579	427,579
Total Current Liabilities		**130,484,332**	**125,291,115**
Non-Current Liabilities			
Trust liabilities	18	17,650,391,310	15,670,321,511
Deferred credits/unearned income	20	357,669,824	307,750,610
Provisions	21	6,929,021	6,504,765
Deferred tax liabilities	31	381,981,055	206,521,256
Total Non-Current Liabilities		**18,396,971,210**	**16,191,098,142**
Total Liabilities		**18,527,455,542**	**16,316,389,257**
EQUITY			
Government equity	22	63,217,089	63,217,089
Retained earnings	23	2,002,377,118	1,828,119,110
Other comprehensive income	10	2,900,000	2,900,000
Total Equity		**2,068,494,207**	**1,894,236,199**
Total Liabilities and Equity		**20,595,949,749**	**18,210,625,456**

The notes on pages 10 to 52 form part of these statements.

PHILIPPINE RETIREMENT AUTHORITY
STATEMENTS OF COMPREHENSIVE INCOME
For the years ended December 31, 2019 and 2018
(In Philippine Peso)

	Note	2019	2018
Income			
Service income	24.1	896,581,600	787,050,163
Business income	24.2	142,496,653	126,010,870
Gains on forex	24.3	584,898,743	749,703,301
Other non-operating income	24.4	138,334	197,902
Total Income		**1,624,115,330**	**1,662,962,236**
Expenses			
Personnel services	26	70,408,310	64,998,489
Maintenance and other operating expenses	27	164,889,537	108,217,309
Financial expenses	29	65,045	40,942
Direct costs	25	139,851,089	110,200,881
Loss on foreign exchange (FOREX)	30	670,648,742	773,283,104
Non-cash expenses	28	21,112,863	7,050,642
Total Expenses		**1,066,975,586**	**1,063,791,367**
Profit before tax		557,139,744	599,170,869
Income tax expense	31.2	124,392,927	141,960,605
Profit after tax		432,746,817	457,210,264
Net assistance/subsidy(financial assistance/subsidy/contribution)		-	-
Net income		432,746,817	457,210,264
Other comprehensive income(loss) for the period	10	-	2,900,000
Total Comprehensive Income		**432,746,817**	**460,110,264**

The notes on pages 10 to 52 form part of these statements.

PHILIPPINE RETIREMENT AUTHORITY
STATEMENTS OF CHANGES IN EQUITY
For the years ended December 31, 2019 and 2018
(In Philippine Peso)

	Note	Retained Earnings 23	Other Comprehensive Income 10	Government Equity 22	Total
BALANCE AT JANUARY 1, 2018		**1,370,908,846**	**-**	**63,217,089**	**1,434,125,935**
CHANGES IN EQUITY FOR 2018					
Add/(deduct):					
Comprehensive income	10	457,210,264	2,900,000	-	460,110,264
Dividends		-	-	-	-
Other adjustments		-	-	-	-
BALANCE AT DECEMBER 31, 2018		**1,828,119,110**	**2,900,000**	**63,217,089**	**1,894,236,199**
CHANGES IN EQUITY FOR 2019					
Add/(deduct):					
Comprehensive income		432,746,817	-	-	432,746,817
Dividends	23	(258,488,809)	-	-	(258,488,809)
BALANCE AT DECEMBER 31, 2019		**2,002,377,118**	**2,900,000**	**63,217,089**	**2,068,494,207**

The notes on pages 10 to 52 form part of these statements.

PHILIPPINE RETIREMENT AUTHORITY
STATEMENTS OF CASH FLOWS
For the years ended December 31, 2019 and 2018
(In Philippine Peso)

		2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash inflows			
Collection of income/revenue		1,039,911,492	812,040,716
Collection of receivables		391,979	188,638
Trust receipts		203,550	913,094
Receipt of interest earned		-	132,781
Other receipts		1,455,290	1,493,910
Total cash inflows		**1,041,962,310**	**814,769,139**
Adjustments		12,696,393	4,342,704
Adjusted cash inflows		**1,054,658,703**	**819,111,843**
Cash outflows			
Payment of expenses		268,574,193	211,186,829
Purchase of inventories		20,000	20,000
Grant of cash advances		9,649,233	6,873,368
Prepayments		420,955	3,058,797
Refund of deposits		262,335	1,338,367
Payments of accounts payable		52,279,099	30,499,542
Remittance of personnel benefit contributions		53,689,240	24,890,533
Other disbursements		155,655,341	151,732,662
Total cash outflows		**540,550,396**	**429,600,098**
Adjustments		9,841,914	42,206,692
Adjusted cash outflows		**550,392,310**	**471,806,790**
Net cash provided by (used in) operating activities		**504,266,393**	**347,305,053**
CASH FLOWS FROM INVESTING ACTIVITIES			
Cash inflows			
Proceeds from sale/disposal of property, plant and equipment		-	135,352
Proceeds from matured investments		632,260,478	241,126,398
Total cash inflows		**632,260,478**	**241,261,750**
Adjustments		-	-
Adjusted cash inflows		**632,260,478**	**241,261,750**
Cash outflows			
Purchase of property, plant and equipment		7,877,204	6,976,596
Purchase of investments		828,129,052	405,383,415
Total cash outflows		**836,006,256**	**412,360,011**
Net cash provided by (used in) investing activities		**(203,745,778)**	**(171,098,261)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash outflows			
Payment of cash dividends		258,488,809	208,885,482
Total cash outflows		**258,488,809**	**208,885,482**
Net cash provided by (used in) financing activities		**(258,488,809)**	**(208,885,482)**
Net increase (decrease) in cash and cash equivalents		**42,031,806**	**(32,678,690)**
Effects of exchange rate changes on cash and cash equivalents		(1,574,690)	3,108,315
CASH AND CASH EQUIVALENTS, JANUARY 1	5	**75,435,917**	**105,006,292**
CASH AND CASH EQUIVALENTS, DECEMBER 31	5	**115,893,033**	**75,435,917**

The notes on pages 10 to 52 form part of these statements.

PHILIPPINE RETIREMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
(*All amounts in Philippine Peso unless otherwise stated*)

1. GENERAL INFORMATION/ENTITY PROFILE

The **PHILIPPINE RETIREMENT AUTHORITY** (PRA) is a Government Owned and Controlled Corporation (GOCC) created on July 4, 1985 pursuant to Executive Order (EO) No. 1037 and operates under the supervision of the Department of Tourism (DOT) as an attached agency through Republic Act (RA) No. 9593, also known as the Tourism Act of 2009. PRA is mandated by law to develop and promote the Philippines as a retirement haven as a means of accelerating the social and economic development of the country, strengthening its foreign exchange position at the same time providing further the best quality of life to the targeted retirees in a most attractive package. The purposes and objectives of the Authority are as follows:

a. To develop and promote the country as a retirement haven;

b. To adopt the integrated approach in the development or establishment of retirement communities in the country considering the eleven (11) basic needs of man;

c. To provide the organizational framework to encourage foreign investment in the Authority's development projects;

d. To provide effective supervision, regulation and control in the development and establishment of retirement communities in the country and in the organization, management and ownership of the Authority's projects; and

e. To make optimum use of existing facilities and/or assets of the government and the private sector without sacrificing their competitiveness in the international and local markets.

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 RA No. 9593 on May 12, 2009, the supervision of PRA was transferred from the Department of Trade and Industry (DTI) to the DOT.

As of December 31, 2019, PRA is headed by General Manager and Chief Executive Officer, Atty. Bienvenido K. Chy, assisted by a Deputy General Manager and four (4) Department Managers. The Authority has a total of 156 manpower complement consisting of eighty-three (83) regular employees and seventy-three (73) job orders.

The Authority's registered office address is located at the 29th Floor, Citibank Tower, 8741 Paseo de Roxas, Makati City, 1200 Philippines. PRA has four (4) satellite offices operating in major cities, i.e., Angeles (Subic/Clark), Baguio, Cebu and Davao. PRA can be reached through its website www.pra.gov.ph.

2. BASIS OF PREPARATION AND PRESENTATION OF FINANCIAL STATEMENTS

2.1. Statement of Compliance

The financial statements of the PRA have been prepared in accordance with the Philippine Financial Reporting Standards (PFRSs), which includes all applicable PFRSs, Philippine Accounting Standards (PASs), and interpretations issued by the Philippine Interpretations Committee (PIC) and Standing Interpretations Committee (SIC) as approved by the Financial Reporting Standards Council (FRSC) and Board of Accountancy (BOA) and adopted by the Securities and Exchange Commission (SEC).

2.2. Basis of Preparation

The financial statements of the PRA have been prepared on a historical cost basis unless otherwise indicated.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

2.3. Presentation and Functional Currency

The financial statements are presented in Philippine Peso, which is also the currency of the primary economic environment in which the PRA operates. All amounts are rounded off to the nearest peso, unless otherwise stated.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 Presentation of Financial Statements

The financial statements have been prepared in compliance with the PFRSs prescribed by the Commission on Audit through COA Circular No. 2017-004 dated December 13, 2017 and Philippine Accounting Standard (PAS) 1, *Presentation of Financial Statements.*

3.2 Changes in accounting policies and disclosures

a. New Standards effective for reporting periods beginning on or after January 1, 2019 relevant to the PRA

- PFRS 16, *Leases* – This standard will replace PAS 17, Leases and its related interpretations. The most significant change introduced by the new standard is that almost all leases will be brought on to lessees' Statement of Financial Position under a single model (except leases of less than 12 months and leases of low-value assets), eliminating the distinction between operating and finance leases. Lessor accounting, however, remains largely unchanged and the distinction between operating and finance lease is retained.

The application of this amendment had no material impact on the financial statements of the PRA.

b. New Standards effective in 2019 that are not relevant or not applicable to the PRA

- Amendments to PFRS 9, *Financial Instruments – Prepayment Features with Negative Compensation* – The amendments allow entities to measure particular prepayable financial assets with negative compensation at amortized cost or at fair value through other comprehensive income (instead of at fair value through profit or loss) if a specified condition is met. It also clarifies the requirements in PFRS 9, *Financial Instruments* for adjusting the amortized cost of a financial liability when a modification or exchange does not result in its derecognition (as opposed to adjusting the effective interest rate).

- Amendments to PAS 19, *Employee Benefits – Plan Amendment Curtailment or Settlement* – The amendments specify how companies remeasure a defined benefit plan when a change – an amendment, curtailment or settlement – to a plan takes place during a reporting period. It requires entities to use the updated assumptions from this remeasurement to determine current service cost and net interest cost for the remainder of the reporting period after the change to the plan.

- Amendments to PAS 28, *Investments in Associates and Joint Ventures – Long-term Interests in Associates and Joint Ventures* – The amendments clarify that long-term interests in an associate or joint venture that, in substance, form part of the entity's net investment but to which the equity method is not applied, are accounted for using PFRS 9, *Financial Instruments.*

- Philippine Interpretation IFRIC 23, *Uncertainty Over Income Tax Treatments* – The interpretation provides guidance on how to reflect the effects of uncertainty in accounting for income taxes under PAS 12, *Income Taxes*, in particular (i) whether uncertain tax treatments should be considered separately, (ii) assumptions for taxation authorities' examinations, (iii) determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, and (iv) effect of changes in facts and circumstances.

Annual Improvements to PFRSs 2015-2017 Cycle:

- Amendments to PFRS 3, *Business Combinations and* PFRS 11*, Joint Arrangements – Previously Held Interest in a Joint Operation* – The amendment to PFRS 3, *Business Combinations* clarifies that when an entity obtains control of a business that is a joint operation, the acquirer applies the requirements for a business combination achieved in stages, including remeasuring previously held interests in the joint operation at its acquisition-date fair value. The amendment to PFRS 11, *Joint Arrangements* clarifies that when an entity obtains joint control of a business that is a joint operation, the previously held interests in that business are not remeasured.

This amendment is not applicable to the PRA.

- Amendments to PAS 12, *Income Taxes – Income Tax Consequences of Payments on Financial Instruments Classified as Equity* – Clarifies that income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distribution to owners and thus, should be recognized in profit or loss, other comprehensive income or equity according to where the entity originally recognized those past transactions or events.

  The application of this amendment had no material impact on the Authority's financial statements.

- Amendments to PAS 23, *Borrowing Costs – Borrowing Costs Eligible for Capitalization* – Clarifies that in calculating the capitalization rate on general borrowings, if any specific borrowing remains outstanding after the related qualifying asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally.

  This amendment is not applicable to the PRA.

c. New and amended standards and interpretations that have been issued but not yet effective as of December 31, 2019 (effective for annual periods beginning on or after January 1, 2020 and thereafter):

- PFRS 17, *Insurance Contracts* – This standard will replace PFRS 4, *Insurance Contracts.* It requires insurance liabilities to be measured at current fulfilment value and provides a more uniform measurement and presentation approach to achieve consistent, principle-based accounting for all insurance contracts. It also requires similar principles to be applied to reinsurance contracts held and investment contracts with discretionary participation features issued.

The application of this amendment had no impact on the financial statements of PRA.

- Amendments to PFRS 3, *Business Combination* – The amendments narrowed the definition of a business and of outputs by focusing on goods and services provided to customers and by removing the reference to an ability to reduce costs. It clarifies that to be considered a business, an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs. It also adds an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business.

The application of this amendment had no impact on the financial statements of the PRA.

- Interest Rate Benchmark Reform: The amendments to IFRS 9, IAS 39 and IFRS 7 amend requirements for hedge accounting to support the provision of useful financial information during the period of uncertainty caused by the phasing out of interest-rate benchmarks such as interbank offered rates (IBORs) on hedge accounting.

The application of this amendment had no impact on the financial statements of the PRA.

- Amendments to PAS 1, *Presentation of Financial Statements* – Clarifies the definition of 'material' and to align the definition used in the Conceptual Framework and the standards themselves. It provides that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.

Management is currently assessing the impact of this new standard in its financial statements.

d. Issued standards with deferred effectivity

- Amendments to PFRS 10, *Consolidated Financial Statements and* PAS 28, *Investments in Associates and Joint Ventures – Sale or Contribution of Assets Between an Investor and its Associate or Joint Venture* – The amendments address a current conflict between the two standards and clarify that a gain or loss should be recognized fully when the transaction involves a business, and partially if it involves assets that do not constitute a business. The effective date of the amendments, initially set for annual periods beginning on or after January 1, 2016, was deferred indefinitely until further notice in December 2015 but earlier application is still permitted.

This standard is not applicable to the PRA.

3.3 Financial Instruments

The Authority recognizes a financial asset or a financial liability in its Statement of Financial Position when, and only when, it becomes a party to the contractual provision of the instruments. In the case of a regular way purchase or sale of financial assets, recognition and derecognition, as applicable, is done using settlement date accounting. For purposes of presenting financial instruments as liabilities or equity and for offsetting financial assets and financial liabilities, PAS 32*, Financial Instruments: Presentation* is applied to the classification of financial instruments, from the perspective of the issuer, into financial assets, financial liabilities and equity instruments; the classification of related interest, dividends, losses and gains; and the circumstances in which financial assets and liabilities should be offset.

Financial Assets

Financial assets are recognized initially at fair value, which is the fair value of the consideration given (in case of an asset) or received (in case of a liability). The initial measurement of the PRA's financial instruments, except for those designated at fair value through profit and loss (FVPL), includes transaction cost.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the PRA takes into account the characteristics of the asset or liability if market participant would take those characteristics into account when pricing the asset or liability at the measurement date.

For financial reporting purposes, fair value measurements are categorized into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety: which is described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

- Level 2 inputs are inputs other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and

- Level 3 inputs are unobservable inputs for the asset or liability.

Classification and Subsequent Measurement

The PRA classifies its financial assets at initial recognition under the following categories: (a) financial assets at FVPL, (b) financial assets at amortized cost and (c) financial assets at fair value through other comprehensive income (FVOCI). The classification of a financial instrument largely depends on the PRA's business model and its contractual cash flow characteristics.

Financial Assets at Amortized Cost

Financial assets shall be measured at amortized cost if the following conditions are both met:

- The financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and

- The contractual terms of the financial asset give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal amount outstanding.

After initial recognition, the financial assets are subsequently measured at amortized cost using the effective interest method, less allowance for impairment, if any. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. Gains and losses are recognized in profit or loss when the financial assets are derecognized and through amortization process. Financial assets at amortized cost are included under current assets if their realization or collectability is within 12 months after the reporting period. Otherwise, these are classified as noncurrent assets.

As at December 31, 2019 and 2018, the PRA's receivables, short term investments and long term investments are classified under this category.

Financial Assets at FVOCI – debt investments

For debt instruments that meet the contractual cash flow characteristic and are not designated at FVPL under the fair value option, the financial assets shall be measured at FVOCI if both of the following conditions are met:

- The financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and selling the financial assets; and

- The contractual terms of the financial asset give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal amount outstanding.

For equity instruments, the PRA may irrevocably designate the financial asset to be measured at FVOCI in case the above conditions are not met.

Financial assets at FVOCI are initially measured at fair value plus transaction costs. After initial recognition, interest income (calculated using the effective interest rate method), foreign currency gains or losses and impairment losses of debt instruments measured at FVOCI are recognized directly in profit or loss. When the financial asset is derecognized, the cumulative gains or losses previously recognized in OCI are reclassified from equity to profit or loss as a reclassification adjustment.

Dividends from equity instruments held at FVOCI are recognized in profit or loss when the right to receive payment is established, unless the dividend clearly represents a recovery of part of the cost of the investment. Foreign currency gains or losses and unrealized gains or losses from equity instruments are recognized in OCI and presented in the equity section of the Statements of Financial Position. These fair value changes are recognized in equity and are not reclassified to profit or loss in subsequent periods.

As at December 31, 2019 and 2018, the PRA has no externally managed funds, hence, no financial assets have been classified under this category.

Below is the Corporation's accounting policy on the classification and subsequent measurement of financial assets applicable before January 1, 2018:

a. Cash and Cash Equivalents

Cash includes cash on hand and cash in banks. Cash equivalents are short term investments with an original maturity period of three months or less from dates of placements and that are subject to insignificant risk of changes in value (*Note 5*).

b. Accounts Receivable

Trade receivables are recognized at their face value less allowance for doubtful accounts. The allowance for doubtful accounts is provided for identified potentially uncollectible accounts using the following estimates:

Accounts aged three (3) years and above = 100%

The PRA's aging of receivable is presented below:

Age	**2019**	**2018**
Less than 90 days	12,948,094	14,970,898
91-365 days	19,355,469	12,943,474
Over one year	15,089,558	20,444,811
Over three years	39,788,131	26,668,914
Total	**87,181,252**	**75,028,097**

c. Investments in time deposits

Surplus peso and dollar cash funds of the PRA are placed in Time Deposits, and High Yield (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 the US Dollar rates conversion at the end of the year of P50.821 per US$1.

Investments classified as current are those items with original maturities of over 90 days and less than one year. Those with original maturities of only 90 days or less are classified as marketable securities.

Investments classified as non-current are those with original maturities of more than one year and are not maturing within the next twelve months.

d. Investments in stocks

Equity instruments of another entity are considered as financial assets of the investor/holder in accordance with PAS 32.11. Furthermore, PAS 32.11 defines an equity instrument as any contract that evidences a residual interest in the assets after deducting its liabilities.

A proprietary club share entitles the shareholder to a residual interest in the net assets upon liquidation which justifies that such instrument is an equity instrument and thereby qualifies as a financial asset to be classified and accounted for as equity instruments.

A non-proprietary club share, though an equity instrument in its legal form, is not an equity instrument in the context of PAS 32. Furthermore, it does not entitle the holder to a contractual right to receive cash or another financial asset from the issuing corporation. The holder of the share, in substance, only paid for the privilege to enjoy the club facilities and services but not for ownership of the club. In such case, the holder must account for the share as an intangible asset under PAS 38.

Investments in stocks held by the PRA are proprietary club shares. These shares were accounted for as Investment at Fair Value through Other Comprehensive Income under PFRS 9.

Impairment of Financial Assets

Below is the PRA's accounting policy on impairment of financial assets applicable starting January 1, 2018:

The Authority applies an ECL model to its financial assets measured at amortized cost but not to investment in equity instruments.

Loss allowances are measured on either of the following bases:

- *12-month ECLs.* These are ECLs that result from possible default events within the 12 months after the reporting date; and

- *Lifetime ECLs*. These are ECLs that result from all possible default events over the expected life of a financial instrument.

The PRA measures loss allowances at an amount equal to lifetime ECLs, except for the following, which are measured as 12-month ECLs:

- Debt securities that are determined to have low credit risk at the reporting date; and

- Other debt securities and bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

PRA has elected to measure loss allowances for receivables at an amount equal to lifetime ECLs.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Authority considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Authority's historical experience, informed credit assessment including current conditions and forecast of future economic conditions.

Furthermore, the PRA assumes that the credit risk on a financial asset has increased significantly if it is more than three (3) years past due.

It considers a financial asset to be in default when:

- The borrower is unlikely to pay its credit obligations to the Authority in full, without recourse by the Authority to actions such as realizing security (if any is held); or

- The financial asset is more than three (3) years past due.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Corporation is exposed to credit risk.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Authority expects to receive). ECLs are discounted at the effective interest rate of the financial asset.

At each reporting date, the Authority assesses whether financial assets carried at amortized cost are credit-impaired. A financial asset is ‘credit-impaired’ when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Below is the PRA’s accounting policy on the impairment of financial assets applicable before January 1, 2018:

Retirees who had been delinquent in paying dues for the past three years were sent collection/demand letters or notices. After three (3) notices and the accounts are still unpaid, the retirees were placed on a watch list and published in three leading newspapers of general circulation. If after publication, the retirees still fail to update their accounts, 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.

Derecognition of Financial Assets

The PRA derecognizes financial assets when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party. If the Authority neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Authority recognizes its retained interest in the asset and an associated liability for amount it may have to pay. If the Authority retains substantially all the risks and rewards of ownership of a transferred financial asset, the Authority continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

On derecognition of financial asset other than in its entirety, the Authority allocates the previous carrying amount of the financial assets between the part it continues to recognize under continuing involvement, and the part it no longer recognizes on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognized and the sum of the consideration received for the part no longer recognized and any cumulative gain or loss allocated to it that had been recognized in other comprehensive income is recognized in profit or loss. A cumulative gain or loss that had been in other comprehensive income is allocated between the part that continues to be recognized and the part that is no longer recognized on the basis of the relative fair values of those parts.

Financial Liabilities and Equity Instruments

Debt and equity instruments issued by the Authority are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Financial Liabilities

Initial recognition

Financial liabilities are recognized in the PRA's financial statements when it becomes a party to the contractual provisions of the instrument. Financial liabilities are initially recognized at fair value. Transaction costs are included in the initial measurement of the Authority's financial liabilities except for debt instruments classified at FVTPL. In a regular way purchase or sale, financial liabilities are recognized and derecognized, as applicable, using settlement date accounting.

Financial liabilities include accounts payable and due to officers and employees.

Classification and Subsequent Measurement

Financial liabilities are classified as either financial liabilities at FVTPL or other financial liabilities.

Financial liabilities at FVTPL when the financial liability is held for trading; designated upon initial recognition; either held for trading or designated upon initial recognition.

A financial liability is classified as held for trading if:

- It has been acquired principally for the purpose of repurchasing it in the near term; or
- On initial recognition it is part of a portfolio of identified financial instruments that the Authority manages together and has a recent actual pattern of short-term profit-taking; or
- It is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

- Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or

- The financial liability forms part of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Authority's documented risk management or investment strategy, and information about the Authority is provided internally on that basis; or

- It forms part of a contract containing one or more embedded derivatives that sufficiently modify the cash flows of the liability and are not closely related, and PFRS 9, *Financial Instruments*, permits the entire combined contract (asset or liability) to be designated as a FVTPL.

Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any interest paid on the financial liability and is included in the other gains and losses line item in the Statement of Comprehensive Income. Fair value is determined in the manner described in notes.

Other financial liabilities (including borrowings) are subsequently measured at amortized cost using the effective interest method. Accounts payable, due to officers and employees, inter/intra-agency payables, and trust liabilities are classified as other financial liabilities.

Derecognition of Financial Liabilities

The Authority derecognizes financial liabilities when, and only, the Authority's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

Equity Instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Authority are recognized at the proceeds received, net of direct issue costs.

3.4 Inventories

Inventories are assets in the form of materials or supplies to be consumed in the production process or in the rendering of services. The cost of inventories shall comprise all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their location and condition as the Authority is already practicing in its recording. In addition, pursuant to COA Circular Nos. 2015-007 and 2016-006, tangible assets with acquisition cost of P15,000 and below are classified as inventories specifically as semi-expendable assets before issuance to end-user.

3.5 Property, Plant and Equipment (PPE)

The PRA's depreciable properties are stated at cost less accumulated depreciation and amortization. The initial cost of property and equipment consists of its purchase price, including taxes and any directly attributable costs of bringing the asset to its working condition and intended use. Expenditures incurred after the items of property and equipment have been put into operation, such as repairs and maintenance are charged against operations in the year in which the costs are incurred, however, when significant parts of the PPE are required to be replaced at intervals, the PRA recognizes such parts as individual assets with specific useful lives and depreciates them accordingly. Likewise, when a major repair/replacement is done, its cost is recognized in the carrying amount of the PPE as a replacement if the recognition criteria are satisfied.

Depreciation is computed using the straight-line method over the estimated useful lives of the respective assets based on acquisition cost less residual value of ten per cent (10%) of the acquisition cost.

PRA uses the life span of PPE prescribed by COA in determining the specific estimated useful life for each asset based on its experience.

Asset	Estimated Useful Life
Office building	30 years
Leasehold improvements	5 years
Office equipment	5 years
Furniture and fixtures	10 years
IT and software	5 years
Library books	7 years
Other equipment	10 years
Transport vehicles	7 years

A PPE's carrying amount is written down to its recoverable amount, or recoverable service amount, if the asset's carrying amount is greater than its estimated recoverable amount or recoverable service amount.

PRA derecognizes items of PPE and/or any significant part of an asset upon disposal or when no future economic benefits or service potential is expected from its continuing use. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset is included in the surplus or deficit when the asset is de-recognized).

In addition, pursuant to COA Circular Nos. 2015-007 and 2016-006, tangible assets with acquisition cost of P15,000 and below are classified as semi-expendable assets or inventories before issuance to end-user.

Leasehold improvements are generally charged over a useful period of five (5) years or the term of the lease. Generally, the lease of the PRA at its main office in Citibank Tower Makati can be renewed every five (5) years.

3.6 Intangible Assets

Intangible assets are recognized when the items are identifiable non-monetary assets without physical substance; it is probable that the expected future economic benefits or service potential that are attributable to the assets will flow to the entity; and the cost or fair value of the assets can be measured reliably.

Intangible assets acquired separately are initially recognized at cost.

If payment for an intangible asset is deferred beyond normal credit terms, its cost is the cash price equivalent. The difference between this amount and the total payments is recognized as interest expense over the period of credit unless it is capitalized in accordance with the capitalization treatment permitted in PAS 23, *Borrowing Costs*.

Subsequent expenditure on an in-process research or development project acquired separately and recognized as an intangible asset is:

i. Recognized as an expense when incurred if it is research expenditures;

ii. Recognized as an expense when incurred if it is a development expenditure that does not satisfy the criteria for recognition as an intangible asset; and

iii. Added to the carrying amount of the acquired in-process research or development project if it is a development expenditure that satisfies the recognition criteria for intangible assets.

Intangible assets acquired through non-exchange transactions

The cost of intangible assets acquired in a non-exchange transaction is their fair value at the date these are acquired.

Internally generated intangible assets

Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditure is reflected in surplus or deficit in the period in which the expenditure is incurred.

Recognition of an expense

Expenditure on an intangible item is recognized as expense when it is incurred unless it forms part of the cost of an intangible asset that meets the recognition criteria of an asset.

Subsequent measurement

The useful life of the intangible assets is assessed as either finite or indefinite. Intangible assets with a finite life are amortized over their useful lives.

The straight line method is adopted in the amortization of the expected pattern of consumption of the expected future economic benefits or service potential.

An intangible asset with indefinite useful life is not to be amortized.

Intangible assets with indefinite useful lives or an intangible asset not yet available for use are assessed for impairment annually and whenever there is an indication that the assets may be impaired.

The amortization period and the amortization method, for an intangible asset with a finite useful life, are reviewed at the end of each reporting period. Changes in the expected useful live or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on an intangible asset with a finite life is recognized in surplus or deficit as the expense category that is consistent with the nature of the intangible asset.

Gains or losses arising from de-recognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the surplus or deficit when the asset is de-recognized.

Research and development costs

The PRA recognizes as expense the research costs incurred. Development costs on an individual project are recognized as intangible assets when the PRA can demonstrate:

i. The technical feasibility of completing the asset so that the asset will be available for use or sale
ii. Its intention to complete and its ability to use or sell the asset
iii. How the asset will generate future economic benefits or service potential
iv. The availability of resources to complete the asset
v. The ability to measure reliably the expenditure during development
vi. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses
vii. Amortization of the asset begins when development is complete and the asset is available for use
viii. It is amortization over the period of expected future benefit
ix. During the period of development, the asset is tested for impairment annually with any impairment losses recognized immediately in surplus or deficit

Web Site Costs

The PRA concludes that a web site developed using internal expenditures, whether for internal or external access, is an internally generated intangible asset that is subject to and accounted for in accordance with PAS 38 – *Intangible Assets.*

Internally generated intangible assets development costs are accounted for according to the stages of development as follows:

a. Planning – accounted for similar to research and development cost and charged to expense of the period on which it is incurred.
b. Application development – capitalized and amortized over estimated useful life (*see Note 13*) to the extent that content is developed for purposes other than to advertise and promote the products and services of the PRA.
c. Content developments are charged to expense.
d. Operating the web site or application is also charged to expense.

The estimated useful life used by the PRA in amortizing the intangible assets is as follows:

Asset	**Estimated Useful Life**
Computer software	5 years
Website cost	5 years

3.7 Income Taxes

Income tax expense represents the sum of the current tax and deferred tax expense.

Current Tax

The current tax expense is based on taxable profit for the year. Taxable profit differs from net profit as reported in the Statements of Comprehensive Income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The PRA's current tax liability is calculated using 30% regular corporate income tax (RCIT) rate or 2% minimum corporate income tax rate, whichever is higher. Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that have been enacted or substantively enacted as of the reporting date.

Deferred Tax

Deferred tax is provided using the balance sheet liability method on temporary differences, with certain exceptions, at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognized for all taxable temporary differences, including asset revaluations. Deferred tax assets are recognized for all deductible temporary differences. Deferred tax, however, is not recognized on temporary differences that arise from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting income nor taxable income.

The carrying amount of deferred tax assets are reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the reporting date.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Current and Deferred Tax for the Year

Current and deferred tax are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognized in other comprehensive income or directly in equity respectively.

3.8 Impairment of Non-financial Assets

At each reporting date, non-financial assets are reviewed to determine whether there is any indication that those assets have suffered an impairment loss. If there is an indication of possible impairment, the recoverable amount of any affected asset (or group of related assets) is estimated and compared with its carrying amount. In case the estimated recoverable amount is lower, the carrying amount is reduced to its estimated recoverable amount, and an impairment loss is recognized immediately in profit or loss.

If an impairment loss is subsequently reversed, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but not in excess of the amount that would have been determined had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

Derecognition of Non-financial assets

Non-financial assets are derecognized when the assets are disposed of or when no future economic benefits are expected from these assets. Any difference between the carrying value of the asset derecognized and the net proceeds from derecognition is recognized in profit or loss.

3.9 Leases

The PRA as a lessee

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date, whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset. A reassessment is made after inception of the lease only if one of the following applies:

(a) There is a change in contractual terms, other than a renewal or extension of the arrangement;
(b) There is a renewal option exercised or extension granted, unless the term of the renewal or extension was initially included in the lease term;
(c) There is a change in the determination of whether fulfilment is dependent on a specified asset; or
(d) There is substantial change to the asset.

Where a reassessment is made, lease accounting shall commence or cease from the date when the change in circumstances gave rise to the reassessment for scenarios (a), (c), or (d) and at the date of renewal or extension period for scenario (b).

Leases which do not transfer to the PRA substantially all the risks and benefits of the ownership of the asset are classified as operating leases. Fixed lease payments are recognized as expense on a straight-line basis over the lease term while the variable rent is recognized as an expense based on the terms of the lease contract.

The PRA enters into operating leases with Metropolitan Bank and Trust Company (MBTC) – Trust Banking Group for Citibank Tower 29th Floor quadrants A & D which would expire on December 31, 2019 and with BDO Unibank, Inc. – Trust and Investment Group for quadrant C which will expire on February 29, 2020. In compliance with PFRS 16, these contracts will be recorded as right of use and depreciated using straight-line method over the lease period upon renewal.

Below are the current lease contracts of the PRA (*see Note 33*):

	2019	2018
Within one (1) year	1,908,373	17,621,540
Within five (5) years	1,096,600	2,415,540
Five (5) years and up	-	-
	3,004,973	**20,037,080**

3.10 Retained Earnings

Retained Earnings represent accumulated profit attributable to equity holders of the Authority after deducting dividends declared. Retained earnings may also include effect of changes in accounting policy and prior period adjustments.

3.11 Revenue

Revenue is the gross inflow of economic benefits during the period arising in the course of the ordinary activities of an entity when those inflows result in increases in equity, other than increases relating to contributions from equity participants. The main revenue of the PRA arises from various fees received from foreign retiree-members or applicants to the retirement program pursuant to EO No. 1037 dated July 4, 1985. The Authority recommends to the BI the issuance of 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. The fees are discussed below – *Service Income*.

Service Income

Income is measured at the fair value of the consideration received or receivable. The PRA recognizes income from various fees and services during the period to which it relates.

Income from operations pertains mainly to the following fees (see *Note 24.1)*:

Annual PRA Fee (APF) pertains to the annual fee collected from active members at US$360 for the principal retiree and two (2) qualified dependents and US$100 for every additional dependent. Qualified dependents include the legal spouse and children below 21 years old.

Passport and Visa/Application Fees (PVAF) are one-time processing/service fees paid by retiree-applicants as initial requirement for their SRRV applications in the program at US$1,400 for the principal applicant and US$300 for each qualified dependent applicant.

Management Fees (MF) 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.

Visitorial Fees (VF) represent the annual fees due from retirees who have converted their requisite visa deposits into active investments, at the rates ranging from 0.5 per cent (1/2%) to 1.5 per cent (1 and ½%) of the total amount of visa deposit 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:

Age	Original Visa Deposit	Reduced to
35 to 49 years old	US$ 75,000.00	US$ 50,000.00
50 years old and above	US$ 50,000.00	US$ 20,000.00

Visitorial Fees:

Amount of Visa Deposit Converted	Annual Visitorial Fees
US$ 20,000.00	US$ 500 or its peso equivalent
US$ 50,000.00	US$ 750 or its peso equivalent

Retirees who had been delinquent in paying VF for more than three (3) years were sent collection letters/notices. After three (3) notices and the retirees still failed to pay, they were placed on a watch list and 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.

Harmonization Fees (HF) 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 (1 and ½%) per annum is levied by the PRA on the retiree in consideration for the release of the amounts in excess of the required visa deposit under the modified SRD scheme.

Registration/ID Fees represent the annual fees of US$10 collected from active retiree-member (principal plus dependents) for the issuance of the PRA membership identification (ID) card.

Processing Fees such as cancellation, accreditation (including marketer and merchant partners), re-stamping, visa downgrading, clearances and other PRA services to retiree-members, are as follows:

Schedule of Processing Fees

Services	Rates (US$)	Rate (Peso)
Cancellation (plus BI fee)	US$ 10	P3,020 (BI fee) *
Visa downgrade	US$ 10	
Re-stamping (plus BI fee)	US$ 10	P1,010 (BI fee)
Accreditation – New Marketer	US$ 300	
Accreditation – Renewal – Marketer	US$ 150	
ID Issuance – Marketer (if accreditation validity is less than six (6) months)		P300
Courier Fee (retiree is in the Philippines)		P150 (or actual)
Courier Fee (retiree is abroad)	US$ 20 (or actual)	
Membership Certification	US$ 5	

**Includes P500 for Bureau of Immigration (BI) express lane.*

Interest income is accrued using the effective yield method. The effective yield discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount. The method applies this yield to the principal outstanding to determine the interest income for each period.

Dividends or similar distributions are recognized when the PRA's right to receive payments are established.

However, the PRA has not received any dividends from its investment of one proprietary membership share of the Baguio Country Club Corporation.

3.12 Employee Benefits

The employees of the PRA are members of the Government Service Insurance System (GSIS), which provides life and retirement insurance coverage.

PRA recognizes the undiscounted amount of short-term employee benefits, like salaries, wages, bonuses, allowances, etc., as expense unless capitalized, and as a liability after deducting the amount paid.

3.13 Foreign Currency Transactions and Advance Consideration

Transactions in foreign currencies are initially recognized by applying the spot exchange rate between the functional currency and the foreign currency at the transaction date.

At each reporting date:

a. Foreign currency monetary items are translated using the closing rate;
b. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction; and
c. Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

Exchange differences arising (a) on the settlement of monetary items, or (b) on translating monetary items at rates different from those at which they are translated on initial recognition during the period or in previous financial statements, are recognized in surplus or deficit in the period in which they arise, except as those arising on a monetary item that forms part of a reporting entity's net investment in a foreign operation.

Advanced payments in foreign currencies received by the PRA from retiree-members are now recognized as deferred credits/unearned income and translated to Philippine peso (PRA's functional currency) using the exchange rate at the initial recognition or the date such advance payments are received.

3.14 The Effects of Changes in Foreign Exchange Rates

Transactions in foreign currencies are initially recognized by applying the spot exchange rate between the functional currency and the foreign currency at the transaction date.

At each reporting date:

a. Foreign currency monetary items are translated using the closing rate;
b. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction; and
c. Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

Exchange differences arising (a) on the settlement of monetary items, or (b) on translating monetary items at rates different from those at which they are translated on initial recognition during the period or in previous financial statements, are recognized in surplus or deficit in the period in which they arise, except as those arising on a monetary item that forms part of a reporting entity's net investment in a foreign operation.

The Authority translated its transactions in CY 2019 and monetary items as at December 31, 2019 in foreign currencies as required by the standard.

3.15 Related Party Disclosures

Related party relationship exists when one party has the ability to control, directly, or indirectly through one or more intermediaries, the other party or exercises significant influence over the other party in making financial and operating decisions. Such relationships also exist between and/or among the reporting enterprises and its key management personnel, trustees, or its shareholders. In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form.

The PRA related parties' transaction pertains to the remuneration of the Key Management Personnel as discussed in *Note 32.2*.

3.16 Provisions

Provisions are recognized when the PRA has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

When the PRA expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset only when the reimbursement is virtually certain. The expense relating to any provision is presented in the Statement of Financial Performance net of any reimbursement.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation, the provisions are reversed.

3.17 Accounting Policies, Changes in Accounting Estimates and Errors

The Authority conforms to this applicable standard and changes in accounting policies and correction of errors are generally accounted for retrospectively while changes estimates are accounted for prospectively. Pursuant to COA Circular No. 2016-006, tangible assets with acquisition cost of P15,000 and below are classified as inventories before issuance to end-user.

3.18 Events after the Reporting Period

The Authority determines events after its reporting period whether it needs to adjust the financial statements along with the required disclosures or may only require disclosures.

No reportable events after the reporting period require adjustments or disclosures.

3.19 Use of Judgment and Estimates

The preparation of financial statements requires the use of judgement and accounting estimates or assumptions that affect the amounts reported in the financial statements and accompanying notes.

Judgments are made by management in the development, selection and disclosure of significant accounting policies and estimates and the application of these policies and estimates.

The estimates and assumptions are reviewed on an ongoing basis. These are based on management’s evaluation of relevant facts and circumstances as of the reporting date. Actual results could differ from such estimates.

Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

The accounting policies have been consistently applied throughout the year presented.

4. RISK MANAGEMENT OBJECTIVES AND POLICIES

4.1 Risk Management Framework

The Board of Trustees has overall responsibility for the establishment and oversight of the Authority's risk management framework. The Board has established the Authority's credit, finance, operational risk and executive committees, which are responsible for developing and monitoring the Authority's risk management policies in their specific areas.

All board committees have executive and non-executive members and report regularly to the Board of Trustees on their activities.

The PRA's risk management policies are established to identify and analyze the risks faced by the Authority, to set appropriate risk limits and control, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes to market conditions, products and services offered. The PRA, through its training and management standards and procedures, aims to develop disciplined and constructive control environment, in which all employees understand their roles and obligations.

The Authority's Audit Committee is responsible for monitoring compliance with PRA's risk management policies and procedures and for reviewing the adequacy of the risk management framework in relation to the risk faced by the Corporation and it is regularly discussed in the Board meeting.

Generally, the maximum risk exposure of financial assets and financial liabilities is the carrying amount of the financial assets and financial liabilities as shown in the Statements of Financial Position, as summarized in the following tables:

	Note	2019	2018
Financial Assets:			
Cash and cash equivalents	5	115,893,033	75,435,917
Investment in time deposits	6	2,329,414,503	2,057,503,390
Receivables, net	7	162,813,930	142,728,268
Investment in stocks	10	3,500,000	3,500,000
Other receivables	11	7,525,779	7,631,860
Restricted fund	14	17,344,761,592	15,512,878,746
		19,963,908,837	**17,799,678,181**

	Note	2019	2018
Financial Liabilities:			
Financial liabilities-current	15	87,056,479	75,776,441
Inter-agency payables	16	42,990,857	49,077,678
Intra-agency payables	17	9,417	9,417
Trust liabilities	18	17,650,391,310	15,670,321,511
Other payables	19	427,579	427,579
		17,780,875,642	**15,795,612,626**

4.2 Credit Risk

a. Credit Risk Exposure

Credit risk refers to the risk that the client will default on its contractual obligation resulting in financial loss to the corporation. The PRA has adopted a policy of dealing only with creditworthy clients and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults.

Also, the PRA manages its credit risk by depositing its cash with high credit quality banking institutions.

The carrying amount of the financial assets recognized in the financial statements represents the corporation's maximum exposure to credit risk.

The table below shows the gross maximum exposure to credit risk of the corporation as of the years ended December 31, 2019 and 2018, without considering the effects of credit risk mitigation techniques.

	Note	2019	2018
Financial Assets:			
Cash and cash equivalents	5	115,893,033	75,435,917
Investment in time deposits	6	2,329,414,503	2,057,503,390
Receivables – gross	7	202,602,061	169,397,180
Investment in stocks	10	3,500,000	3,500,000
Other receivables – gross	11	12,055,136	12,161,217
		2,663,464,733	**2,317,997,704**

b. Management of Credit Risk

The Board of Trustees has delegated primary responsibility for the management of credit risk and risk management to its Credit Committee which reports to the Board meeting. The Credit Committee provides advice, guidance, and specialized skills to business units to promote best practices throughout the Authority in the management of credit risk.

Also, the PRA has currently adopted that for significant proportion of sales of goods and services, advance payment from clients are received to mitigate the risk.

The PRA maintains allowance for impairment losses at a level considered adequate to provide for potential uncollectible receivables. This amount is evaluated based on such factors that affect the collectability of the accounts. These factors include, the age of the receivables, the length of the Authority's relationship with the customer, the customer's payment behaviour and known market factors. The amount and timing of recorded expenses for any period would differ if the corporation made different judgments or utilized different estimates.

The PRA will request authority from COA for the write-off of receivable balance (and any related allowances for impairment losses) when Finance Management Division - Treasury determines that the receivables are finally uncollectible after exhausting its efforts to collect and legal action.

4.3 Liquidity Risk

Liquidity risk is the risk that the Authority might encounter difficulty in meeting obligation from its financial liabilities.

a. Management of Liquidity Risk

The Authority's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Authority's reputation.

The Authority seeks to manage its liquidity profile to be able to finance capital expenditures as well as its current operations. To cover its financing requirements, the corporation intends to use internally generated funds and available short-term credit facilities.

As part of its liquidity risk management, the Authority regularly evaluates its projected and actual cash flows. It also continually assesses conditions in the financial markets for opportunities to pursue fund raising activities, in case any requirements arise. Fund raising activities may include bank loans and subsidies from the national government or government owned and controlled corporations.

b. Exposure to Liquidity Risk

The liquidity risk is the adverse situation when the Authority encounters difficulty in meeting unconditionally the settlement of its obligations at maturity. Prudent liquidity management requires that liquidity risks are identified, measured, monitored and controlled in a comprehensive and timely manner. Liquidity management is a major component of the corporate-wide risk management system. Liquidity planning takes into consideration various possible changes in economic, market, political, regulatory and other external factors that may affect the liquidity position of the corporation.

4.4 Market Risks

Market risk is the risk that changes in the market prices, such as interest rate, equity prices, foreign exchange rates and credit spreads (not relating to changes in the obligor's issuer's credit standing) will affect the Authority's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on risk.

Management of Market Risk

The management of interest rate risk against interest gap limits is supplemented by monitoring the sensitivity of the Authority's financial assets and liabilities to various standard and non-standard interest rate scenarios.

4.5 Operational Risks

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Authority's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Authority's operations and are faced by all business entities.

The Authority's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Authority's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

The primary responsibility for the development and implementation of control to address operational risk is assigned to senior management within each business unit. This responsibility is supported by the development of overall standards for the management of operational risk in the following areas:

- Requirements for appropriate segregation of duties, including the independent authorization of transaction
- Requirements for the reconciliation and monitoring of transactions
- Compliance with regulatory and other legal requirements
- Documentation of controls and procedures
- Requirements for the periodic assessment of operational risk faced, and the adequacy of controls and procedures to address the risk identified
- Requirements for the reporting of operational losses and proposed remedial action
- Development of contingency plans
- Training and professional development
- Ethical and business standards
- Risk mitigation, including insurance where this is effective

Compliance with corporate standards is supported by a program of periodic reviews undertaken by the Executive Committee. The results of periodic reviews are discussed with the Board of Trustees.

5. CASH AND CASH EQUIVALENTS

This account consists of:

	2019	2018
Cash on hand	1,493,423	1,472,807
Cash in bank-local currency	2,119,247	11,104,595
Cash in bank-foreign currency	112,280,363	62,858,515
	115,893,033	**75,435,917**

Cash on hand is composed of various accounts but mainly: (a) cash collecting officer – local currency which amounted to P725,604 and P0 for the years ended December 31, 2019 and 2018, respectively, and (b) cash collecting officer – foreign currency which amounted to $14,448.39 and $10,684.88 as of December 31, 2019 and 2018, respectively, and translated into peso amounts using the corresponding year-end closing rates of P50.821:$1 and P52.665:$1 to arrive at the year-end balances of P734,282 and 562,719.21.

Cash in bank – local currency consists of checking and savings accounts with the Land Bank of the Philippines (LBP) and the Development Bank of the Philippines (DBP).

Cash in bank – foreign currency consists of savings account with the LBP and the DBP which amounted to $2,209,330.06 and $1,193,553.88 for the years ended December 31, 2019 and 2018, respectively, and translated into peso amounts using the corresponding year-end closing rates of P50.821:$1 and P52.665:$1.

Regular deposits accounts with Land Bank of the Philippines (LBP) and Development Bank of the Philippines (DBP) earn interest at rates ranging from 0.15 to 0.25 per cent.

6. INVESTMENTS IN TIME DEPOSITS

This account consists of:

	Current		Non-current	
	2019	**2018**	**2019**	**2018**
Foreign currency time deposits	2,134,109,636	1,255,105,223	-	421,320,000
Investment in high-yield deposits	195,304,867	249,415,667	-	131,662,500
	2,329,414,503	**1,504,520,890**	**-**	**552,982,500**

These items have maturities beyond 90 days but within the next twelve (12) months.

Current foreign currency time deposits with LBP and DBP amounted to US$41,992,673 and US$23,831,866 for CYs 2019 and 2018, respectively, and were converted to peso at year-end using the closing rates of P50.821:US$1 for CY 2019 and P52.665:US$1 for CY 2018.

Current Investments in high-yield deposits in CY 2019 are deposits with the LBP yielding interest rates of 1.125 per cent to two (2%) per cent.

Included in the foreign currency time deposits is the account Investments in Time Deposits – Restricted amounting to US$2,751,228 and US$7,692,280 as of December 31, 2019 and 2018, respectively. The Investment in Time Deposits - Restricted pertains to the portion of the accumulated interest earned on Visa Deposits (VDs) that are payable to retirees under Note 14 – Restricted Funds. This account including the Restricted Fund - Interest on Visa Deposits are contra accounts of the interest on VDs payable to retiree, as disclosed in Note 18.

Non-current foreign currency time deposits in CY 2018 pertain to time deposits with LBP amounting to US$8 million, purchased on October 9, 2017, with term of three (3) years and interest rate of 2.5 per cent. The time deposits will mature on October 08, 2020.

Non-current Investment in high yield deposits in CY 2018 pertained to LBP Investment yielding interest rate of 2.125 per cent with face amount of US$2.5 million which will mature on November 04, 2020. Hence, these were reclassified to current account as of December 31, 2019.

7. RECEIVABLES - NET

This account consists of the following:

	2019	2018
Accounts receivable	47,393,121	48,359,185
Due from officers and employees	158,470	67,314
Interest receivable	115,262,339	94,301,769
	162,813,930	**142,728,268**

7.1 Accounts receivable consists of:

	2019	2018
Visitorial fees (VF)	40,331,149	37,123,045
Allowance for impairment-VF	(36,062,060)	(26,668,912)
Visitorial fees – net	*4,269,089*	*10,454,133*
Management fees	*12,804,585*	*13,808,902*
Harmonization fees	1,846,733	686,591
Allowance for impairment-HF	(466,587)	-
Harmonization fees – net	*1,380,146*	*686,591*
Annual PRA fees	32,198,784	23,409,559
Allowance for impairment-APF	(3,259,483)	-
Annual PRA fees – net	*28,939,301*	*23,409,559*
	47,393,121	**48,359,185**

a. **Visitorial fees (VF)** represent annual fees due from retirees who have converted their requisite visa deposits into active investments.

For the old membership scheme (up to SRRV#M-002161), the visitorial fee rate is half (1/2%) or 0.5 per cent (Section 16, EO No. 1037 IRR of Rule VIII-A) of the visa deposit amount converted into active investment. From SRRV No. M-002162 up to M-006392, the VF is one (1%) per cent of the visa deposit amount converted to investment.

Effective May 28, 2006 (PRA Circular No. 01, series of 2006 approved by Board Resolution No. 24, series of 2006 on May 2, 2006 affirmed further by Res No. 38, s. 2007), the PRA implemented the Special Reduced Deposit (SRD) scheme wherein the visa deposits requirement was reduced to US$50,000 from US$75,000 for applicants aged 35 to 49 and US$20,000 from US$50,000 for those 50 years old and above. The VF rate was also amended as follows:

Amount of visa deposit converted	Annual VF collected
US$20,000	US$500 or its peso equivalent
US$50,000	US$750 or its peso equivalent

b. **Management fees (MF)** represent fees due from PRA accredited banks equivalent to 1.5 per cent of the outstanding daily balance of the retirees' deposits.

This excludes receivable from Bankwise, Inc. of P3,273,327.11 as of December 31, 2008 (*see Note 11*), the collection of which had already been endorsed to the Office of the Government Corporate Counsel (OGCC) for legal actions considering that the bank is now under receivership by the Philippine Deposit Insurance Corporation (PDIC).

c. **Harmonization fees (HF)** are amounts collected for the harmonization of the old and new schemes of deposit. A management fee of 1.5 per cent per annum is levied by the PRA on the retiree in consideration for the release of the amounts in excess of the required deposit under the modified SRD Scheme.

d. **Annual PRA fees (APF)** pertains to the amount collected from active members (who have not converted their requisite visa deposit into active investment), other than those under the SRRV "Courtesy" scheme, at US$360 for principal retiree and two (2) qualified dependents and US$100 for every additional dependent. Qualified dependents include the legal spouse and children below 21 years old.

8. INVENTORIES

This account consists of the following:

	2019	**2018**
Office supplies inventory	1,113,980	1,118,767
Accountable forms, plates and stickers	326,986	855,604
Information material inventory	1,321,920	96,800
	2,762,886	**2,071,171**

The account office supplies inventory pertains to cost of office and information technology supplies purchased and/or received for use in operations.

Other inventory held for consumption pertains to Visa stickers, accountable forms and plates while the Information material inventory pertains to promotional supplies.

9. OTHER CURRENT ASSETS

This account consists of the following:

	2019	**2018**
Creditable withholding tax at source	6,585,330	6,406,017
Advances to special disbursing officers	1,547,414	113,320
Advances to officers and employees	199,139	-
Prepaid insurance	68,247	68,247
Other prepayments	742,989	5,320,112
	9,143,119	**11,907,696**

Creditable withholding tax at source pertains to the creditable withholding taxes from the receipt of management fees collected from accredited private banks.

Advances to special disbursing officers (SDOs) pertain to cash advances granted to various disbursing officers in December 2019 which remained unliquidated. The increase was due to advances relating to PRA Yuletide celebration at the Head Office and corresponding travel to Satellite Offices which were granted towards the end of December 2019.

Other prepaid expenses include purchases of supplies from Procurement Service (PS) which were already paid but not yet delivered as of December 31, 2019.

10. INVESTMENT IN STOCKS

This account is an investment in proprietary shares of stock of the Baguio Country Club Authority. The proprietary shares were purchased on July 23, 2015 in the amount of P600,000. The fair value of the club shares amounted to P3.500 million as at December 31, 2019 and 2018, resulting in unrealized gains of P2.900 million presented under other comprehensive income recognized in CY 2018.

11. OTHER RECEIVABLES

This account consists of:

	2019	**2018**
COA disallowances	6,330,574	6,257,527
Due from officers and employees	1,633,624	1,812,558
Marketers accreditation	677,331	677,331
Other receivables	3,413,607	3,413,801
	12,055,136	**12,161,217**
Allowance for impairment	(4,529,357)	(4,529,357)
	7,525,779	**7,631,860**

COA disallowances pertained to disallowed payment of allowances and expenses which were issued with COA Order of Execution (COE).

Due from officers and employees represents unliquidated cash advances of active and retired/resigned PRA officers and employees.

Marketers accreditation fees are accruals for renewal of marketers' accreditation from CYs 1996 to 2001. The total amount is provided with allowance for impairment.

Other receivables include the receivable from Bankwise, Inc. of P3,273,327.11 as of December 31, 2008 for management fees (*see Note 7.1b*), the collection of which had already been endorsed to the OGCC for legal actions considering that the bank is now under receivership by the PDIC.

12. PROPERTY, PLANT AND EQUIPMENT

The details of the account are shown below:

	Building and other structures	Machineries and equipment	Motor vehicles	Furniture and fixtures	Total
Cost:					
Balance, January 1, 2019	56,014,982	37,958,085	18,529,724	4,999,043	117,501,834
Additions	12,332,903	5,353,275		548,800	18,234,978
(Disposals/adjustments)	-	-	-	-	-
Balance, December 31, 2019	**68,347,885**	**43,311,360**	**18,529,724**	**5,547,843**	**135,736,812**
Accumulated depreciation:					
Balance, January 1, 2019	36,635,128	16,981,018	10,910,762	4,467,632	68,994,540
Additions	1,966,301	4,518,373	750,827	41,374	7,276,875
(Disposals/adjustments)	-	-	-	-	-
Balance, December 31, 2019	**38,601,429**	**21,499,391**	**11,661,589**	**4,509,006**	**76,271,415**
Net book value, Dec. 31, 2019	**29,746,456**	**21,811,969**	**6,868,135**	**1,038,837**	**59,465,397**
Net book value, Dec. 31, 2018	**19,379,854**	**20,977,067**	**7,618,962**	**531,411**	**48,507,294**

Building and other structures account pertains to the condominium unit at the Citibank Tower, Makati City owned by PRA with total area of 598.20 square meters including four (4) parking slots.

13. INTANGIBLE ASSETS

The details of the account are as follows:

	Computer software	Website	Total
Cost:			
Balance, January 1, 2019	2,796,000	1,335,000	4,131,000
Additions	-	-	-
(Disposals/adjustments)	-	-	-
Balance, December 31, 2019	**2,796,000**	**1,335,000**	**4,131,000**
Accumulated depreciation:			
Balance, January 1, 2019	262,377	62,678	325,055
Additions	479,073	237,697	716,770
(Disposals/adjustments)	-	-	-
Balance, December 31, 2019	**741,450**	**300,375**	**1,041,825**
Net book value, Dec. 31, 2019	**2,054,550**	**1,034,625**	**3,089,175**
Net book value, Dec. 31, 2018	**2,533,623**	**1,272,322**	**3,805,945**

This account consists of computer software and website acquired during CY 2018 and amortized over five (5) years using the straight-line method.

14. OTHER NON-CURRENT ASSETS

This account consists of:

	2019	2018
Restricted fund	17,344,761,592	15,512,878,746
Guaranty deposits	4,422,512	4,279,853
	17,349,184,104	**15,517,158,599**

Restricted fund (RF) represents the required visa deposit from the retiree-members which are deposited with the DBP totalling US$341,291,229.85 and US$294,557,652.07 for CYs 2019 and 2018, and translated into peso amounts using the corresponding year-end closing rates of P50.821:US$1 and P52.665:US$1, respectively. Details are as follows:

	2019		2018	
	Amount (in USD)	**Amount (In Peso)**	**Amount (In USD)**	**Amount (In Peso)**
RF-Visa Deposits-Receiving	338,136,508.20	17,184,435,483	292,489,818.27	15,403,976,279
RF-Visa Deposits-Disbursing	2,706,434.82	137,543,724	2,067,833.80	108,902,467
RF-Interest on Visa Deposits	448,286.83	22,782,385	-	
Total Restricted Fund	**341,291,229.85**	**17,344,761,592**	**294,557,652.07**	**15,512,878,746**

RF-Visa Deposits-Receiving account pertains to visa deposit remittances to PRA by active members which are placed in Time Deposits (TDs) whereas the RF-Visa Deposits-Disbursing account pertains to the unreleased visa deposits of members who withdrew from the PRA program and had pre-terminated the corresponding TDs. The RF-Visa Deposits-Disbursing is exclusively for funds ready for payment to the retirees.

The RF-Visa Deposits-Receiving and Disbursing are the contra-accounts of Visa Deposits of Retiree-Members account under Note 18 – Trust Liabilities.

RF-Interest on Visa Deposits account pertains to the accumulated interests earned from the Restricted Funds placed in TDs. Part of the previous years' interest earned was placed to another short term TDs under the Investments in Time Deposits-Foreign Currency-Restricted account in Note 6 – Investments in Time Deposits. The RF-Interest on Visa Deposits is the contra-account of the Interest on Visa Deposits under Note 18 – Trust Liabilities.

Guaranty deposits pertain mainly to the security deposits paid to Metrobank-Trust Banking Group for the lease by the PRA of office space at the Citibank Tower and other service providers such as PLDT.

15. FINANCIAL LIABILITIES

This account consists of the following:

	2019	2018
Accounts payable	86,038,718	73,097,677
Due to officers and employees	1,017,761	2,678,764
	87,056,479	**75,776,441**

Accounts payable pertains mainly to certified and outstanding obligations of the PRA to its suppliers and contractors.

Due to officers and employees include payroll related certified obligations of the PRA to its employees.

16. INTER-AGENCY PAYABLES

This account consists of:

	2019	2018
Due to BIR	39,627,811	46,512,095
Due to GSIS	2,444,167	1,757,084
Due to Pag-IBIG Fund	162,238	55,333
Due to PhilHealth	110,373	123,419
Due to NGAs	646,268	629,747
	42,990,857	**49,077,678**

Due to BIR represents the last quarter income tax and withholding taxes on compensation, VAT and EWT for the month of December.

Due to GSIS, PhilHealth and Pag-IBIG accounts are payroll items for membership contributions and loan payments by the PRA regular employees.

Due to NGAs pertains to liability to the Bureau of Immigration for the processing of applications for Special Resident Retiree Visa.

17. INTRA-AGENCY PAYABLES

Due to other funds pertains to contributions to the PRA employee's cooperative amounting to P9,417 as of December 31, 2019 and 2018.

18. TRUST LIABILITIES

This account consists of:

	2019	2018
Visa deposits of retiree-members	17,474,184,411	15,525,996,117
Interest on visa deposits	170,415,050	138,621,249
Customers' deposit payable	5,572,286	5,424,440
Guaranty/security deposits payable	219,563	279,705
	17,650,391,310	**15,670,321,511**

Visa deposit of retiree-members account pertains to the outstanding visa deposits of Retiree-Members which shall be payable to the Members/SRRV holders upon their withdrawal/early termination due to cancellation of membership from the PRA Program, or conversion of deposit into active investment.

This account is the counter liability account of the RF-Visa Deposits - Receiving and RF-Visa Deposits - Disbursing under Note 14 – Restricted Funds. This account amounted to US$343,837,870.38 and US$3,353,240.79 for the years ended December 31, 2019 and 2018, respectively, and was translated into peso amounts using the corresponding year-end closing rates of P50.821:US$1 and P52.665:US$1.

Interest on visa deposits pertains to the liability of the PRA to Members/SRRV holders for their accumulated interest share on the interest income earned from their visa deposits with the DBP.

Interest on visa deposits is the contra account of the Investments in Time Deposits-Foreign Currency-Restricted and RF-Interest on Visa Deposits accounts under Note 6 – Investment in Time Deposits and Note 14 – Restricted Funds, respectively. The account with balance of US$3,353,240.79 and US$2,632,132.33 as of December 31, 2019 and 2018, respectively, was translated to peso amounts using the corresponding year-end closing rates of P50.821:US$1 and P52.665:US$1.

19. OTHER PAYABLES

Other payables pertain to unclaimed refunds by clients and employees prior to CY 2014 amounting to P427,579 for CYs 2019 and 2018.

20. DEFERRED CREDITS/UNEARNED INCOME

This account consists of collections of the following fees that are applicable to future periods:

	2019	**2018**
Annual PRA fee	335,799,378	283,430,368
Visitorial fee	13,086,570	15,414,199
Registration/ID fee	6,855,233	7,266,996
Harmonization fee	1,785,319	1,609,676
Accreditation fee	143,324	29,371
	357,669,824	**307,750,610**

Some retiree-members opt to pay the required fees in advance for maximum of three (3) years as allowed to avoid hassle of yearly SRRV ID renewal.

21. PROVISIONS

This account pertains mainly to money value of unused leave benefits of regular employees amounting to P6.929 million and P6.505 million as of December 31, 2019 and 2018.

22. GOVERNMENT EQUITY

This account pertains to the amounts released by the National Government from 1985 until 1994 for the capitalization requirements of the PRA for a total of Philippine Peso Sixty-three Million Two Hundred Seventeen Thousand Eighty-nine (P63,217,089.00) only.

23. RETAINED EARNINGS

	Amount
Retained Earnings, December 31, 2018	**1,828,119,110**
Dividend paid for CY 2018	(258,488,809)
Net income for 2019	432,746,817
Retained earnings, December 31, 2019	**2,002,377,118**

24. INCOME

This account consists of the following:

	2019	2018
Service income	896,581,600	787,050,163
Business income	142,496,653	126,010,870
Gains on forex	584,898,743	749,703,301
Other non-operating income	138,334	197,902
	1,624,115,330	**1,662,962,236**

24.1 Service Income

This account consists of:

	2019	2018
Annual PRA fee	353,732,220	311,902,895
Visa application fee	336,848,838	279,779,205
Management fee	160,872,597	158,417,075
Visitorial fee	26,706,460	21,404,002
Registration/ID fee	6,548,025	7,606,048
Processing fee	8,380,279	4,388,741
Harmonization fee	3,493,181	3,552,197
	896,581,600	**787,050,163**

Annual PRA fee pertains to the annual fee collected from active members at US$360 for the principal retiree and two (2) qualified dependents and US$100 for every additional dependent (in excess of two).

Visa Application fee is a one-time processing/service fee paid by retiree-applicants for their application in the program at US$1,400 for principal applicant and inclusion fee of US$300 for each dependent of the principal applicants.

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 nine (9) accredited private banks maintaining visa deposits of retiree-members and sixteen (16) previously accredited private banks that still have some retirees' visa deposits remaining with them and not yet transferred including that of Bankwise Inc. (*see Note 11*).

Visitorial fee represents the annual fee 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 visa amount converted into active investment.

Processing fees are collected for other services rendered by the PRA such as cancellation, accreditation (including marketer and merchant partners), re-stamping, visa downgrading, clearances and other PRA services to retiree-members.

24.2 Business Income

This account consists of:

	2019	2018
Interest income	142,496,653	125,968,850
Other business income	-	42,020
	142,496,653	**126,010,870**

24.3 Gains on Forex

This account consists of:

	2019	2018
Realized gains on forex	32,747	61,802,131
Unrealized gains on forex	584,865,996	687,901,170
	584,898,743	**749,703,301**

24.4 Other Non-operating Income

Other Non-operating income account pertains to Miscellaneous Income amounting to P138,334 and P197,902 in CYs 2019 and CY 2018, respectively.

25. DIRECT COST

This account consists of expenses that are directly associated with the Service Income:

	2019	2018
Marketers' fee	86,329,578	68,849,964
Bureau of Immigration (BI) fee	45,451,441	35,319,450
Medical examination fee	6,570,568	4,966,000
Visa stickers and IDs	1,499,502	1,065,467
	139,851,089	**110,200,881**

Marketers' fee refers to payments made by the PRA to its accredited marketers for enrolment services rendered to retiree-applicants at US$500 per applicant. The PRA has 268 and 256 accredited marketers in CYs 2019 and 2018, respectively, that were able to enroll a total of 3,276 principal retiree-applicants in CY 2019 and 2,514 principal retiree-applicants in CY 2018.

Bureau of Immigration (BI) fee pertains to amounts paid to the BI on the processing of the retiree-applicants' visa at P5,080 for every principal applicant or spouse and P4,080 for dependents aged 15 years old and below. This also includes the express lane fee at BI of P500 per application.

Medical examination fee pertains to payment by the PRA to its accredited merchant partners for providing medical services to retiree-applicants in relation to their application to the SRRV Program of PRA.

26. PERSONNEL SERVICES

This account consists of the following:

	2019	2018
Salaries and wages	46,243,531	42,708,865
Other compensation	15,356,215	13,187,820
Benefits contribution	5,852,080	5,437,551
Other benefits	2,956,484	3,664,253
	70,408,310	**64,998,489**

26.1 Other Compensation

	2019	2018
Year-end bonus	3,896,277	3,417,177
Mid-year bonus	3,623,197	3,604,956
Personnel economic relief allowance	1,945,817	1,983,297
Overtime pay	1,812,788	373,623
Representation allowance	1,110,272	1,246,199
Transportation allowance	866,864	915,068
Longevity pay	788,000	255,000
Clothing/uniform allowance	498,000	500,000
Cash gift	408,000	463,500
Productivity incentive allowance	407,000	429,000
	15,356,215	**13,187,820**

26.2 Benefits contribution pertains to the PRA share of the following premiums:

	2019	2018
Retirement and life insurance premium	5,205,203	4,789,628
PhilHealth contribution	454,352	455,149
Pag-IBIG fund contribution	95,700	99,274
Employees compensation insurance premium	96,825	93,500
	5,852,080	**5,437,551**

Other benefits account pertains to terminal leave benefits of retired/resigned PRA regular employees.

27. MAINTENANCE AND OTHER OPERATING EXPENSES

This account consists of the following:

	2019	2018
Professional services	25,711,218	19,506,611
Repairs and maintenance	16,429,067	6,328,458
Traveling expenses	9,490,191	4,186,243
Communication expenses	5,778,935	2,596,786
Supplies and materials	2,335,793	264,528
Utility expenses	866,279	1,234,115
Training and scholarship expenses	423,039	1,044,868
Taxes, insurance premiums and other fees	457,045	456,166
General services	412,183	405,694
Confidential, intelligence and extraordinary expenses	67,758	85,234
Other maintenance and operating expenses	102,918,029	72,108,606
	164,889,537	**108,217,309**

27.1 Professional services

	2019	2018
Auditing services	3,158,485	2,772,534
Consultancy services	1,529,136	1,361,501
Legal services	944,360	35,100
Other professional services	20,079,237	15,337,476
	25,711,218	**19,506,611**

Other professional services pertain to the salaries and wages including overtime pay of temporary workers under “job order” contracts.

27.2 Repairs and maintenance

	2019	2018
Machinery and equipment	14,891,993	4,722,036
Buildings and other structures	233,627	523,556
Furniture and fixtures	988,080	491,802
Transportation equipment	283,297	422,032
Other PPE	-	125,000
Leasehold improvement	32,070	44,032
	16,429,067	**6,328,458**

27.3 Traveling expenses

	2019	2018
Traveling expenses – local	4,227,223	2,528,838
Traveling expenses – foreign	5,262,968	1,657,405
	9,490,191	**4,186,243**

Local marketing traveling expenses includes P941,745.24 and P1,751,708.93 for CYs 2019 and 2018, respectively.

27.4 Communication expenses

	2019	2018
Internet subscription expenses	4,036,580	1,218,869
Telephone expenses	1,242,471	947,453
Postage and courier services	475,684	401,563
Cable, satellite, telegraph and radio expenses	24,200	28,900
	5,778,935	**2,596,786**

27.5 Supplies and materials

	2019	2018
Office supplies expenses	1,629,573	-
Fuel, oil and lubricants expenses	584,588	144,287
Accountable forms expenses	88,346	79,131
Drugs and medicines expenses	33,286	29,510
Textbooks and instructional materials expenses	-	400
Other supplies and materials expenses	-	11,200
	2,335,793	**264,528**

27.6 Utility expenses

Utility expenses represent those incurred by the Authority for electric consumption during CYs 2019 and 2018 totalling to P866,279 and P1,234,115, respectively.

27.7 Training and scholarship expenses

Training and scholarship expenses pertain to various seminars and conferences attended by employees amounting P423,039 and P1,044,868 for CYs 2019 and 2018, respectively.

24.1 Taxes, insurance premiums and other fees

	2019	2018
Fidelity bond premiums	277,191	234,962
Taxes, duties and licenses	11,130	160,415
Insurance expenses	168,724	60,789
	457,045	**456,166**

27.8 General Services

	2019	2018
Security services	412,183	401,109
Others	-	4,585
	412,183	**405,694**

27.9 Confidential, intelligence and extraordinary expenses

Confidential, intelligence and extraordinary expenses consist of extraordinary and miscellaneous expenses incurred by the Authority in CYs 2019 and 2018 amounting to P67,758 and P85,234, respectively.

27.10 Other maintenance and operating expenses

	2019	2018
Advertising, promotional and marketing expenses	64,206,219	41,432,565
Rent/lease expenses	24,061,027	17,407,499
Representation expenses	8,597,078	7,648,568
Membership dues and contributions to organizations	5,150,681	4,606,487
Major events and convention expenses	388,552	281,614
Transportation and delivery expenses	156,694	113,587
Printing and publication expenses	311,261	113,558
Subscription expenses	46,517	38,463
Other maintenance and operating expenses	-	466,265
	102,918,029	**72,108,606**

28. NON-CASH EXPENSES

	2019	2018
Depreciation		
Machinery and equipment	4,518,373	4,447,893
Building and other structures	1,966,301	1,708,967
Furniture and fixtures	41,374	201,671
Transportation equipment	750,827	25,510
	7,276,875	6,384,041
Amortization-Intangible assets	716,770	325,055
Impairment loss-loans and receivables	13,119,218	307,430
Loss on sale of PPE	-	34,116
	21,112,863	**7,050,642**

29. FINANCIAL EXPENSES

Financial expenses pertain to bank charges amounting to P65,045 and P40,942 in CYs 2019 and CY 2018, respectively.

30. LOSS ON FOREIGN EXCHANGE (FOREX)

This account consists of:

	2019	2018
Realized loss on forex	24,412,153	-
Unrealized loss on forex	646,236,589	773,283,104
	670,648,742	**773,283,104**

Unrealized loss on foreign exchange amounting to P646.237 million and P773.283 million as at December 31, 2019 and 2018, resulted in the translation of monetary assets and liabilities denominated in US Dollars using the year-end closing rates of P50.821:US$1 and P52.665:US$1, respectively.

31. TAXES

31.1 Payment of Taxes and Exemption from VAT.

Section 12 of Executive Order No. 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, and 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, the PRA religiously remits quarterly and yearly with the Bureau of Internal Revenue (BIR) 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.

<u>Value Added Tax (VAT)</u>

The VAT law stated in the provisions of RA 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 RA No. 9337, amending Section 114 of the National Internal Revenue Code of 1997, with subsection (C), the code expressly and specifically mandates GOCCs to which the 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 (5%) per cent of the gross payment thereof…".*

31.2 Income Tax Expense

This account consists of provisions for income taxes for:

	2019	**2018**
Income tax expense – current	161,715,635	183,321,871
Income tax expense – deferred	(37,322,708)	(41,361,266)
Total	**124,392,927**	**141,960,605**

The details of statutory reconciliation are provided below:

	2019	2018
Income tax at statutory rate	167,141,923	179,751,261
Permanent differences:		
Interest income subject to final tax	(42,748,996)	(37,790,656)
Income tax expense	**124,392,927**	**141,960,605**

31.3 Deferred Tax Assets

This account consists of the following:

	2019	2018
Unrealized loss on FOREX	432,561,629	238,690,652
Unearned income	107,300,948	92,325,183
Allowance for impairment	13,295,246	9,359,481
Total	**553,157,823**	**340,375,316**

31.4 Deferred Tax Liabilities

This account consists of:

	2019	2018
Unrealized gain on forex	381,981,055	206,521,256
Total	**381,981,055**	**206,521,256**

32. RELATED PARTY TRANSACTIONS

32.1 Key Management's Personnel

The key management personnel of the PRA are the General Manager and Chief Executive Officer, the members of the governing board, and the members of the senior management group. The governing board consists of members appointed by the President of the Philippines. The senior management group consists of the General Manager and Chief Executive Officer, his deputy, and four (4) department heads of administration and finance, marketing, servicing, and management services.

32.2 Key Management Personnel Compensation

The aggregate remuneration of members of the governing body and the number of members determined on a fulltime equivalent basis receiving remuneration within this category, are:

	2019	2018
Salaries and wages	8,342,733	7,302,932
Other compensation	2,570,990	1,056,641
Other personnel benefits	67,749	2,264,779
	10,981,472	**10,624,352**

The Chairman of the Board and all members of the Board are not currently remunerated by the PRA.

There is no reportable compensation provided to close family members of key management personnel during the period.

33. LEASE AGREEMENTS

The schedule of minimum lease payable of the Authority related to its lease agreements with MBTC and BDO-Trust and Investment Group is shown below:

	2019	**2018**
Rent payable due within:		
One (1) year	17,621,540	16,769,092
More than one (1) year up to five (5) years	2,415,540	19,297,863
Beyond five (5) years	-	-
Total	**20,037,080**	**36,066,955**

34. SUPPLEMENTARY INFORMATION REQUIRED UNDER REVENUE REGULATION (RR) NO. 15-2010

In compliance with the requirements set forth by RR No. 15-2010, hereunder are the information on taxes, duties and license fees paid or accrued during the taxable year:

a. Withholding Taxes:

The details of total withholding taxes for the years ended December 31, 2019 and 2018 are as follows:

	2019	**2018**
Creditable (Expanded)	17,275,992	13,019,153
Compensation and benefits	5,913,627	5,742,952
Creditable (VAT)	6,652,604	5,895,782
Total	**29,842,223**	**24,657,887**

b. Other Taxes & Licenses:

	2019	**2018**
Local		
Community Tax	11,130	11,130
National		
BIR annual registration (Exempted)	-	-

35. LEGAL CASES

The Authority has a pending case which is Civil Case No. R-MKT-17-01543-CV vs. former employees for the cause of action to Recover Sum of Money. As of December 31, 2019, parties entered into compromise agreements except for one (1) employee whose case was parked pending re-entry from Canada.

PART II – OBSERVATIONS AND RECOMMENDATIONS

A. FINANCIAL

1. The Unrealized Loss on Foreign Exchange (Forex) account was understated by P72.336 million, while the Gain on Forex - Unrealized, Interest Income, various assets, and various liability accounts were overstated in the amounts of P64.556 million; P0.294 million; P72.712 million, and P64.639 million, respectively, as of December 31, 2019, due to erroneous closing rate used of P50.821 instead of P50.635 to US$1.00 in the translation of foreign currency monetary items to Philippine Peso, the functional currency of the PRA, contrary to Paragraph 23 of International Accounting Standard (IAS) 21.

1.1 Chapter 3 of the Conceptual Framework for Financial Reporting (CFFR) provides faithful representation as one of the qualitative characteristics of useful financial information. Paragraph QC12 thereof states that:

> *Xxxx…To be useful, financial information must not only represent relevant phenomena, but it must also faithfully represent the phenomena it purports to represent. To be perfectly a faithful representation, a depiction would have three characteristics. It would be complete, neutral and free from error.*

1.2 Paragraph QC15 further provides that:

> *Faithful representation does not mean accurate in all respects. Free from errors means there are no errors or omissions in the description of the phenomenon and the process used to produce the reported information has been selected and applied with no errors in the process.*

1.3 The main revenue of the PRA arises from various fees received from foreign retiree-members or applicants to the retirement program. Note 3.13 of the Notes to Financial Statements (FSs) of PRA provides that their transactions in foreign currencies are initially recognized by applying the spot exchange rate between the functional currency and the foreign currency at the transaction date while at each reporting date, foreign currency monetary items are translated using the closing rate.

1.4 Monetary items are units of currency held and assets and liabilities to be received or paid in a fixed or determinable number of units of currency which could be cash, accounts receivables, accounts payable and other related accounts which may fall under the definition of monetary items, while closing rate is the spot exchange rate at the end of the reporting period.

1.5 Note 5 of the Notes to FSs disclosed that the Cash in bank - foreign currency accounts of PRA were translated into Philippine Peso at year-end using the closing rate of P50.821 to US$1.00. The same exchange rate was likewise applied to all accounts in foreign currency at year-end as confirmed by the concerned personnel of the Finance Management Division (FMD).

1.6 As of December 31, 2019, accounting records showed that the reported Gain on Foreign Exchange (Forex) - Unrealized and Unrealized Loss on Forex totalled to P584.866 million and P646.237 million, respectively, as a result of the translation of foreign currency monetary items.

1.7 Verification of the Reference Exchange Rate Bulletin (RERB) issued by the Treasury Department of the Bangko Sentral ng Pilipinas (BSP) however disclosed that the correct closing Exchange Rate (ER) at the reporting date was P50.635 instead of P50.821 to US$1.00 used by the FMD. The exchange rate of P50.635 to US$1.00 was reflected at the RERB dated January 2, 2020 as the closing date on December 27, 2019, since the latter was the last working day of the year; and, as the last issuance of the RERB, any rate thereat shall be applied as the closing rate at the reporting period or on December 31, 2019.

1.8 Further verification revealed that the closing ER of P50.821 used by the PRA for its translation pertained to the closing ER on December 26, 2019 that was reflected in the RERB dated December 27, 2019. This was not in accordance with the requirement of the International Accounting Standard (IAS) 21, particularly paragraph 23 thereof, which provides that, "*At the end of each reporting period: a. foreign currency monetary items shall be translated using the closing rate; b. xxx...*"

1.9 The erroneous closing ER applied on December 31, 2019 for the translation of foreign currency monetary items resulted in the understatement of Gain on Forex - Unrealized (GFU) and overstatement of the Unrealized Loss (UL) on Forex accounts by P64.351 million and P71.462 million, respectively. Likewise, the following asset and liability accounts were overstated in the total amount of P71.667 million and P64.557 million, respectively. Shown in Table 1 is the summary of misstatements on various asset and liability accounts for CY 2019.

Table 1 - Summary of Misstatements on Cash and Cash Equivalents and Visa Deposits related accounts

Account Name	Amount in USD	Book Value (P50.821)	Year-end Translation using the correct ER (P50.635)	Effect on Account Balance
Cash	2,074,738	P 105,054,376	P 105,440,277	P 385,901
Investments in time deposits-Foreign currency	41,992,673	2,126,298,999	2,134,109,636	7,810,637
Restricted fund	341,239,399	17,278,656,951	17,342,127,479	63,470,528
Total Effect In Assets	**385,306,810**	**19,510,010,326**	**19,581,677,392**	**71,667,066**
Trust liabilities	347,078,074	17,574,298,297	17,638,854,819	64,556,522
Total Effect In Liabilities	**347,078,074**	**17,574,298,297**	**17,638,854,819**	**64,556,522**
Net Effect In Equity	**38,228,736**	**P 1,935,712,029**	**P 1,942,822,573**	**P 7,110,544**

1.10 The concerned personnel explained that it has been the practice of the PRA to use the closing rate on the previous day in recording the transactions for the day considering that the same will only be known on the next banking day. The same practice has been applied to all translation of balances of foreign currency monetary items at year-end.

1.11 Moreover, it was noted that accruals for interest income and interest payable, both foreign-currency denominated accounts, in the total amounts of US$1.579 million and US$0.441 million, respectively, were recorded in the books on December 27, 2019 per Journal Entry Voucher (JEV) Nos. 201912144/148 using ER of P50.821 instead of the spot rate/closing rate of P50.635 to US$1.00. As a result, the balances of the interest receivable, interest payable, and interest income accounts were overstated by P0.376 million, P0.083 million, and P0.294 million, respectively.

1.12 Furthermore, the UL on Forex account was understated by P0.669 million due to inaccurate reporting of Accounts Receivable (AR) as of December 31, 2019. Review of the schedule showed peso-denominated and foreign currency-denominated receivables since there were clients who opted to pay in dollars. Thus, the dollar value of the corresponding receivables from them was retained in the AR Schedule.

1.13 However, it was verified that these (AR) were recorded in the books using the spot rate during the transaction date and were never adjusted at year-end using the correct closing rate which resulted in the overstatement of the AR account totaling P0.669 million as shown in Table 2 and understatement of UL on Forex account in the same amount.

Table 2 - Summary of Discrepancies on the Non-translation of Accounts Receivable in Foreign to Local Currency

Account Receivables	Amount in USD	Year-end Translation using the correct ER (P50.635)	Book Value (Schedule)	Discrepancy
Annual PRA fee	623,872	P31,589,768	P32,198,784	P609,016
Management fee	252,085	12,764,328	12,804,585	40,257
Visitorial fee	64,542	3,268,084	3,280,089	12,005
Harmonization fee	31,589	1,599,517	1,607,044	7,527
Total	972,088	**P49,221,697**	**P49,890,502**	**P668,805**

1.14 The misstatements of certain accounts resulting from the erroneous closing rate used on the translation of foreign currency monetary items for the year-ended December 31, 2019 as discussed above are summarized in Table 3.

Table 3 – Summary of Misstatements on the Affected Accounts As of December 31, 2019

Particulars	Understatement on Unrealized Loss on Forex	Overstatement on Gain on Forex - Unrealized	Overstatement on Interest Income	Overstatement on Assets	Overstatement on Liabilities
a. Misstatements on Cash and Cash Equivalents and Visa Deposits related accounts	P 71,667,066	P64,556,522	P -	P71,667,066	P64,556,522
b. Discrepancies on the Non-translation of Accounts Receivable in Foreign to Local Currency	668,806	-	-	668,806	-
c. Misstatements on the accruals for interest income and interest payable	-	-	293,730	376,341	82,610
Total	**P72,335,872**	**P64,556,522**	**P293,730**	**P72,712,213**	**P64,639,132**

1.15 As a result, the balances of the accounts Cash & Cash Equivalents, Accounts Receivable, Investments, Other Non-current Assets - Restricted Funds, Trust Liabilities – Visa Deposits, Interest Payable, Interest Income, Unrealized Loss on Forex, and Gain on Forex – Unrealized were not fairly presented in the financial statements as of December 31, 2019.

1.16 **We recommended that Management:**

a. Direct the concerned personnel of the Financial Management Division to effect the necessary adjusting entries to correct the understatement of P72.336 million on Unrealized Loss on Forex account, overstatement of P64.556 million on Gain on Forex - Unrealized account, and misstatements on other affected accounts so that the accurate effect on changes in foreign exchange rates shall be reflected in the financial statements for the year ended December 31, 2019; and

b. Henceforth, strictly apply the appropriate closing rates for purposes of year-end foreign currency translation to ensure that foreign exchange differences are properly measured and recognized in the financial statements.

1.17 Management commented that:

a. The PRA publishes its own exchange rates, the basis of which is the PDS Closing Rate being published by the BSP and regular newspapers in the country where the PDS Closing Rates on December 27, 2019 and December 28, 2018 were P50.821/US$1 and P52.665/US$1, respectively. It has consistently applied the basis of its exchange rates.

b. As regards the Accounts Receivable account, though PRA's fees are mostly foreign currency denominated, is peso denominated in the books. Henceforth, sub-account shall be established and used to monitor and record foreign currency denominated accounts which will require re-statement of January 1, 2020 balances and corresponding effects to Retained Earnings in CY 2020.

1.18 Nevertheless, during the exit conference, Management assured that they will make the necessary adjustments on the affected accounts in the books using the year-end closing rate reflected in the RERB of BSP.

1.19 As a rejoinder, the Audit Team appreciated Management's assurance to make necessary adjustments in the books. Their full implementation of the audit recommendations will be monitored in the CY 2020 audit

2. The faithful representation of the balance of the Other Non-Current Assets – Restricted Fund account in the total amount of P17,344.762 million as of December 31, 2019 was not established due to the: (a) variance of P227.354 million between balance per books of Other Non-Current Assets - Restricted

Fund - Visa Deposits Receiving account and per bank confirmation as well as variance of P130.402 million between balance per Inventory Report of Certificate of Retiree's Deposits and per books; and (b) variance of P132.371 million between the balance per books and the confirmed bank balance of the Other Non-Current Assets - Restricted Fund – Visa Deposits - Disbursing account, which remained unreconciled and unadjusted at year-end, contrary to Paragraph 15 of IAS 1.

2.1 Paragraph 15 of IAS 1 – Presentation of Financial Statements provides that:

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

2.2 Audit of the Other Non-Current Assets – Restricted Fund account in the total amount of P17,344.762 million as of December 31, 2019 disclosed deficiencies as discussed hereunder.

Variance of P227.354 million between balance per books of Other Non-Current Assets - Restricted Fund - Visa Deposits Receiving account and per bank confirmation as well as variance of P130.402 million between balance per Inventory Report of Certificate of Retiree's Deposits and per books

2.3 The balances of the accounts pertaining to Restricted Fund (RF) - Visa Deposits as of December 31, 2019 are summarized in Table 4.

Table 4 - Composition of Accounts Related to Restricted Funds

Account Name	Account Code	Balance as of December 31, 2019
Other Non-Current Assets -RF		
Restricted Fund-Visa Deposits-Receiving	1990401000	P17,184,435,482
Restricted Fund-Visa Deposits-Disbursing	1990401001	137,543,724
Restricted Fund-Interest on Visa Deposits	1990401002	22,782,385
Investments		
Investments in Time Deposits-Foreign Currency-Restricted	1021102001	P 139,820,138

2.4 The Other Non-Current Assets (ONCA) - Restricted Fund (RF)-Visa Deposits – Receiving account represents the Visa Deposits (VDs) submitted by qualified foreigner Retiree who wants to avail Special Resident Retiree Visa (SRRV) through the SMILE retirement program of the PRA. As a policy, the Retiree opens an account with the Development Bank of the Philippines (DBP) where his VD shall be accounted for as Time Deposit (TD) under his name.

2.5 The deposits are held in trust for the account of the Retiree-member, thus, a contra account in the form of trust liability account is recognized in the books.

On the other hand, the Certificate of TD is kept by the Finance Management Division (FMD) being the custodian.

2.6 Based on the books, the ONCA - RF – VD Receiving account has a balance of P17,184.435 million for the year-ended December 31, 2019. However, comparison with the results of confirmation from the DBP showed a variance of P227.354 million, details are shown in Table 5.

Table 5 - Other Non-Current Assets - Restricted Funds – VD (Receiving) Per Books vs. Per Bank

	Amount (In US Dollar)	Amount (In Peso)
Balance per Books	338,058,709	17,184,435,482
Balance per Bank*	342,610,126	17,411,789,196
Variance	**(4,551,417)**	**(227,353,714)**

**Closing rate of P50.821/$1 was used*

2.7 Verification of the Bank Reconciliation Statements (BRSs) showing the nature of the variance revealed that the books and bank reconciling items were not identified and reflected thereat for reconciliation purposes. It was further noted that only the totals of monthly variances between the books and the bank have been presented in CY 2019. The total debits and total credits per books were simply compared with the corresponding total credits and total debits per bank, to arrive at the monthly amount of variances which cannot actually be used for reconciliation.

2.8 Verification likewise revealed that long outstanding variances covering CYs 2012 to 2018 remained unreconciled and unadjusted in the books. The net variances totaling P60.106 million were merely presented in the BRSs as "Book vs Bank Transactions" and no further explanation was provided by the FMD.

2.9 Further analysis of the account disclosed that the recording of visa deposits is on a monthly basis where VDs of all applicants/enrollees are recorded in one journal entry while another journal entry for all withdrawal/refunds upon termination of memberships during a particular month. There were no subsidiary ledgers (SLs) being maintained for each Retireee-member which could be used to facilitate reconciliation and monitoring of accounts considering the voluminous transactions. This manner of recording, though convenient, and the non-maintenance of SLs, could have contributed to the noted variance of P227.354 million.

2.10 The concerned personnel of FMD informed that this has been their practice due to lack of manpower. However, the Audit Team would like to emphasize that adequate controls must be in place so as not to sacrifice the proper recording of the transactions in the books.

2.11 Moreover, comparison was made between the outstanding balance of the Certificate of Retirees' deposits per Physical Inventory as of December 31, 2019 with the balance per books and a variance of P130.402 million was noted, as shown in Table 6.

Table 6 - Certificate of Retiree's Deposits - Per Books vs. Per Physical Count

	Amount (In US Dollar)	Amount (In Peso)
Balance per Books	338,058,709	17,184,435,482
Balance per Inventory Report	340,702,419	17,314,837,611
Variance	**(2,643,710)**	**(130,402,129)**

2.12 Inquiry disclosed that the FMD personnel are still in the process of verification and reconciliation, hence, the particulars and nature of the variances noted could not be determined.

2.13 The issues on unreconciled books and bank balances of the RF-VDs Receiving account including the results of inventory of CTDs have been brought to the attention of Management in the previous years, yet, material unreconciled discrepancies still exist.

Variance of P132.371 million between the balance per books and the confirmed bank balance of the Other Non-Current Assets - Restricted Fund – Visa Deposits - Disbursing account.

2.14 The Other Non-Current Assets (ONCA) - RF-VD Disbursing account pertains to the visa deposits that are to be released by the DBP to the Retiree upon termination of the latter's membership and cancellation of SRRV. It has been the policy of the PRA that whenever a Retiree-Member withdraws his VD, the corresponding amount shall be transferred from the ONCA – RF - VD Receiving account to ONCA-RF–VD Disbursing account. Both accounts are being maintained with the DBP while the FMD maintained general ledger (GL) for each account in the books. The account also includes the interest earned on time deposits under the ONCA-RF-VD-Receiving account.

2.15 Records as of December 31, 2019 showed that the total balance per books of the ONCA-RF-VD Disbursing account (including Interest on Visa Deposits) amounted to P160.326 million, while the results of confirmation with the depository bank of the same account disclosed a total amount of P27.955 million only, or a variance of P132.371 million. This casts doubt on the validity and reliability of the balance of the ONCA-RF-VD-Disbursing account.

2.16 Copy of the BRS for the said account was requested from the concerned FMD personnel, however, this was not provided to the Audit Team as at audit date. The concerned personnel informed during inquiry that there were difficulties in the preparation of the BRS, hence, not prepared and provided to the Audit Team.

2.17 Moreover, the Audit Team noted various reclassifications and adjustments made under ONCA-RF-VDs-Receiving, ONCA-RF-VDs-Disbursing, and RF-Interest on VDs accounts at year-end, which could have been one of the causes of the noted variances. Examination, likewise, revealed that several entries were effected after translation of the accounts from US Dollar to Philippine Peso, however, the FMD erroneously used the spot rate during transaction date instead of the closing rate at year-end in the translation thereof. Shown in Table 7 are the reclassification entries involving foreign currency monetary items which affected the afore-mentioned accounts.

Table 7 - Summary of Reclassification Entries with Effect on ONCA - RF-Visa Deposit Disbursing and Receiving accounts

JEV Number	Amount In US Dollar	Peso Equivalent	Peso Equivalent @ 50.821	Difference	Accounts Affected Overstated	Understated
201912176	17,549,494	P 908,979,818	P 891,882,838	**P17,096,980**	RF-VD Receiving	RF-VD Disbursing
201912177	8,586,104	449,073,112	436,354,419	**12,718,693**	RF-VD Disbursing	RF-VD Receiving
201912178	13,609,073	713,220,270	691,626,683	**21,593,587**	RF-VD Disbursing	RF-VD Receiving
201912179	21,442,180	1,135,993,032	1,089,713,044	**46,279,988**	RF-VD Disbursing	RF-VD Receiving
201912180	241,126	12,539,677	12,254,281	**285,396**	RF – Interest on VD	RF-VD Receiving
201912181	20,858	1,099,560	1,059,994	**39,566**	RF-VD Receiving	RF – Interest on VD
201912182	40,118	2,112,805	2,038,828	**73,977**	RF-VD Disbursing	CIB –FC SA-DBP
Total	**61,488,953**	**P3,223,018,275**	**P3,124,930,088**	**P98,088,187**		

2.18 In summary, due to the adjustments presented in Table 7, the ONCA-RF-VDs-Disbursing and RF-Interest on Visa Deposits accounts were overstated by net amount of P63.569 million and P0.246 million, respectively, while the ONCA-RF-VDs-Receiving account was understated by P63.741 million.

2.19 The noted variances coupled with the non-preparation of the required BRS affected the fair presentation of the balance of said account as of December 31, 2019.

2.20 **We recommended that Management direct the concerned FMD personnel to:**

a. Fast track the reconciliation of the Other Non-Current Assets - Restricted Fund – Visa Deposits Receiving and Disbursing accounts in order to determine the causes of the variances between balances per books and per confirmed bank balances and thereafter, effect immediately the necessary adjustments to fairly present the affected accounts in the financial statements; and

b. Reconcile and determine the causes of the variance between the Non-Current Assets - Restricted Fund – Visa Deposit Receiving account and the amount of total Visa Deposits per physical inventory of Certificate of Retirees Deposits.

2.21 Management commented that:

a. Reconciliation of the Other Non-Current Assets – RF- VD Receiving and Disbursing accounts shall be prioritized and shall be the primary task of either the Accountant II or the Financial Analyst II once on board this 2020.

b. PRA will launch the Retiree Bank Management Information System in CY 2020 which has been developed in-house by the Information and Communication Technology Division (ICTD) to automate the monitoring of visa deposits including those with accredited private banks.

2.22 As a rejoinder, the Audit Team acknowledged the plan of action presented by Management. Their full implementation of the audit recommendations will be monitored in the CY 2020 audit.

3. The faithful representation of the balances of the Trust Liabilities (TL) –Visa Deposits (VDs) account of P17,474.184 million and TL - Interest Payable account of P170.415 million as at December 31, 2019 was not ascertained due to discrepancies of P152.205 million and P7.813 million between their contra-accounts, Other Non-Current Assets (ONCA) – Restricted Fund (RF) – VDs of P17,321.979 million, and Interest Receivable – VDs & Investments in Time Deposits (TDs) - Foreign Currency – RF totaling P162.602 million, respectively, contrary to Paragraph 15 of IAS 1.

3.1 Paragraph 15 of IAS 1 – Presentation of Financial Statements provides that:

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

3.2 Trust Liabilities (TL) – Visa Deposits (VDs) pertain to the amount of the Retiree-members' required VDs less withdrawals upon termination of membership from PRA program/cancellation of SRRV. The TL – Interest Payable (IP) pertains to the unclaimed share of retiree-members in the interest income earned from their VDs with the DBP. Based on accounting records, the TL-VDs account is the counter liability of ONCA-Restricted Funds (RF)-VDs Receiving and Disbursing accounts, while the RF – Interest Receivable - VDs and Investment in TDs are the contra accounts of TL – IP account.

3.3 The Trust Liabilities–VDs account has a total balance of P17,474.184 million for the year-ended December 31, 2019. Comparison of the balance of TL-VDs account with its contra account revealed a discrepancy of P152.205 million, details are presented in Table 8.

Table 8 - Trust Liabilities – Visa Deposits vs. Other Non-Current Assets – Restricted Funds (Receiving and Disbursing)

Account		**Amount**
Trust Liabilities – Visa Deposits		P17,474,184,411
Other Non-Current Assets- RF-VD:		
Restricted Fund-Visa Deposits-Receiving	P17,184,435,482	
Restricted Fund-Visa Deposits-Disbursing	137,543,724	17,321,979,206
Discrepancy		**P 152,205,205**

3.4 Likewise, the balance of TL – Interest Payable (Retiree Share) did not equal with its corresponding contra accounts, thereby showing a total discrepancy of P7.813 million, details are presented in Table 9.

Table 9 – TL - Interest Payable vs. Contra Accounts

Account		Amount
Trust Liabilities-Interest Payable (Retiree Share)		P170,415,050
Less: Contra-asset accounts:		
Restricted Fund - Interest on Visa Deposits	P 22,782,385	
Investments in Time Deposits-Foreign Currency-Restricted	139,820,139	162,602,524
Discrepancy		**P 7,812,526**

3.5 Sound accounting practice dictates that balances of Trust Liabilities account and its contra account must be equal at all times. Thus, the balances of TL – VDs should have tallied with the total balance of the Restricted Fund – VDs (Receiving & Disbursing) account, while TL – IP with that of Restricted Fund – interest in VDs and Investment in Time Deposits at year-end.

3.6 In the course of audit, the discrepancy of P7.813 million could have been attributed to the manner of recording the share of the Retiree on the interest from the VDs placed with DBP. As noted, the transactions for pre-terminated time deposit of withdrawing retirees were recorded in the books by debiting the RF – Interest on VDs account and crediting the interest income account. However, the TL-IP (Retiree share) account should have been credited for the increase instead of the interest income account.

3.7 The unreconciled balances of the contra-accounts have been brought to the attention of Management in the previous year's Annual Audit Report (AAR), but discrepancies still persist. In CY 2018, the discrepancies amounted to P13.117 million only; however, these accumulated to P160.018 million (P152.205 million + P7.813 million) as of December 31, 2019, which might continue to increase if not reconciled and corrected immediately.

3.8 Due to the noted discrepancies, the correctness of the balance of the Trust Liabilities account consisting of TL – VD and TL - IP was not ascertained, thus affecting the fair presentation of the balances of the accounts in the financial statements as at December 31, 2019.

3.9 **We recommended that Management direct the concerned FMD personnel to:**

a. Exert all efforts to reconcile the balances of the contra accounts, Non-Current Assets - Restricted Fund and Trust Liabilities – Visa Deposits and Interest Payable considering the material discrepancies noted; and

b. Maintain subsidiary ledgers for the accounts of Retiree-Members (SRRV holders) to facilitate reconciliation and monitoring of account balances.

3.10 Management commented that:

a. The noted discrepancies of the contra-accounts are the subject of the on-going reconciliation and shall be prioritized.

b. The account management of the trust account shall also be a required module of the accounting software to be procured.

3.11 As a rejoinder, the Audit Team appreciated the plan of action of Management. Their full implementation of the audit recommendations will be monitored in the CY 2020 audit.

4. The correctness and reliability of the balance of the Cash and Cash Equivalents account presented in the financial statements as at December 31, 2019 in the total amount of P115.893 million could not be ascertained due to: (a) variance of P6.187 million between the balance per books and the confirmed bank balances of various bank accounts which remained unreconciled and unadjusted as of year-end; and (b) inclusion of abnormal ending balances totaling P4.580 million under the Cash on hand and Cash in bank – local currency accounts which reduced the Cash and Cash Equivalents account by the same amount, contrary to Paragraph 15 of IAS 1.

4.1 Paragraph 15 of IAS 1 – Presentation of Financial Statements provides:

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

4.2 As of December 31, 2019, the Cash and Cash Equivalents account has a balance of P115.893 million consisting of Cash on Hand of P1.494 million; Cash in Bank – Local Currency of P2.119 million; and Cash in Bank – Foreign Currency of P112.280 million.

4.3 The Cash on Hand is comprised of cash – collecting officer, petty cash fund, and foreign currency on hand accounts while Cash in Bank (CIB) – Local Currency and CIB – Foreign Currency pertain to bank accounts with the Land Bank of the Philippines (LBP) and Develpment Band of the Philippines (DBP).

4.4 Audit of the Cash and Cash Equivalents account disclosed deficiencies as discussed hereunder.

Variance of P6.187 million between the balance per books and the confirmed bank balances

4.5 Comparison of the balances per books of the five (5) Cash in Bank accounts and the balances confirmed by the depository banks of the said accounts as of

December 31, 2019 disclosed a total variance of P6.187 million, details of which are presented in Table 10.

Table 10 - Cash-in-Bank Accounts – Books vs. Confirmed Bank Balances

Account Code	Account Title	Balance per Books	Balance Per Bank Confirmation	Difference
1010202000	Cash in Bank-Local Currency, CA LBP Buendia 0052105463	P (3,949,442)	P 153,648	P(4,103,090)
1010202001	Cash in Bank-Local Currency, CA LBP Cebu 0142104946	2,205,210	2,698,559	(493,349)
1010203000	Cash in Bank-Foreign Currency, SA LBP 2204008682	47,565,291	50,788,673	(3,223,382)
1010207000	Cash in Bank-Foreign Currency, SA LBP Cebu 0144020553	5,963,940	7,664,503	(1,700,563)
1010208000	Cash in Bank-Foreign Currency, SA DBP HO 0405-018674-530	58,751,132	55,417,483	3,333,649
Total		**P110,536,131**	**P116,722,866**	**P(6,186,735)**

4.6 Review of the Bank Reconciliation Statements (BRSs) submitted by the concerned personnel of Finance Management Division (FMD) showed that the variance of P6.187 million pertained to unadjusted book and bank reconciling items with total net amount of P16.116 million and P6.071 million, respectively.

4.7 Further verification disclosed that the book reconciling items (BRIs) covered transactions of CY 2019 and long-outstanding items. Shown in Table 11 are the BRIs as of December 31, 2019 and their corresponding nature.

Table 11 - Summary of Book Reconciling Items

Year	Unrecorded Credits/ Deposits	Unrecorded Debits/ Withdrawals	Unrecorded returned check	Error in Cash Collections	Errors in Posting	Errors from previous BRS/For further verification
2009	P -	P (2,632)	P -	P -	P -	P -
2010	-	(192,767)	-	-	-	-
2011	-	(188,830)	-	-	-	-
2012	-	-	-	-	-	-
2013	-	(1,503)	-	-	-	(12,990)
2014	-	(133,530)	-	(1,000)	-	(430,004)
2015	116,234	(3,000)	-	(26,440)	1,322	(71,149)
2016	644,689	(1,690)	-	(552,430)	-	-
2017	820,445	(366,234)	-	(199,878)	-	(177,443)
2018	3,504,225	(256,359)	-	(107,080)	-	(151,673)
2019	14,099,736	(1,116,934)	1,162,954	(283,457)	62,419	(18,796)
Total	**P19,185,329**	**P (2,263,477)**	**P1,162,954**	**P(1,170,285)**	**P63,741**	**P(862,055)**

4.8 Further verification revealed that BRIs with total net amount of P2.210 million have been long-outstanding but not yet adjusted in the books due to unavailability of and/or difficulty on the retrieval of supporting documents. This may have been caused by the non-preparation of BRSs in the previous years.

The concerned personnel of FMD informed during inquiry that they have been in communication with the corresponding banks for the supporting documents.

4.9 It was likewise noted that unrecorded deposits covered substantial amount of the BRIs which should have been prioritized in the reconciliation given the nature and the amount involved. The unrecorded deposits pertained to various fees which were deposited directly by the clients to the bank accounts of the PRA. However, the concerned FMD personnel were not able to trace the depositors since the documents relative thereto were not provided to the PRA by said clients after making direct deposits or by the concerned banks.

4.10 Unrecorded debits/withdrawals totaling P2.263 million represent amounts debited to the bank accounts of PRA by the LBP – Buendia and Cebu branches, but these remained unadjusted in the books. Inquiry with the FMD personnel disclosed that these reconciling items were not supported by Debit Memos (DMs). However, they informed that pertinent documents were requested already from the concerned depository banks.

4.11 On the other hand, bank reconciling items presented in Table 12 have been identified in the BRSs as of December 31, 2019.

Table 12 - Summary of Bank Reconciling Items

Bank Reconciling Items	Total Amount
Outstanding checks	P(3,472,341)
Uncleared checks deposits	5,844,575
Erroneous credits to the account	(2,052,495)
Erroneous debits to the account	5,816,178
Delayed posting of online transaction (debit)	(64,181)
Total	**P 6,071,736**

4.12 As can be gleaned in Table 12, there were uncleared check deposits in the total amount of P5.845 million representing Management Fee collections from PRA's six (6) accredited private banks. Examination disclosed that said check deposits were dated January and December 2019 which should have been cleared and reflected by the LBP in the account of PRA as at year-end. Likewise, there were erroneous postings (credits/debits) made by the bank to PRA's bank account where said transactions should have been posted to the Other Non-Current Assets-Restricted Fund - Disbursing account of PRA instead of its Savings Account.

4.13 Said errors remained unadjusted by the bank in the account of PRA though concerned FMD personnel informed during inquiry that communication with the bank concerning uncleared check deposits and unadjusted errors have been made already.

4.14 Considering the substantial amount involved and the period of time that elapsed for which no action has been taken by the concerned depository banks on the said reconciling items, particularly the unposted deposits totaling P5.845 million and debit transactions of P2.263 million with no DMs provided by the concerned banks, there must be intensified coordination by the PRA personnel/officials with the said banks in order to protect the interest of the Authority.

Inclusion of abnormal ending balances totaling P4.580 million

4.15 Section 111 of Presidential Decree (PD) No. 1445 states that:

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

4.16 Review of the accounting records showed that the Cash on Hand and CIB – Local Currency accounts included abnormal balances amounting to P4.580 million, thereby reducing the Cash and Cash Equivalents account by the same amount. The abnormal balances covered various petty cash fund accounts totaling P0.631 million and and one (1) CIB – Local Currency account with LBP in the amount of P3.949 million.

4.17 Verification disclosed that in CY 2019, various Petty Cash Fund (PCF) sub-accounts were created pursuant to the implementation of the Unified Accounts Code Structure (UACS). However, when the PCFs were established and granted to the assigned custodians, these were erroneously recorded under the PCF (main) account instead of the corresponding PCF sub-account for each custodian. At year-end, the closing of the PCF balances were taken up in the books by crediting the newly created PCF sub-account, but the journal entries necessary to correct/adjust said PCF sub-accounts were not effected by the FMD resulting in the negative balances.

4.18 As to the CIB – Local Currency with negative balance of P3.949 million, it was admitted by the concerned FMD personnel that the account has been "overdraft" for quite some time due to the receipts yet to be reconciled and recorded by PRA. This was evidenced by the existence of outstanding checks in the total amount of P3.472 million, yet, the LBP checking account where said checks are to be charged has a balance of P0.154 million only per bank confirmation at year-end.

4.19 In view of the foregoing deficiencies, the correctness and reliability of the Cash and Cash Equivalents account totaling P115.893 million as at December 31, 2019 could not be ascertained, thus, affecting the fairness of presentation of the account in the financial statements.

4.20 **We recommended that Management:**

a. **Direct the concerned FMD personnel to effect the necessary adjusting entries, after a thorough verification of the book reconciling items for each of the affected bank accounts to fairly present the balance of the Cash and Cash Equivalents account in the financial statements;**

b. **Instruct the concerned officials to intensify their efforts in coordinating with the depository banks to determine the details of the books and bank reconciling items as well as to provide the pertinent supporting documents so that necessary adjustments could be effected in the books as well as in the concerned banks' records;**

c. **Devise mechanism that would address the issues on the identification of depositors/clients who made direct deposits to PRA's depository bank accounts to facilitate recording of the same in the books; and**

d. **Require the Finance Management Division to: (i) immediately conduct reconciliation to identify the cause(s) of the abnormal ending balances totaling P4.580 million, and (ii) effect the necessary adjusting entries based on the result of reconciliation to arrive at the correct balance of the Cash and Cash Equivalents account.**

4.21 Management commented that:

a. The Financial Management Division has been in long discussions with the Officers of the LBP to address the issue on long outstanding bank reconciling items especially on the current account with the LBP - Buendia Branch.

b. PRA will make discussions with the banks in considering a more enhanced banking services related to online payments and collections such as:

   i. Enrollment to digital banking with the DBP;

   ii. Tri-party agreement with the DBP and Pay Maya to enable online payment including via credit cards such as Mastercard and Visa; and

   iii. Enrollment to the Landbank Link.Biz Portal to enable online payment including via credit cards and over-the-counter through Seven-Eleven and other payment gateways.

c. Procurement of accounting software to automate financial accounting and reporting shall be made. Budget provision is in the CY 2021 Corporate Operating Budget (COB), for approval of the Board.

4.22 As a rejoinder, the Audit Team appreciated the initial actions taken by Management on the audit recommendations. However, it is emphasized that the issue on long outstanding book reconciling items should likewise be prioritized so that their nature could be identified and eventually adjusted in the books to reduce the unreconciled variance while waiting for the procurement of the accounting software.

5. The Retained Earnings and Repairs and Maintenance (R&M) Expense accounts were overstated by P2.648 million and P7.506 million, respectively, while the Semi-Expendable–Furniture & Fixtures (F&F) Expense, Semi-Expendable–Machinery & Equipment (ME) Expense, and Subscription Expense accounts were understated in the amounts of P0.904 million; P0.265 million; and P3.689 million, respectively, due to erroneous reclassification of various items to the R&M Expense account, contrary to Paragraph QC12 of Chapter 3 of the Conceptual Framework for Financial Reporting and Section 111 of Presidential Decree (PD) No. 1445.

5.1 Chapter 3 of the Conceptual Framework for Financial Reporting (CFFR) provides faithful representation as one of the qualitative characteristics of useful financial information. Paragraph QC12 thereof states that:

> *Xxx To be useful, financial information must not only represent relevant phenomena, but it must also faithfully represent the phenomena it purports to represent. To be perfectly a faithful representation, a depiction would have three characteristics. It would be complete, neutral and free from error xxx.*

5.2 Likewise, Section 111 of PD No. 1445 provides the following on the recording of financial transactions in the books, to wit:

> *Section 111. Keeping of accounts*
>
> *Xxxx*
>
> *The highest standards of honesty, objectivity, and consistency shall be observed in the keeping of accounts to safeguard against inaccurate or misleading information.*

5.3 Review of the accounting records and pertinent documents showed that the R&M expenses for CY 2019 amounted to P16.146 million which significantly increased by P9.818 million or 155.15 per cent from P6.328 million only in CY 2018.

5.4 Examination of the R&M expense account revealed that transactions recorded therein included reclassifications of P7.506 million relating to various Property, Plant and Equipment (PPE) items such as furniture & fixtures (F&F), machinery & equipment (ME), and information & technology equipment (ICTE), details are presented in Table 13.

Table 13 - Summary of Reclassifications of Various F&F, ME, and ICTE Items

JEV No.	Particulars	Amount
201912196	Prepayments pertaining to subscriptions, VisStudio Pro User Sl and power BI licenses procured in 2017/2018	P2,648,233
201912185	Reclassification of semi-expandable PPE – Furniture and Fixtures to R & M expenses account	903,878
201912185	Reclassification of ICTE items previously recognized in the books as PPE	3,391,487
201912186	Reclassification of semi-expandable PPE - Information & Communication Technology Equipment items to R & M expense account	562,415
Total		**P7,506,013**

5.5 It was noted that payments of the Agency for MS Office annual subscriptions, Vis Studio Pro User, and Power BI License in CYs 2017 and 2018 totaling P2.648 million were initially booked under the Other Prepayments account. On December 27, 2019, said items were reclassified to R&M Expense account per JEV No. 201912196. Verification of records, however, disclosed that the same were delivered, paid, and consumed/used by the concerned personnel in CYs 2017 and 2018, therefore, these should have been reclassified to Retained Earnings account instead of R&M expense account. As a result, the R&M expense and Retained Earnings accounts were both overstated in the amount of P2.648 million as of December 31, 2019.

5.6 It was also noted that reclassifications to R&M expenses in the total amount of P0.904 million and P0.265 million under JEV Nos. 201912185 and 201912186, respectively, pertained to F&F and ICT items such as chairs, steel racks, hard disks, among others, costing P15,000 and below, but with estimated useful life of more than one year; thus, these items qualify as semi-expendable. These items are usually reclassified to the appropriate expense accounts upon issuance to the Agency personnel or the end-user, with corresponding Inventory Custodian Slip to be accomplished by the recipient of the items.

5.7 Analysis, however, revealed that the FMD initially recorded subject items under the PPE accounts when these were paid, instead of Semi-expendable asset account. At year-end, the FMD reclassified the items amounting to P0.265 million and P0.904 million to R&M – Machinery & Equipment (ME) expense and R&M – F&F expense accounts, respectively, instead of expense accounts for Semi-expendable items. Consequently, the Semi-Expendable F&F expense and Semi-Expendable ME expense accounts were understated by P0.904 million and P0.265 million, respectively, while the R&M expense account was overstated by P1.169 million.

5.8 Further, it was observed that items pertaining to system/software licenses amounting P0.297 million and P3.392 million previously recorded in the books as Computer Software were reclassified to R&M – ME expenses under JEV Nos. 201912185 and 201912186, respectively. The concerned personnel informed that these were not actually computer software but rather licenses and/or subscriptions with coverage of one year, hence, the said reclassification.

5.9 The Updated Revised Chart of Accounts, however, prescribes that the cost of subscriptions for ICT software, data centerservice, and the like is recognized under the Subscription expense account. Thus, said procured licenses costing P0.297 million and P3.392 million should have been debited to Subscription expense account. Accordingly, the Subscription expense account was understated by P3.689 million while R&M expense account was overstated by the same amount.

5.10 The erroneous reclassifications under R&M expense account resulted in the misstatements of various accounts as summarized in Table 14.

Table 14 – Summary of Misstatements due to Erroneous Reclassifications

JEV No.	Item/Description	Over(under)statement Accounts	Amount
201912196	License for Power BI/MS Office/VisStudio	Retained Earnings	P 2,648,233
201912185	Various items	Semi-expendable F&F expense	(903,878)
	Disaster Recovery System/File Compression software/Networking Monitoring tool	Subscription Expense	(3,391,487)
201912186	Various Internal and External Hard Disk	Semi-expendable ME Expense	(264,973)
	Queue Management System/ QR Barcode Generator and Scanning Software	Subscription Expense	(297,442)
Total Repairs and Maintenance			**P 7,506,013**

5.11 The above-mentioned misstatements due to errors in the recording of financial transactions affected the fair presentation of the Retained Earnings, Semi-expendable F&F expense, Subscription expense, and Semi-expendable ME expense accounts in the financial statements for the year-ended December 31, 2019 and were not in conformity with Section 111 of PD No. 1445.

5.12 **We recommended and Management agreed to require the concerned FMD personnel to:**

a. Effect immediately the necessary adjusting entries to correct the overstatement of Repairs & Maintenance Expense and Retained Earnings accounts by P7.506 million and P2.648 million, respectively, as well as the understatement of Semi-Expendable – F&F Expense, Semi-Expendable – ME Expense, and Subscription Expense accounts in the amount of P0.904 million, P0.265 million, and P3.689 million, respectively, to fairly present the accounts in the financial statements for the year-ended December 31, 2019; and

b. Exercise prudence in the recording of financial transactions to avoid inaccurate and misleading information in compliance with Section 111 (2) of PD No. 1445.

6. The correctness, reliability, and existence of the Property, Plant and Equipment (PPE) account with carrying amount of P59.465 million as at December 31, 2019 was not ascertained due to the following deficiencies:

a. **Variance of P27.982 million between the results of physical count for several PPE units with their balances per books;**

b. **Submitted inventory reports were not in the prescribed format while inventory reports for various PPE items with total cost of P5.987 million were not prepared and submitted by the Inventory Committee, contrary to the requirements of Sections IV and V of COA Circular No. 80-124 dated January 18, 1980;**

c. **Property Cards (PCs) for PPE items were not maintained by the Property Unit while PPE Ledger Cards (PPELCs) prepared by Finance Management Division (FMD) lacked pertinent information; and**

d. **Various PPE items with an aggregate cost of P1.137 million were still classified under PPE account despite being unserviceable, which is not in conformity with Paragraph 67 of IAS 16**.

6.1 Audit of the PPE account with carrying amount of P59.465 million as at December 31, 2019 revealed various deficiencies as discussed hereunder.

Variance of P27.982 million between the results of physical count for several PPE units with their balances per books

6.2 Item 4 of Section V of COA Circular No. 80-124 dated January 18, 1980 states that:

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

6.3 Comparison between the balances reflected in the physical inventory report submitted by the PRA and the corresponding balances per books as of December 31, 2019 showed a total variance of P27.982 million arising from the specific PPE units presented in Table 15.

Table 15 - Physical Count vs. Per Books on 2 PPE sub-accounts

PPE Account	Balances per		Variance
	GL	Inventory Report	
ICTE*	P37,326,726	P10,310,192	P27,016,534
Furniture and Fixtures (F&F)	5,547,843	4,582,542	965,301
Total	**P42,874,569**	**P14,892,734**	**P27,981,835**

**ICTE – Information and Communication Technology Equipment*

6.4 Analysis disclosed that part of the variance of P27.017 million on the ICTE was attributable to items with total cost of P1.032 million which have been identified as existing in the lapsing schedule of the Finance Management Division (FMD) and data of Information and Communication Technology Division (ICTD) but were not included in the inventory report due to insufficiency of data.

6.5 The Audit Team also took note of several items under ICTE and F&F that were disposed in October 2019, but with unidentified acquisition costs. These were no longer included in the inventory count, yet, they remained recorded in the books as there was no adjustment made upon disposal. Other causes of the variance cannot be identified since the responsible units did not reconcile the physical inventory report with the balance per books of ICTE and F&F.

Submitted inventory reports were not in the prescribed format while inventory reports for various PPE items with total cost of P5.987 million were not prepared and submitted by the Inventory Committee

6.6 Further, verification of the physical inventory reports (PIRs) submitted by the Administrative Department (AD) disclosed that these were not in their prescribed format. The reports reflected only the individual PPE items together with their location/area, property/reference number, acquisition date/cost and name of custodian and signed by the personnel of AD instead of the Inventory Committee (IC). The PIRs did not also include analysis on the findings of IC that could have been used in the reconciliation with the accounting records. Conclusions and recommendations relative to the results of inventory count were not likewise presented in the report despite being the required output of the Committee as stated under PRA Office Order No. PRA-ANF-2018-0-10-248 dated October 18, 2018.

6.7 The Audit Team also noted the absence of inventory reports for other PPE units of the Head Office comprising of Other Equipment of P2.634 million; Other Machinery & Equipment of P0.937 million; and Other PPEs of P2.416 million or with aggregate cost of P5.987 million, hence the integrity of property custodianship of all the assets belonging to PRA was not validated.

6.8 The absence of physical inventory report was not in conformity with Section IV of COA Circular No. 80-124 which states that:

> *Physical inventory of fixed assets shall be made at least once a year as of December 31 in accordance with the guidelines enumerated xxx. Inventory reports of regional/branch offices, shall be submitted to the head of the agency not later than January 20 for consolidation and the consolidated inventory report shall be submitted to the Auditor not later than January 31 of each year, unless extended by the Chairman upon prior request of the head of agency concerned.*

6.9 The concerned AD personnel admitted that physical count was not completed/conducted for the above-mentioned PPE units while there was no inventory taking conducted at the PRA Satellite Offices (SOs), thus, no inventory report was submitted to HO for consolidation. They likewise informed that they merely keep the records of ARE for PPE units of the SOs and that their existence was validated only through verification with the Procurement Division in the Head Office.

6.10 Physical stock-taking is an indispensable procedure not only to check the integrity of property custodianship but also to determine the reliability and propriety of the account balances. Hence, this must be undertaken annually for all properties of the PRA and the corresponding reports must be reconciled with the accounting records.

PCs for PPE items were not maintained by the Property Unit while PPELCs prepared by FMD lacked pertinent information

6.11 It was also noted that subsidiary ledgers such as PPELCs maintained by the FMD lacked pertinent information about the PPE items, while the PCs were not yet maintained by the Property Unit despite the matter was already brought to the attention of Management in the previous years.

6.12 The PPELCs did not contain information such as date acquired, references, receipt, quantity, unit cost, total cost, accumulated depreciation and transfer/adjustments, among others, that would be helpful in tracing details for a particular PPE item acquired in previous years.

Various PPE items with an aggregate cost of P1.137 million were still classified under PPE account despite being unserviceable

6.13 Paragraph 7 of IAS 16 provides that the cost of an item of PPE shall be recognized as an asset if and only if it is probable that future economic benefits associated with the item will flow to the entity and the cost of the item can be measured reliably. Paragraph 67 thereof further states that:

> *The carrying amount of an item of PPE shall be derecognized on disposal or when no future economic benefits are expected from its use or disposal.*

6.14 The Inventory Report of ICTE listed PPE items such as: (a) Acer Veriton Desktop (3 units) - P0.156 million; (b) Redfox Desktop (2 units) - P0.078 million; and (c) Toyota Revo VX 200/AT (1 unit) - P0.903 million, or an aggregate amount of P1.137 million as unserviceable items but were noted to have been included in the books as of December 31, 2019.

6.15 Verification disclosed that the Toyota Revo acquired on October 15, 2003 with acquisition cost of P0.903 million and carrying amount of P0.090 million was already non-operational since April 2019. According to the concerned AD personnel, the vehicle had been undergoing several repairs until March 2019 but became non-operational on the following month. The Acknowledgement Receipt of Equipment form for the vehicle issued to personnel of Resident Retiree Servicing Department was cancelled on January 28, 2020. It was noted though that there was no report yet or request for disposal of the unserviceable items as of year-end.

6.16 The non-disposal of the unserviceable properties resulted in the non-derecognition of their carrying amount in the books, thereby overstating the PPE account by P1.137 million.

6.17 Due to the foregoing noted deficiencies, the correctness, reliability, and existence of the PPE account with a carrying amount of P59.465 million was not ascertained, thus, affecting the fairness of presentation of the balance of the account in the financial statements.

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

a. Direct the Inventory Committee (IC) and the FMD to: (i) conduct immediate reconciliation of the PPE accounts to identify the causes of the variance of P27.982 million; and (ii) henceforth, conduct periodic reconciliation of PPE records to ensure that discrepancies are immediately addressed;

b. Require the FMD to effect the necessary adjusting entries so that the balance of the PPE account shall be fairly presented in the financial statements;

c. Instruct the IC to: (i) conduct physical inventory of the PPE items costing P5.987 million together with those in the Satellite Offices and submit a consolidated inventory report for all assets of PRA pursuant to Section IV of COA Circular No. 80-124; and (ii) prepare the inventory report in accordance with the prescribed format;

d. Require the FMD and Property Unit to properly maintain PPELCs and PCs, respectively, for each class/item of property to facilitate monitoring and reconciliation;

e. Direct the Administrative Department to ensure timely submission of the Inspection and Inventory Report of Unserviceable Properties (IIRUP) to the FMD to facilitate derecognition of the unserviceable items upon disposal; and

f. Conduct exhaustive investigation on the variance considering the balances per books of the Information and Communication Technology Equipment and Furniture & Fixtures were greater than the balances per physical count, which may indicate missing items, and undertake appropriate legal and/or administrative actions, if warranted.

7. The faithful representation of the Accounts Receivable account with carrying amount of P47.393 million, net of Allowance for Impairment, could not be ascertained due to its valuation and disclosures are not compliant with the requirements of Paragraph 5.2.2 of the International Financial Reporting Standards (IFRS) 9 and Paragraphs 16 and 18 of IAS 1.

7.1 IAS 1 provides that financial statements shall present fairly the financial position, financial performance, and cash flows of an entity and that fair presentation is presumably achieved as a result of the application of International Financial Reporting Standards (IFRS), with additional disclosure when necessary.

7.2 Paragraphs 16 and 18 of IAS 1 - Presentation of Financial Statements state that:

Paragraph 16 -

> *An entity shall not describe financial statements as complying with IFRS unless they comply with all the requirements of IFRS*.

Paragraph 18 -

> *An entity cannot rectify inappropriate accounting policies either by disclosure of the accounting policies used or by notes or explanatory material.*

7.3 Note 2.1 of the Notes to Financial Statements (FSs) stated that financial statements were prepared in accordance with the Philippine Financial Reporting Standards (PFRSs) covering all applicable accounting standards and interpretations including PFRS/IFRS 9 which was recently adopted. IFRS 9 provides the classification, measurement and impairment of financial assets and had replaced the Philippine Accounting Standard (PAS) 39.

7.4 It was likewise mentioned under Note 3.3 of the Notes to FSs that the accounting policy of the PRA on impairment is the application of Expected Credit Losses (ECL) model to its financial assets measured at amortized cost, particularly on trade receivables. Also, the measure of loss allowances for its receivables shall be at an amount equal to lifetime ECLs resulting from all possible default events over the expected life of the financial instrument. It further disclosed that ECLs are probability-weighted estimates of credit losses and measured as the present value of all cash shortfalls.

7.5 As of December 31, 2019, accounting records showed that the recorded Allowance for Impairment on Accounts Receivables amounted to P39.788 million or a net increase of P13.119 million from the previous year’s amount of P26.669 million.

7.6 Verification however, disclosed that the provision on Allowance for Impairment was computed based on the amount of receivables that have been outstanding for three (3) years or more instead of applying the ECL model, details are shown in Table 16.

7.7 While it was disclosed that ECL model has been applied to financial assets, on the contrary, it was indicated under Note 3.3 of the Notes to FSs that significant increase on credit risk for receivables is presumed when these become three (3) years past due. As can be gleaned in Table 16, the Accounts Receivable of

P47.393 million aged below three (3) years for the year ended December 31, 2019 were not provided with Allowance for Impairment.

Table 16 - Aging Schedule of Accounts Receivable for CYs 2019 and 2018

Age of Accounts Receivable	Outstanding Receivables (2019)	Allowance for Impairment	Outstanding Receivables (2018)	Allowance for Impairment
Less than 90 days	P12,948,094	P -	P14,970,898	P -
91-365 days	19,355,469	-	12,943,474	-
Over one year	15,089,558	-	20,444,813	-
Sub-total	***47,393,121***	**-**	***48,359,185***	**-**
Over three years	39,788,130	39,788,130	26,668,912	26,668,912
Total	**P87,181,251**	**P39,788,130**	**P75,028,097**	**P26,668,912**

7.8 As such, the incurred loss model under PAS 39 was used for measuring impairment of the Accounts Receivable when in fact, such model was no longer applicable and not within the confine of lifetime ECLs as required under Paragraph 5.2.2 of IFRS 9, which states that:

> *An entity shall apply the impairment requirements in Section 5.5 to financial assets that are measured at amortized cost in accordance with paragraph 4.1.2 xxx.*

7.9 It is emphasized that the occurrence of credit event like clients defaulting on payment prior to recognition of credit losses is no longer necessary under IFRS 9. Instead, the relative increases in credit risk are assessed and the amount of ECL is updated by the entity at each reporting date to reflect changes in credit risk since the initial recognition. Thus, the application of impairment model based on expected losses results in earlier recognition of losses since loss allowance has to be measured at initial recognition and throughout the life of the receivable at an amount equal to lifetime ECL.

7.10 Considering that only accounts that have been outstanding for more than three years were provided with loss allowances, the Audit Team opines that the actual computation of the impairment provided as well as the disclosures in the Notes to FSs were not in accordance with the requirements of IFRS 9, which affected the valuation of the Accounts Receivable account with balance of P87.181 million and carrying amount of P47.393 million as of December 31, 2019.

7.11 The PRA should have used its historical credit loss experience together with reasonable and supportable forward-looking information to establish the applicable loss rates for all its accounts instead of relying on the basis of occurrence of an event bearing the requirement of the old Standard for impairment.

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

a. **Adhere strictly to the requirements of IFRS 9 particularly on the impairment of financial assets to ensure that the Accounts Receivable account be fairly presented in financial statements; and**

b. **Consider using reasonable and supportable forward looking information such as historical data, past experiences, and other significant measures of credit risk that may be available at initial recognition and incorporate them in the assessment of significant increases on credit risk.**

8. Past due receivable accounts of more than one year in the aggregate amount of P52.561 million remained uncollected as of December 31, 2019, thus exposing the PRA to possible credit losses; and, of the said amount, accounts totaling P33.151 million were identified as dormant or non-moving for more than ten years.

8.1 COA Circular No. 2016-005 dated December 19, 2016 requires that all government entities conduct regular monitoring and analysis of receivable accounts to ensure that these are collected when these become due and demandable.

8.2 As of December 31, 2019, records showed that the outstanding Receivables totaled P162.814 million, of which P87.181 million pertained to Accounts Receivable (ARs). Details of the ARs are presented in Table 17.

Table 17- Composition of Accounts Receivable Account

Account Code	Account Name	Balance
1030101001	Accounts Receivable - Annual PRA Fees (APFs)	P32,198,784
1030101002	Accounts Receivable - Management Fees (MFs)	12,804,585
1030101003	Accounts Receivable - Visitorial Fees (VFs)	40,331,149
1030101004	Accounts Receivable - Harmonization Fees (HFs)	1,846,733
Total		**P87,181,251**

8.3 Review showed that the total ARs as of December 31, 2019 increased by P12.153 million or 16.20 per cent from the CY 2018 balance of P75.028 million. Analysis of the Aging Schedule of ARs further showed that a total of P52.561 million or 60.29 per cent has been outstanding and overdue for more than a year as at year-end. Of the said amount, accounts totaling P39.788 million have been outstanding for more than three (3) years representing ARs on APFs, VFs and HFs.

8.4 Verification disclosed that merely the amount of P0.889 million or 2.39 per cent had been collected during CY 2019 from the past due accounts (over three years) in CY 2018 of P37.159 million, whereas the said amount has increased by P3.518 million representing accounts which were erroneously excluded in the CY 2018 Aging Schedule. The foregoing circumstances indicated weak and/or inadequate collection policies and monitoring.

8.5 Further verification revealed that accounts totaling P33.151 million of the long overdue accounts were dormant as of December 31, 2019. Said dormant receivable accounts remained inactive or non-moving in the books of accounts for ten (10) years or more, as follows: 10 – 15 years, P18.457 million; 15 – 20 years, P6.365 million and over 20 years, P8.329 million. It was likewise, disclosed that 99.68 per cent or P33.045 million of the dormant accounts pertained to VFs that have been outstanding in the books for a period of ten (10) years to more than twenty (20) years.

8.6 The concerned FMD personnel admitted that they were aware of the increasing number of uncollectible accounts yet they have recoveries though minimal. They also informed that currently, it is their Division which assumed the responsibility of collections with the assistance of the Resident Retiree Servicing Department (RRSD) and Information & Communications Technology Division (ICTD). They explained that a billing statement is being sent to the client at the anniversary of the issuance of the Retiree's visa, which serves as invoice, statement of account, and notice for non-payment of Fees. Yet, there were also instances where the billing statements were sent only to clients on the third (3rd) year of non-payment of APFs/VFs.

8.7 It was noted, however, that demand letters are not being sent to clients who failed to pay their long overdue accounts with the PRA which should have been necessary in the collection process. Instead, the names of those delinquent clients for more than three (3) years were just forwarded by the PRA to the Bureau of Immigration (BI) for enlisting to the watch list and/or for blacklisting. Though the requests for watch listing//blacklisting were acknowledged by the BI, the Authority has not required from the former copies of reports and status of the blacklisted clients in order to track their whereabouts.

8.8 Moreover, the Authority has no mechanism in place for the monitoring of the location of their clients, for collection purposes, as evidenced by numerous billing statements with remarks of "returned to sender".

8.9 In CY 2019, the PRA was able to recover only the amount of P0.101 million from its receivables - VFs which have been previously provided with Allowance for Impairment based on the report submitted by the FMD.

8.10 The past due accounts totaling P52.561 million, if remained uncollected, exposes the PRA to possible credit losses and deprives it with additional funds for its operations and various programs.

8.11 **We recommended that Management:**

a. Direct the concerned personnel to: (i) intensify collection efforts of past due receivable accounts totaling P52.561 million; (ii) continuously monitor the past due accounts in order to perform immediate and appropriate remedial actions; and (ii) review and evaluate thoroughly whether there is still recoverable amount from the dormant receivable accounts and refer the matter to the PRA Legal Services Unit for legal action and other remedies, if warranted.

b. **Revisit the collection policies of the PRA and devise/implement new strategies to improve and expedite collection of receivables.**

8.12 Management commented that:

a. Efforts are in place to manage past due accounts and improve credit and collection. In addition, PRA shall implement the following actions:

i. Employ account officers to intensify credit and collections;
ii. Revisit its credit policy and risks management strategy;
iii. Re-establish close coordination with the BI on tracking and monitoring of delinquent SRRV holders; and
iv. Exhaust legal means to enforce collections of delinquent accounts.

b. As regards the dormant accounts, PRA is currently determining the accounts to be written off following the guidelines and procedures on the write-off of dormant receivable accounts under COA Circular No. 2016-005 dated December 19, 2016.

8.13 As a rejoinder, the Audit Team acknowledged the plan of action of Management with regard to dormant receivable accounts. However, their full compliance with the recommendations will be monitored in the CY 2020 audit.

9. The correctness and validity of the Accounts Payable (A/P) account with balance of P86.039 million as of December 31, 2019 cannot be ascertained due to: (a) existence of dormant accounts in the amount of P13.807 million, contrary to Section 3 of the Department of Budget and Management (DBM) and COA Joint Circular No. 99-6; (b) inclusion of negative (abnormal) balances totaling P0.105 million which reduced the balance of the A/P account; (c) incomplete documentation of accrual of expenses totaling P59.887 million, contrary to Section 3.2(a) of COA Circular No. 99-004; and (d) non-maintenance of Subsidiary Ledgers (SLs), contrary to Section 114(2) of PD No. 1445.

9.1 As prescribed in the updated Revised Chart of Accounts under COA Circular No. 2020-02, the A/P account is used to recognize the receipt/purchase/procurement/acquisition of goods or services on account in the normal course of trade and business operation. It is also used to recognize liability set up against current operation for unpaid claims filed or received and other unpaid expenses and liabilities, while the account is debited for payment or settlement of liabilities.

9.2 As of December 31, 2019, the A/P account has a total balance of P86.039 million. Audit thereof disclosed various deficiencies which affected the fair presentation of the account in the financial statements, as discussed hereunder.

Existence of dormant accounts in the amount of P13.807 million

9.3 Section 98 of PD No. 1445 provides for the reversion of any unliquidated balances of A/P which has been outstanding for two (2) years or more and against which no actual claim, administrative or judicial has been filed or which is not covered by perfected contracts on record. Likewise, Section 3 of DBM and COA Joint Circular No. 99-6 dated November 13, 1999 states that:

> *3.1. All documented A/Ps of all funds which have remained outstanding for two (2) years shall be reverted to the Cumulative Results of Operations – Unappropriated (CROU), except on-going capital outlay projects.*
>
> *3.2. Xxx*
>
> *3.3. All undocumented A/Ps, regardless of the year they were incurred, shall immediately be reverted to CROU.*

9.4 In addition, COA Circular No. 99-004 prescribing, among others, the accounting guidelines for A/P, states that, *"Payable - Unliquidated obligations which has been outstanding for two years or more and against which no actual claims, administrative or judicial has been filed or which is not covered by perfected contracts on record should be reverted to the Cumulative Results of Operations Unappropriated (CROU)".*

9.5 Analysis of the Schedule of A/P disclosed that various obligations/payables totaling P13.807 million or 16.05 per cent of the total amount have been outstanding in the books for more than two years or have remained dormant as of December 31, 2019, breakdown in Table 18.

Table 18 - Schedule of Dormant Accounts Payable as of December 31, 2019

Particulars	More than 2 years	More than 3 years	Total
1. Obligated accounts	P7,603,514	P5,694,924	P13,298,438
2. Various payees (staled checks)	-	508,105	508,105
Total	**P7,603,514**	**P6,203,029**	**P13,806,543**

9.6 Based on the accounting records, the obligated accounts of P13.298 million pertained to accruals of salaries of employees, obligations to National Government Agencies, payment for various Maintenance and Other Operating Expenses (MOOE) items, and other direct costs of the Authority. Most of the accounts were accrued three (3) to four (4) years ago; however, they remained outstanding in the books since not all items being accrued at year-end were completely paid on the succeeding year.

9.7 As regards A/P to various payees totaling P0.508 million, these represent payables with corresponding checks that became stale in CYs 2011 to 2013 and were reverted back to A/P. However, it could not be determined whether or not these checks were replaced considering the time that has elapsed.

9.8 The concerned FMD personnel acknowledged the presence of dormant accounts under the A/P and explained that they are still reconciling the subject accounts. They also informed that there was difficulty in the reconciliation due to lack of manpower and considering the long period that has elapsed and, they may revert these items to the Retained Earnings account if verified that these payees have no intention to collect their receivables from the PRA.

Inclusion of negative (abnormal) balances totaling P0.105 million which reduced the balance of the A/P account

9.9 Section 111(2) of PD No. 1145 provides that, *"The highest standards of honesty, objectivity and consistency shall be observed in the keeping of accounts to safeguard against inaccurate or misleading information."*

9.10 Sound accounting practice dictates that the normal balance of the asset and expense accounts should be debit, while the liability, equity and income accounts should be credit.

9.11 Verification of the composition of the A/P account as of December 31, 2019 revealed that included therein are accounts which have negative balances totaling to P0.105 million. Some of these were accounts obligated in CY 2018 with negative balances totaling P0.097 million and are currently being verified by the FMD to determine the cause/s as to how they resulted in a debit (abnormal) balance. Concerned personnel informed that some of the negative balances were due to misclassifications, mispostings, and other erroneous entries.

9.12 Due to inclusion of accounts with negative balances, the balance of the A/P account was reduced by P105,191.

Incomplete documentation of accrual of expenses totaling P59.887 million contrary to Section 3.2(a) of COA Circular No. 99-004

9.13 Accrued expenses are expenses that the agency has incurred as of the balance sheet date, but have not yet been paid, hence, reported as current liabilities.

9.14 Section 4(6) of PD No. 1445 states that, *"Claims against government funds shall be supported with complete documentation."* Likewise, Section 3.2(a) of COA Circular No. 99-004 dated August 17, 1999 provides that *"All obligations shall be supported by valid claims."*

9.15 Verification of the accounting records disclosed that the FMD obligated a total amount of P59.887 million, however, there were no copies of supporting documents/source documents attached to the Journal Entry Vouchers (JEVs). The recorded obligations under various JEVs shown in Table 19 were supported only by a list of expenditures incurred by the different PRA Divisions/Departments in CY 2019, without details or breakdown of the specific expenses.

9.16 The FMD explained that the concerned personnel of various Units/Divisions/Departments were requested to submit a Summary list of all unpaid obligations as of December 31, 2019 together with the corresponding supporting documents. However, only the listing was submitted, while the supporting documents for the obligated accounts remained with the Disbursing and Budget Units for processing. The concerned FMD personnel committed to submit the supporting documents to COA for verification, but the same remained unsubmitted as at audit date.

Table 19 - Summary of JEVs to take A/P with Incomplete Documentation

JEV No.	Date	Amount
201912112	12/27/2019	P 6,878,622
201912113	12/27/2019	51,446,954
201912152	12/27/2019	1,561,813
Total		**P59,887,389**

9.17 In view of the absence of documents supporting the accrual of expenses totaling P59.887 million, the validity and propriety of the claims could not be substantiated and contrary to Section 3.2(a) of COA Circular No. 99-004 which requires that all obligations shall be supported by valid claims.

Non-maintenance of SLs for various creditors/suppliers of the Authority, contrary to Section 114(2) of PD No. 1445

9.18 Section 114(2) of PD No. 1445 provides the following on the recording of transactions in the books:

Section 114. The General ledger

1. *xxx*
2. *Subsidiary records shall be kept where necessary.*

9.19 Examination of records disclosed that the FMD did not prepare and maintain SL for each creditor/supplier of the Authority, which is not in conformity with the above-mentioned provision. The concerned FMD personnel confirmed that what has been used as SL was the Schedule of A/P.

9.20 However, the Schedule is merely a listing of payables with the corresponding amount and age of the accounts and did not provide the specific names of all creditors/suppliers including the detailed information of any posting/recording of accruals and payments in CY 2019. Thus, the amount payable to a certain creditor/supplier cannot be determined as of a given date.

9.21 Considering the voluminous transactions of the PRA and its numerous creditors/suppliers, the preparation and maintenance of SL for each creditor/supplier will ensure availability of complete information, updated balance of payable and facilitate reconciliation and confirmation of accounts.

9.22 **We recommended that Management direct the concerned FMD personnel to:**

a. **Evaluate the dormant/long outstanding accounts totaling P13.807 million for possible reversion to Retained Earnings account pursuant to DBM and COA Joint Circular No. 99-6 and Section 98 of PD No. 1445;**

b. **Analyze and determine the cause/s of the negative (abnormal) balances in the amount of P0.105 million and make necessary adjustments;**

c. **Submit to COA the supporting documents of the accrual of expenses totaling P59.887 million and, henceforth, ensure that recorded transactions/claims including obligations and accruals are supported with proper documentation to establish validity/propriety of claims, in compliance with the provisions of COA Circular No. 99-004 and Section 4(6) of PD No. 1445; and**

d. **Prepare and maintain SL for each creditor/supplier of the Authority as provided under Section 114(2) of PD No. 1445, to facilitate analysis of individual balances and reconciliation and confirmation of accounts.**

9.23 Management commented that:

a. The FMD will evaluate and retrieve relevant records pertaining to dormant payables and take necessary disposition, including the negative balances;

b. Accounting software shall be procured to help the FMD comply with the maintenance of SLs for individual account of all creditors/suppliers; and

c. The ICTD is currently developing an in-house disbursement module.

9.24 As a rejoinder, the Audit Team appreciated the commitment of Management to comply with the audit recommendations. Their full implementation thereof will be evaluated and monitored in CY 2020 audit.

B. OTHER OBSERVATIONS

10. The annual target increase on Return on Marketing Expenses (ROME) as indicated in the Performance Scorecard of the Authority was not attained, while low level of contributed profits was noted in spite of the significant increase in the Marketing Expenses during CYs 2017 to 2019.

10.1 As provided under the Governance Commission for Government Owned or Controlled Corporations (GCG) Memorandum Circular No. 2013-02 dated June 24, 2014, all concerned GOCCs are required to submit their Annual Performance Scorecard to the GCG for approval and thereafter, submit the accomplished quarterly Monitoring Sheet for validation. The PRA's Performance Scorecard contains their performance indicators and corresponding targets, formula, weight, rating systems and other pertinent information. After validation of the accomplishment reports, the GCG shall likewise transmit the Performance Scorecard Evaluation (PSE) to the agency with its validation results and remarks.

10.2 For CYs 2017 to 2019, the strategic objectives/measures and their corresponding targets as related to the Marketing expenses and Marketer's fees incurred by the PRA are presented in Table 20.

Table 20 - Performance Indicators Relative to Marketing & Marketer's Fees

Strategic Objective/Measure	Formula	CY 2017	CY 2018	CY 2019
a. Increase of Total Enrollees during the year	Net Enrolment for the year/ Cumulative Net Enrolment by End of the Year	5,675	47,234	53,787
b. Increase in Annual Foreign Currency Generated from Visa Deposit	Net Visa Deposit/ Outstanding Visa Deposits at the end of the year	$51,450,000	$499,840,000	$576,000,000
c. Improvement in Revenue Generation	Gross Income from Operations + Interest Income from Visa Deposits/ Absolute Amount of Operating Revenues including Interest Income from Visa Deposits	P773,670,000	P893,696,000	P929,590,000
d. Increase Return on Marketing Expenses	Passport and Visa or Application Fees/ Total Marketing Expense/ Passport and Visa or Application Fees + Accreditation Fees (excluding Annual PRA Fees) / Total Marketing Expense + Marketers Fee	1,017%	303%	303%

10.3 The above-mentioned strategic objectives/measures being embodied through various programs, projects, and activities of the PRA serve as the performance indicators set to account for accomplishments based on pre-determined target and measures.

10.4 Verification of records showed that the Marketing expenses and Marketer's fees incurred by the PRA for its programs, projects and activities for the period CYs 2017 to 2019 totaled to P400.693 million, details are presented in Table 21.

Table 21 - Summary of Marketing Expenses and Marketer's Fee

Marketing Expenses & Marketers' Fee	CY 2017	CY 2018	CY 2019	Total
Cost of Services-Marketers' Fee	P 60,651,766	P 68,849,964	P 86,329,578	P215,831,308
Advertising, Promotional and Marketing Expenses	53,705,713	41,432,565	64,206,219	159,344,497
Medical Examination Fees	-	4,966,000	6,570,568	11,536,568
Traveling Expenses-Local-Marketing	514,788	1,751,709	941,745	3,208,242
Traveling Expenses - Foreign-Marketing	5,575,802	1,404,356	3,792,608	10,772,766
Total	**P120,448,069**	**P118,404,594**	**P161,840,718**	**P400,693,381**

10.5 The expenses presented in Table 21 covered more than 40 per cent of the total annual expenses (excluding unrealized loss on foreign exchange and non-cash expenses) of the PRA; hence, these were equated with the expected benefits derived therefrom as represented by the actual accomplishments on the indicators in its Performance Scorecard, details shown in Table 22.

Table 22 - Actual Marketing Expenses & Marketer's Fees vis-à-vis Actual Accomplishments

Particulars	CY 2017	CY 2018	CY 2019
Total Cost and Expenses (see Table 21)	**P120,448,069**	**P118,404,594**	**P161,840,718**
Cumulative Net Enrollment by End of the Year	41,122*	46,596	53,224
Outstanding Visa Deposits @ the end of the year	$455,940,000	$520,130,000	$558,997,385
Absolute Amount of Operating Revenues	P773,420,000	P913,020,000	P1,015,338,689
Return on Marketing Expenses	203%	246%	208%

10.6 As shown in Table 22, it was observed that increases in the total Marketing expenses and Marketers' fees were directly proportional to the actual accomplishments of the PRA in terms of increase on number of new enrollees, annual foreign currency generated from visa deposits, and revenue generation. The rise on the subject expenses during the three-year period resulted in the cumulative increase of 29.43 per cent on net enrolment; 22.60 per cent on visa deposits; and 31.28 per cent on the improvement on revenue generation. It is noteworthy to mention that in CY 2018, the aforementioned indicators had likewise increased despite slight decline on the expenses incurred.

10.7 It was noted, however, that the return on marketing expenses (ROME) declined in CY 2019 in spite of the increased cost and the target being similar with CY 2018. Analysis showed that such decline was attributed to the increase on marketing expenses by 36.68 per cent but with corresponding increase on income by merely 20.12 per cent. As compared to CY 2018, the expenses declined by 1.70 per cent from CY 2017, but there was an increase of 16.29 per cent on the income generated. As a result, the ROME for the period CYs 2017 to 2019 barely increased by 2.46 per cent (cumulative) which indicated low level of profits contributed by the marketing cost and expenses. The ROME actually measures the degree to which spending on marketing contributes profits.

10.8 Furthermore, the Authority's Performance Evaluation Scorecard (PES) covering its targets *vis-à-vis* actual results reported to and validated by the GCG for similar period except for CY 2019, as it was submitted only in June 2020, is summarized in Table 23.

Table 23 - Summary of GCG Evaluation on the Actual Accomplishments of PRA

Performance Indicator (Objective/Measure)	Target	Actual	GCG Validation	Over (Below) Target
	PRA Submission			
CY 2017				
Increase of Total Enrollees	5,675	4,779	cannot be validated as per GCG	**N/A**
Annual Foreign Currency Generated from Visa Deposit (VD)	$51,450,000	$63,500,000	$57,000,000	**$5,550,000**
Improvement in Revenue Generation	P773,670,000	P773,420,000	P773,420,000	**(P250,000)**
Increase Return on Marketing Expenses	1,017%	378%	203%	**(814%)**
CY 2018				
Increase of Total Enrollees	47,234	46,571	46,596	**(638)**
Annual Foreign Currency Generated from VD	$499,840,000	$520,030,000	$520,130,000	**$20,290,000**
Improvement in Revenue Generation	P893,696,000	P893,840,000	P913,020,000	**P19,324,000**
Increase Return on Marketing Expenses	303%	338%	246%	**(57%)**
CY 2019*				
Increase of Total Enrollees	53,787	53,224	None yet	**(563)**
Annual Foreign Currency Generated from VD	$576,000,000	$558,997,385	None yet	**($17,002,615)**
Improvement in Revenue Generation	P929,590,000	P1,015,338,689	None yet	**P85,748,689**
Increase Return on Marketing Expenses	303%	208%	None yet	**(95%)**

10.9 As can be gleaned in Table 23, the improvement in revenue generation of the PRA as validated by the GCG in CY 2017 fell below target by a minimal amount, hence, was given a rating of 9.99 per cent, while its target in CYs 2018 and 2019 were attained. For actual Annual Foreign Currency Generated from VD as validated by the GCG, the PRA exceeded its target in the amount of $5.55 million and $20.29 million in CY 2017 and CY 2018, respectively, however, there was a shortfall of target in CY 2019 by $17,002,615, which might be attributed to the decline on the number of enrollees.

10.10 It was noted, however, that the actual increase on the number of enrollees for CYs 2017 to 2019 was below the targeted number set in their Performance Scorecards. The PRA was rated 0 per cent in CY 2017 since the declared increase cannot be validated by the GCG due to inconsistencies in the documents, casting doubt on the validity and accuracy of the reported accomplishments.

10.11 Further, it was noted that the target increase on ROME for CYs 2017 to 2018 was not attained since the actual accomplishments fell short of the target by 814 per cent and 57 per cent; hence, the PRA was given the score of 1 per cent and 0 per cent, respectively, in the Performance Scorecard Evaluation. There was also a shortfall of 95 per cent from the target in CY 2019 based on the formula provided in the Performance Scorecard, which could possibly result in a low rating similar to CY 2018.

10.12 The non-attainment of the annual target on the increase of ROME and of the number of enrollees to which the total Marketing expenses and Marketers' fees of P400.693 million from CYs 2017 to 2019 were directly related and the low level of contributed profits in spite of the increase on costs indicate the necessity for the PRA to improve and maximize the level of efficiency in the implementation of its marketing and promotional activities/programs. In addition, the non-realization of the set targets affected its overall Performance that was below the required weighted average score of 90 per cent; hence, the Authority was not eligible to grant its employees the Performance-Based Bonus.

10.13 Section 4(4) of PD No. 1445 provides that, "Fiscal *responsibilities shall, to the greatest extent, be shared by all those exercising authority over the financial affairs, transactions and operations of the government agency".* Hence, the officials of the PRA are supposed to exercise the diligence of a good father of the family in looking after the financial transactions of the Authority bearing in mind the best interest of the government at all times.

10.14 **We recommended that Management:**

a. Direct the concerned Departments to revisit the PRA's policies on the implementation of all activities, projects, and programs pertaining to marketing, promotional, advertising, and the like to come up with improved policies and strategies that may optimize the level of efficiency to which the marketing expenses are being utilized for; and

b. Exert all efforts and devise mechanisms to ensure that targets set in the Authority's Performance Scorecard are achieved considering that these are crafted based on its own assessment and evaluation prior to submission to the GCG for approval.

10.15 Management agreed to comply with the recommendation to come up with mechanisms and approaches to appropriately measure the success of marketing projects and activities, which would include, among others:

a. Re-evaluation of the current marketing programs, projects and initiatives;

b. Improve the data management system and ensure accurate data is captured and reported for investment and decision-making process (may be better to continue monitoring data based on ROI presentation last August 2019);

c. Enhance the reporting process for completed programs, activities and projects; and

d. Re-negotiate the targets set by the GCG to consider previous years' accomplishments to make it more realistic and attainable.

10.16 As a rejoinder, the Audit Team acknowledged the plan of actions presented by Management in order to implement the recommendations. However, the Audit Team would like to reiterate that the improved strategies will likewise optimize the level of efficiency to which the marketing expenses are being utilized for.

11. Disposal of unserviceable properties was not in accordance with the provisions of PD No. 1445, COA Circular No. 89-296, and National Budget Circular (NBC) No. 425, in particular: (a) notice to dispose the unserviceable properties was not provided to COA and the necessary documentary requirements for the disposal were submitted late to the Audit Team; (b) lack of description and information in the Inventory List of the disposed properties and non-conduct of appraisal by the Disposal Committee prior to the sale; and (c) disposed properties were not derecognized from the books.

11.1 Audit of the disposal of unserviceable properties of the PRA disclosed several deficiencies as discussed below.

Notice to dispose the unserviceable properties was not provided to COA and the necessary documentary requirements for the disposal were submitted late to the Audit Team

11.2 Section 79 of PD No. 1445 prescribes the following pertaining to the disposal of unserviceable property:

> *Destruction or sale of unserviceable property. When government property has become unserviceable for any cause, or is no longer needed, it shall, upon application of the officer accountable therefore, be inspected by the head of the agency or his duly authorized representative in the presence of the auditor concerned and, if found to be valueless or unsalable, it may be destroyed in their presence. If found to be valuable, it may be sold at public auction to the highest bidder under the supervision of the proper committee and award or similar body in the presence of the auditor concerned or other duly authorized representative of the Commission, after advertising by printed notice in the Official Gazette xxx.*

11.3 Section 4.1.2 of COA Circular No. 86-264 and Section VI.A of COA Circular No. 89-296 dated October 16, 1986 and January 27, 1989, respectively, likewise provide that:

> *Xxx the management of the government corporation concerned shall furnish the Auditor at least twenty (20) days before the advertisement of the call to public auction with a copy each of the following documents:*
>
> *a. Program for disposal with time schedule*
> *b. Inventory Report showing the itemized list and complete despcription of the assets*
> *c. Appraisal Report showing the appraised values of the assets, prepared by an in house and/or independent appraiser; and*
> *d. Disposal procedure adopted xxx.*

11.4 Review of the documents and reports submitted by the Disposal Committee showed that there was a disposal of unserviceable properties in CY 2019. Verification of these records, however, disclosed that there was no invitation received by the Audit Team from the Disposal Committee to witness the inspection of unserviceable properties subject for disposal, in violation of Section 79 of PD No. 1445. Likewise, the Audit Team was not furnished by the same Committee with invitation for the public auction of unserviceable properties that was held on October 1, 2019, thus there was no COA representative during the opening of bids.

11.5 Further, it was noted that the supporting documents required under Section 4.1.2 of COA Circular No. 86-264 and Section VI.A of COA Circular No. 89-296 were not submitted to the Audit Team within the prescribed period. Said documents together with the Disposal Report were submitted only to the Audit Team on February 20, 2020, or more than four (4) months after the sale of properties through public auction.

11.6 Due to absence of invitation and late submission of documentary requirements to COA, the Audit Team was not able to conduct the necessary audit procedures, such as, to witness the inspection of the unserviceable properties to ascertain if the items for disposal were existing and/or valueless, examine the inventory and appraisal report prior to inspection and disposal, and review the Agency's procedures for the sale of assets to determine their propriety and conformity with existing laws and regulations.

Lack of description and information in the Inventory List of the disposed properties and non-conduct of appraisal by the Disposal Committee prior to the sale

11.7 The Inventory Lists of items for disposal attached to the Disposal Report showed 126 items of IT Equipment (ITE) and 105 items of Furniture and Fixture (F&F), etc. such as laptops, CPUs/monitors, printers, photocopiers, clerical chairs, tires, chairs with arm rest, among others. Said Lists were initially submitted by the Administration Division, in-charge of supply and asset management, to the Disposal Committee per Memorandum dated March 5, 2019. The Disposal Committee then recommended the mode of disposal as sale thru Public Bidding for 1 Lot of ITE/F&F per its Resolution No. 01 dated September 3, 2019, which was approved by the PRA General Manager.

11.8 Review of the Lists, however, disclosed that the Administration Division and Disposal Committee were unable to ascertain and provide the complete description and information about the properties to be disposed of, in violation of Section VI.A of COA Circular No. 89-296. Presented in Table 24 are the unserviceable properties with lacking requirements.

11.9 As shown in Table 24, only 15.15 per cent or 35 out of 231 items for disposal with total cost of P0.235 million have complete information such as, acquisition date and cost. Majority of those items without acquisition cost were CPUs/monitors, printers, clerical chairs, laptops, among others, which was somewhat unusual considering the significance of said data in the disposal process. Also, only 45.45 per cent or 105 out of 231 items have property number.

Table 24 - Summary of Unserviceable Properties with Incomplete Information

Lacking requirement	IT Equipment	F&F and others	Total	With Data
Acquisition date and acquisition costs	100 out of 126 (79.37%)	96 out of 105 (91.43%)	196 out of 231 (84.85%)	35
Property Number or Tag Number	42 out of 126 (33.33%)	84 out of 105 (80.00%)	126 out of 231 (54.55%)	105

11.10 The concerned personnel informed that the records were no longer available and some items were already considered scrap. However, they could have at least referred to the lapsing schedule being maintained by the FMD to gather the information needed so as to facilitate the proper identification of the unserviceable properties during inspection and serve as basis for the computation of the appraised value.

11.11 Further, the appraisal report is another requirement for the disposal process. Verification however, revealed that there was no appraisal report prepared and submitted by the Disposal Committee for the unserviceable properties prior to sale thru public auction, contrary to COA Circular No. 86-264 and NBC No. 425, dated January 28, 1992 (DBM Manual on Disposal of Government Property). Part II (A) of the DBM Manual, specifically Item 2.1, states that one of the functions of the Disposal Committee is to set final appraised value of all disposable properties. Likewise, Part II (E) of the same Manual provides the guidelines on appraisal of properties for disposal, which read as follows:

E. Appraisal

1.0 Objective. The Objective in computing the appraised value of the property for disposal is to set the government's minimum selling price so that the government shall receive fair compensation for the items sold. The Disposal Committee members shall prepare its appraisal report.

2.0 Basis of the Computation. After having conducted the ocular inspection and regardless of the mode of disposal to be undertaken, the appraised value shall be computed using as basis the information/data appearing in the Inventory & Inspection Report, Report of Waste Materials and Invoice-Receipt for Property. The following variables are to be used:

- *Year of acquisition*
- *Cost of acquisition*
- *Replacement cost*

3.0 Formulae. In the computation of the appraised value, any of the formulae as enumerated below in versions may be used depending on the information available: xxxx

11.12 Inquiry with the concerned personnel disclosed that the Disposal Committee did not conduct appraisal of the subject properties, but merely relied on the quotations submitted by the bidders who inspected the auctioned properties during site visit. Moreover, the auctioned properties were sold to the highest complying bidder for P15,500 only.

11.13 The conduct of appraisal is an indispensable procedure since it allows the Disposal Committee to check the physical condition as well as the proper valuation of the properties to be disposed of. It is emphasized that whether the property is declared junk or scrap, its appraised value must still be obtained by determining its total estimated weight and current market price.

11.14 Due to absence of appraisal, the Disposal Committee was not able to come up with the appropriate appraised value of the disposed unserviceable properties. As a result, the minimum selling price required under NBC No. 425 which could have been offered to bidders as the minimum bid price during the public auction, was not established and the government could have been deprived of a higher proceeds for the items sold.

Disposed properties were not derecognized from the books

11.15 Part II (H) of the Manual for Disposal of Government Property under NBC No. 425 states that upon disposal of property, the pertinent portions of the Inventory & Inspection Report of Unserviceable Properties (IIRUP), Report of Waste Materials (RWM) or Invoice-Receipt for Property, whichever is applicable, shall be accomplished and these reports shall be the bases for dropping the property from the books of accounts and for recording the proceeds from sale of property.

11.16 Review of records showed that the IIRUP and RWM were prepared by the concerned personnel however, the prescribed forms were not properly accomplished. The certification and signatory that were supposed to appear on the face of the forms were not correctly and completely reflected. Likewise, the details of the sold properties such as acquisition cost, acquisition date, and accumulated depreciation were not indicated in the IIRUP despite being required for the derecognition in the books of the disposed unserviceable properties.

11.17 Further verification disclosed that the sale of properties was recorded in the books by crediting the Miscellaneous Income account for the whole proceeds of P15,500, instead of crediting the applicable ITE or F&F account and Gain on Sale of Property, Plant and Equipment (PPE) account, if any, and debiting the corresponding Accumulated Depreciation account and Loss on Sale of PPE account, if any.

11.18 The concerned personnel of the FMD explained that the F&F items were no longer reflected in the lapsing schedule maintained by the Division. The Audit Team verified however, that only the receipt of proceeds from sale was recorded in the books; hence, the disposed PPE items were not derecognized in the books, while any gain or loss arising from the disposal of said items was not recorded in the books. Consequently, there was an overstatement of the ITE and F&F accounts equivalent to their acquisition cost and misstatements of other related accounts.

11.19 **We recommended that Management:**

a. **Require the Disposal Committee to: (i) adhere strictly to the requirements of COA Circular Nos. 89-296 and 86-264 on the necessary notices/invitation to COA and submission of documentary requirements; and (ii) comply with all the provisions of COA Circular No. 89-296 and NBC No. 425, particularly on the completeness of description of the items for disposal, conduct of appraisal, and computation of their appraised values to ensure that the best price is obtained by the government on the items sold; and**

b. **Require the FMD: (i) in coordination with the Assets and Supply Management Department, to identify the acquisition cost and the corresponding accumulated depreciation of the disposed unserviceable properties which remained recorded in the IT Equipment and Furniture & Fixtures accounts; and (ii) to prepare the necessary adjusting entries to derecognize the disposed unserviceable properties from the books as well as to correct the erroneous entry made in the recording of the proceeds of sale.**

11.20 Management commented that:

a. The Inventory Committee raised and clarified to the Administrative Services Division (ASD) and FMD about the incomplete list, however, they were informed that the records were no longer available.

b. The PRA attempted to donate said items to other government agencies but was not accepted since these could no longer be used for training/workshops.

c. With the upcoming schedule of office improvement project, the Committee was left with no other choice but to proceed with the disposal to clear up and maximize the storage areas where the said items were kept. Even if the appraised value which would be used as minimum bid price was not established, bidders have been invited to inspect the items and submit sealed bid, and the bidder with the highest bid had been declared as the winning bidder.

d. Nevertheless, the Authority agreed to comply with the recommendations, with the following measures to be done:

    i. Create a PRA Disposal Manual aligned with the existing laws, rules and regulations, which will serve as guide during Agency's disposal activities;

ii. Establish a training program for developing the capacity of the Disposal Committee members and to keep them abreast with the latest laws, rules and regulations pertinent to disposal of government properties;

iii. Disposal Committee shall devise an appraisal tool to ensure that proper evaluation process will be observed as applicable to the type of property/equipment to be disposed of; and

iv. Improve monitoring and management of property records by developing a system based monitoring in coordination with the Information and Communication Technology Division (ICTD). This is to ensure that relevant information shall be available once a property becomes unserviceable and due for disposal.

11.21 As a rejoinder, the Audit Team was not furnished with a copy of the Letter(s) addressed to other government agencies as proof that said items were indeed offered for donation. However, the Audit Team appreciated the measures being proposed by Management in order to comply with the existing rules and regulations on disposal of unserviceable properties. Their implementation of the proposed measures will be evaluated in the CY 2020 audit.

12. Several expenditure items totaling P139.541 million under the Maintenance and Other Operating Expenses (MOOE) and Personnel Services (PS) exceeded the amounts indicated in the Department of Budget and Management (DBM) approved-2019 Corporate Operating Budget (COB) of PRA by P17.327 million. Moreover, although the said expenditures were incurred within the total approved MOOE and PS, these were not supported by the necessary approval of realignment of funds from the PRA Governing Board.

12.1 Section 4(4) of PD No. 1445 provides that*, "No money shall be paid out of any public treasury of depository except in pursuance of an appropriation law or other specific statutory authority."* Likewise, Section 6(f) of the Manual of Corporate Governance (MCG) of the PRA states that its Governing Board has the power and function to approve the annual and supplemental budget of receipts and expenditures of the Agency as may be necessary or proper for the effective management, operation and administration of the Authority.

12.2 For CY 2019, the PRA had a total approved budget of P421.021 million, consisting of Personnel Services (PS), Maintenance and Other Operating Expenses (MOOE), and Capital Outlay (CO) in the amounts of P73.818 million; P332.069 million, and P15.134 million, respectively.

12.3 Audit of the Budget Utilization of the PRA revealed that several expenditure items aggregating P139.541 million under the PS and MOOE had exceeded their approved budget by P3.224 million and P14.103 million, respectively, or a total of P17.327 million, the details of the excess utilization are shown in Table 25.

Table 25 - Schedule of Expenditure Items with Utilization that Exceeded the Approved Budget

Account Title	Proposed 2019 Budget	DBM Approved COB	Utilization As of Dec. 31, 2019	Difference
Cost of Services - Marketer's Fees	P 82,845,251	P 82,845,251	P 86,329,578	P (3,484,327)
Legal Services	125,700	80,700	944,360	(863,660)
Other Professional Services- Job Orders	28,948,845	17,504,845	20,079,237	(2,574,392)
Repair and Maintenance – Bldg., Other structures, Machinery & Office Eqpt.	21,431,000	9,889,450	16,145,771	(6,256,321)
Printing and Publication Expenses	685,000	279,000	311,261	(32,261)
Fidelity Bonds Premium	200,000	200,000	326,170	(126,170)
Representation Expenses	13,563,625	7,859,625	8,585,758	(726,133)
Transportation and Delivery Expense	419,323	117,323	156,693	(39,370)
SUB-TOTAL	**148,218,744**	**118,776,194**	**132,878,828**	**(14,102,634)**
Representation Allowance (RA)	1,182,000	1,077,000	1,110,272	(33,272)
Service Recognition Incentives	-	-	783,000	(783,000)
Overtime Pay	1,601,238	1,601,238	1,812,788	(211,550)
Terminal Leave Benefits (including Monetization of Leave Credits)	759,800	759,800	2,956,484	(2,196,684)
SUB-TOTAL	**3,543,038**	**3,438,038**	**6,662,544**	**(3,224,506)**
GRAND TOTAL	**P151,761,782**	**P122,214,232**	**P139,541,372**	**P(17,327,140)**

12.4 The Audit Team noted however, that the excess of budget incurred for the expenditure items presented in Table 25 (except for repairs & maintenance) were not supported by any realignment of funds approved by the proper authority, which is not in accordance with Section 4(4) of PD No. 1445 and Section 6 of the MCG of the PRA.

12.5 The concerned personnel informed that the negative balances were due to variances or deductions made by the DBM from their proposed budget and that they merely followed the provision for flexibility to modify the utilization within the MOOE as stated in their approved COB.

12.6 It is emphasized, however, that the budget approved by the DBM establishes the expenditure authority for the specified items which is generally considered the legal limit within which an entity must operate. While it is true that utilization can be adjusted/modified within the approved MOOE or budget classification, the adjustment/modification must be approved by proper authority. Such approval ensures that all expenditures of the Authority are authorized and that appropriate controls are in place. Thus, any modification/amendment in the approved COB such as realignment of unexpended funds to cover another expenditure item or transfers between programmed budgets within an account should have been approved by the PRA's Governing Board, same being the recommendatory body of the Agency's COB to the DBM.

12.7 Further, the approved realignment of funds will ensure proper accounting for costs and distribution of resources and that all disbursements made are authorized and monitored by the PRA Governing Board.

12.8 **We recommended that Management:**

a. **Evaluate the cause(s) of the variances between the approved COB and utilization as guide in estimating the reasonable amounts of**

expenses in the formulation of the succeeding COB, for proper allocation of funds.

b. **Ensure that disbursements are within the authorized amounts. In case the approved budget is no longer sufficient to cover the necessary expenditures to be incurred/paid, secure an approved realignment of budget from the Governing Board pursuant to Section 6(f) of the MCG of the PRA.**

12.9 Management commented that:

a. In as much as the Authority wanted to be prudent in its spending, actual spending requirements may not go as planned, such was the case for some expenses which at the end of the year exceeded the budget previously set and approved by the Board of Trustees. Nevertheless, analysis is needed to at least learn from past experience and contribute to continued improvements.

b. The PRA will endeavor to improve its budgeting process as well as in implementing budget monitoring and controls in line with the observation. Likewise, the issue on budget re-alignment within certain thresholds shall be discussed with the Board of Trustees to align approval with that of the DBM.

12.10 As a rejoinder, the Audit Team appreciated the commitment of Management to improve its budgeting process; however, it is emphasized that approval/authority from the Governing Board be secured in case there will be realignment.

13. A total number of 1,055 Disbursement Vouchers (DVs) aggregating P79.237 million worth of transactions were not yet submitted to COA, in violation of Paragraph 6.5 of COA Circular No. 95-006 dated May 18, 1995 and precluded the Audit Team from conducting timely post audit thereof.

13.1 Paragraph 6.5 of COA Circular No. 95-006 dated May 18, 1995 provides the following:

> *The official involved in the daily recording of transactions in the books of accounts shall turn over the receipts and the disbursement records with all paid vouchers and disbursements evidencing the transactions to the Auditor within ten (10) days from the date of receipt of said documents.*

13.2 Likewise, Section 100 of PD No. 1445 requires that all receipts and disbursement records with all paid vouchers and documents evidencing the transactions be submitted to the Office of the Auditor.

13.3 Based on the records of the Audit Team, there were 1,055 DVs not yet submitted by the PRA as at audit date. The unsubmitted DVs pertained to various disbursements in January to December 2019, details are presented in Table 26.

Table 26 - Summary of Unsubmitted Disbursement Vouchers of CY 2019

Nature of Transactions	No. of Unsubmitted DVs	Aggregate Amount
a. Bureau of Immigration Fees	475	P18,818,251
b. Marketers' Fee	318	8,290,441
c. Utilities and Membership Dues	86	17,678,574
d. Per Diem and travelling expenses	48	315,419
e. Payments to BIR, GSIS and PhilHealth	30	4,142,506
f. Granting of cash advances/Petty Cash Fund	30	2,972,020
g. Payment of Rentals and Procured Vehicles and Machinery & Equipment	7	16,651,836
h. Other Disbursements	61	10,368,430
Total	**1,055**	**P79,237,477**

13.4 In view of the non-submission of these DVs within the prescribed period, the Audit Team was precluded to: (a) timely conduct the mandatory post audit of the transactions; and (b) communicate the deficiencies, if any, to Management for their appropriate action.

13.5 **We recommended and Management agreed to immediately submit to the Audit Team the 1,055 DVs amounting to P79.237 million, pursuant to Paragraph 6.5 of COA Circular No. 95-006 dated May 18, 1995 and Section 100 of PD No. 1445; otherwise, the transactions would be suspended in audit.**

GENDER AND DEVELOPMENT (GAD)

14. The PRA had only allocated P1.023 million for its CY 2019 GAD Plan and Budget (GPB), which was way below the minimum requirement of five (5) per cent or P21.051 million of its approved Corporate Operating Budget (COB) of P421.021 million, contrary to Philippine Commission on Women – National Economic and Development Authority – Department of Budget and Management (PCW-NEDA-DBM) Joint Circular No. 2012-01. Likewise, of the allocated amount of P1.023 million for PRA's GAD programs/activities/projects (PAPs), only P0.472 million or 46.14 per cent was actually utilized in CY 2019; thus, the objectives to address the various gender issues of the Authority were not fully attained.

14.1 Section 6.1 of PCW-NEDA-NEDA Joint Circular No. 2012-01 provides that:

> *At least five percent (5%) of the total agency budget appropriations authorized under the annual GAA shall correspond to activities supporting GAD plans and programs. The GAD budget shall be drawn from the agency's maintenance and other operating expenses (MOOE), capital outlay (CO), and personal services (PS). It is understood that the GAD budget does not constitute an additional budget over an agency's total budget appropriations.*

The PRA had only allocated P1.023 million for its CY 2019 GPB, which was way below the minimum requirement of five (5) per cent of its approved COB of P421.021 million

14.2 Based on the said Joint Circular, five (5) per cent of the approved CY 2019 COB of the PRA amounting to P421.021 million or P21.051 million had to be allocated for the GPB. It was noted, however, that the amount allocated in the CY 2019 GPB of the PRA was P1.023 million only or lower by 4.76 per cent of the minimum requirement for GAD, contrary to Section 6.1 of PCW-NEDA-NEDA Joint Circular No. 2012-01.

14.3 Further review of the PRA's GPB disclosed that only GAD-focused PAPs were included therein. These were the client-focused and organization-focused programs which have four gender issues each. The GPB however, excluded the gender perspectives which may be integrated in the regular programs and projects of the PRA where it has high utilization/spending.

14.4 The responsible unit explained that several Divisions of the Authority lacked the needed technical skills and knowledge to plan gender responsive programs. They informed that the Administrative Division prepared activities for the capacity building of the employees and the GAD Focal Point System (GFPS), while other Divisions formulated the client-centered programs/activities but were not adequate to cover the minimum requirement for GAD.

Of the allocated amount of P1.023 million for PRA's GAD PAPs, only P0.472 million or 46.14 per cent was actually utilized in CY 2019

14.5 Review of the GAD Accomplishment Report (AR) submitted by the PRA to the PCW for CY 2019 showed that it has only utilized a total amount of P0.472 million, or 46.14%, out of the GAD budget of P1.023 million. Verification disclosed that the underutilization of the GAD budget was attributed to non-implementation of several GAD activities and/or conduct of limited number of activities in addressing other gender issues, details shown in Table 27

Table 27 - Summary of Identified Gender Issues and Actual GAD Activities

Gender Issues	Planned GAD Activities	Budgeted Amount Per GPB	Accomplished GAD Activities	Actual Cost per Accomplishment Report
Client-Focused Activities				
1. The right to information on specific programs, services, and funding outlays on women empowerment and gender equality.	Printing of flyers/ brochures on Magna Carta for Women, Anti-VAWC, etc.	P 120,000	Powerpoint presentation on GAD laws & distribution of VAW bags and umbrellas to various retirees during orientation/updating of retirees in Palawan, Boracay and Butuan City.	P 103,332
2. Observation of the month of March as Women's role in	Month-long activities	45,000	Celebration of Women's Month (Purchase of	1,119

Gender Issues		Planned GAD Activities	Budgeted Amount Per GPB	Accomplished GAD Activities	Actual Cost per Accomplishment Report
	History Month.	celebrating Women's Month in support of the theme set by the PCW.		supplies for decorations and printing of tarpaulin)	
3.		Printing IEC Materials relative to National Women's Month	200,000	None	-
4.	The need to establish public assistance program or mechanism that will specifically address gender-related complaints and/or grievances.	Conduct of training	12,000	None	-
Organization-focused Activities					
5.	Collection and generation of sex-disaggregated data and statistics in support of the MCW indicators relevant to PRA PCW MC 2014-05.	Conduct of survey on Client retirees and encoding and utilization of database in planning.	10,000	None	-
6.	Strengthening the knowledge & awareness of PRA employees on GAD concepts.	Conduct of seminars on GAD concepts	292,000	Attendance of employees to various seminars such as on family & marriage; international women's public forum; forum on jobs and women in tourism; understanding & dealing with LGBT; and tourism integrated support.	183,436
7	The need to strengthen the GAD Focal Point System in accordance with RA 9710 & PCW 2011-01.	Trainings/work-shop on GAD mainstreaming & planning and budgeting.	156,000	Attendance of employees to the ASEAN gender tourism workshop and national GAD forum	10,463
8.	Observance of the 18-day Campaign to end VAW in accordance with Proclamation No. 1172, Series 2006.	Participation of activities in commemoration of the 18-day campaign to end VAW/conduct of agency-wide activities.	187,500	Printing of tarpaulin and printing & distribution of 2020 VAW Desk Calendar and T-shirts	173,401
Total			**P1,022,500**		**P471,751**

14.6 As presented in Table 27, three (3) of the eight (8) planned GAD activities were not implemented at all, one of which was the generation of sex-disaggregated data and statistics in support of the Magna Carta of Women activities. It was observed that said activity and the corresponding gender issue to be addressed had been identified in the GPB for CYs 2018 and 2019, but remained unimplemented in both years. This was not in accordance with Section 4.4 of PCW-NEDA-DBM Joint Circular No. 2012-01, which reads:

> *Institutionalizing GAD Database/Sex-disaggregated Data: The agency shall develop or integrate in its existing database GAD information to include gender statistics and sex disaggregated data that have been systematically produced or gathered as inputs or bases for planning, budgeting, programming and policy formulation*

14.7 It was further noted that the gender issue on the need to strengthen the PRA's GFPS by undergoing trainings/workshops related thereto was not fully realized as planned considering the nature of activities attended, i.e. a gender tourism workshop and GAD Forum only, rather than an activity which establishes deeper knowledge and skill on GAD mainstreaming, planning, and budgeting.

14.8 According to the responsible unit, some planned activities were not accomplished because they were not able to organize the monthly activities and due to difficulty in finding resource persons. Likewise, the Authority did not have definite/defined trainings for the establishment of sex-disaggregated data, nevertheless, there is a plan in CY 2020 to hire a resource person to guide them.

14.9 Considering that the sex-disaggregated data and capacity of the GFPS are vital in the planning of GAD activities, said areas should have been prioritized for implementation so as to address the gender issues initially identified in the CY 2019 GPB. Moreover, the non-implementation of several planned GAD PAPs approved by the PCW deprived the intended beneficiaries of the benefits that would have been derived therefrom.

14.10 **We recommended that Management:**

a. **Allocate at least five (5) per cent of the annual COB for GAD-related PAPs through attribution and mainstreaming/integrating gender perspectives in the major programs and projects of the Authority;**

b. **Implement the GAD PAPs formulated in the approved GPB to ensure that the identified gender issues are timely and properly addressed; and**

c. **Comply strictly with Section 4.4 of the PCW-NEDA-DBM Joint Circular No. 2012-01 on the institutionalization of the GAD Database/Sex-disaggregated Data to ensure a more effective GAD planning and budgeting as well as implementation of GAD PAPs.**

14.11 Management commented that one of the reasons for underutilization of the GPB was that functions of some members of the GFPS are limited due to their major duties and responsibilities. Nevertheless, the PRA proposed to utilize its GAD budget to the following GAD-related activities in order to maximize the required amount which is at least 5 per cent of the approved COB:

a. Training on attribution shall be conducted to be able to further educate and encourage all Departments to establish their GAD programs and activities and include in their core functions as well;

b. Establishment of Sex Disaggregated Data/GAD Database; and

c. Currently setting up the Emergency Clinic which includes facilities such as Diaper Changing Station and Breastfeeding Area for lactating mothers.

COMPLIANCE WITH TAX LAWS

15. The PRA consistently withholds taxes on employees' compensation and benefits as well as creditable VAT and expanded taxes from suppliers and, remits the same to the Bureau of Internal Revenue (BIR) within required periods. The balance of account *Due to BIR* as of December 31, 2019 were remitted in CY 2020, as shown in Table 28.

Table 28 - Remittances to BIR of the Due to BIR as of December 31, 2019

	Amount	Date Remitted
Employees' withholding tax	P 546,086.62	January 15, 2020
Withholding tax on VAT	755,542.31	January 10, 2020
Expanded withholding tax	5,595,096.02	January 31, 2020
Income tax payable	-	June 2, 2020

COMPLIANCE WITH GSIS, HDMF AND PHILHEALTH LAWS

16. The PRA consistently complies with the requirements on the withholding from its employees' salaries the corresponding contributions to the Government Service Insurance System (GSIS), Home Development Mutual Fund (HDMF) and Philippine Health Insurance Corporation (PhilHealth) and, regularly remits to these government agencies the withheld amounts together with the PRA's share. Contributions for December 2019 were remitted in January 2020, as presented in Tables 29, 30 and 31.

Table 29 - Remittance to GSIS

	Amount	Date Remitted
Life and retirement premium	P769,093.50	January 10, 2020
Optional insurance	135.80	January 10, 2020
Calamaty/ Emergency loan	3,933.36	January 10, 2020
Policy loan	4,200.00	January 10, 2020
ECC	8,000.00	January 10, 2020
Conso loan	259,781.51	January 10, 2020

Table 30 - Remittance to HDMF

	Amount	Date Remitted
HDMF Contributions	P23,200.00	January 14, 2020

Table 31 - Remittance to PHIC

	Amount	Date Remitted
PhilHealth Contributions	P84,012.66	January 22, 2020

COMPLIANCE WITH PROPERTY INSURANCE LAW

17. For CY 2019, the PRA's properties such as buildings and motor vehicles were insured with the GSIS in complaince with Republic Act (RA) No. 656, otherwise known as the "Property Insurance Law," as amended by PD No. 245 dated July 13, 1973. The insured properties are presented in Table 32.

Table 32 - Insured Properties

Property	Amount Insured	Premiums Paid
Buildings/ Leasehold Improvements	P30,307,524.35	P 73,793.47
Motor Vehicles	14,725,150.00	82,247.29
Total	**P45,032,674.35**	**P156,040.76**

SUMMARY OF SUSPENSIONS, DISALLOWANCES AND CHARGES

18. The summary of audit suspensions and disallowances in CY 2019 is shown in Table 33 and the details and status thereof are presented in Part IV, Annex A of this Report. There was no audit charge in CY 2019.

Table 33 - Audit Suspensions and Disallowances

	Beginning balance January 1, 2019	Issued	Settled	Ending balance December 31, 2019
Suspensions	P 178,132.39	P -	P 3,000	P 175,132.39
Disallowances	2,057,324.24	-	*(43,456.39)	2,100,780.63
Charges	-	-	-	-
Total	**P2,235,456.63**	**P -**	**P (40,456.39)**	**P2,275,913.02**

**Represents amount refunded to one of the employees for adjustments made in the settlement of disallowance*

Status of Unsettled Audit Suspensions and Disallowances
As of December 31, 2019

I. Notices of Suspensions (NS)

NS No. / Date	Persons Responsible	Nature of Suspension	Amount	Status
2011-11/ 11-29-11	Division Chief – Admin, OIC-Client Relations, former Executive Assistant, Assistant Officer II (retired), Management & Audit Analyst I, former Management & Audit Analyst II	Cash Advances related to the "Famealy Day" celebration on September 26, 2011	P 18,500.00	Matured into disallowance. For issuance of ND.
2012-001 (11)/ 02-08-12	Payee, former DM-Admin & Finance, former Deputy General, DM - Marketing	Various disbursement vouchers that lack supporting documents	53,387.76	Matured into disallowance. For issuance of ND.
2012-002 (11)/ 03-14-12	Payee, former Manager – Administration and Finance, Division Chief-Finance, Manager – RRSC, Assistant Officer I (retired)	Various disbursement vouchers that lack supporting documents	3,060.00	Matured into disallowance. For issuance of ND.
2012-008 (11)/ 10-05-12	Payee, former General Manager, former Manager – Administration and Finance, Division Chief-Finance, Davao Satellite Officer	Payment for monetization of 40 days leave credits	44,567.27	Matured into disallowance. For issuance of ND.
2013-01 (12)/ 01-10-13	Division Chief-Finance, Davao Satellite Officer, former Deputy Manager	Payment for aircon repair of vehicle, Hyundai Starex, at the Davao Satellite Office	5,079.02	Matured into disallowance. For issuance of ND.
2013-03 (12)/ 01-10-13	Division Chief-Finance, former Manager – Admin and Finance	Payment for the purchase of various office supplies	50,538.34	Matured into disallowance. For issuance of ND.
Total			**P 175,132.39**	

II. Notices of Disallowance (ND)

ND No. / Date	Persons Liable	Nature of Disallowance	Amount	Status
2010(07)–03, 04, 07, 10, 11,12/ 07-27-10	Former Division Chief III, Division Chief III, former Division Chief II, former Assistance II, former Audio-Visual Aide Tech. III	Payment for unauthorized COLA, amelioration, additional COLA, rice, children's and medical allowances for the period October 2, 1995 to March 8, 1999	P1,098,280.61	With COA Order of Execution dated June 30, 2015. Partial settlements were already made starting September 2015.
2010(09)–01, 02, 03/ 03/22/11	Payee, former Acting General Manager, former OIC- Admin & Finance Department, Division Chief Finance, Budget Officer, Supply Officer II, former OIC-Admin, DBPSC Associate, former Manager – Admin and Finance, OIC-Marketing Department, OIC- MSO, OIC – MIS	Purchase of various garden tools for the tree-planting program held on December 12, 2009	1,002,500.02	For issuance of Notice of Finality of Decision and COA Order of Execution.
Total			**P2,100,780.63**	