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, 2020 and 2019

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for the world's retirees, the PRA offers various retirement products with required visa deposits that can be withdrawn when the retiree leaves/withdraws from the program or in case of end-of-term obligations.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, 2020:

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 Assistant Secretary, DOT

As of December 31, 2020, the PRA has a total of 166 manpower complement consisting of eighty-three (83) regular employees and eighty-three (83) job orders.

FINANCIAL HIGHLIGHTS (In Philippine Peso)

I. Comparative Financial Position

	2020	2019 (As Restated)	Increase (Decrease)
Assets	20,284,102,636	20,526,341,751	(242,239,115)
Liabilities	18,233,693,125	18,474,419,046	(240,725,921)
Equity	2,050,409,511	2,051,922,705	(1,513,194)

II. Comparative Financial Performance

	2020	2019 (As Restated)	Increase/ (Decrease)
Income	1,502,337,390	1,624,115,330	(121,777,940)
Personnel services	74,892,439	70,408,310	4,484,129
Maintenance and other operating expenses	71,371,675	164,889,537	(93,517,862)
Financial expenses	966,614	65,045	901,569
Direct costs	40,739,928	139,851,089	(99,111,161)
Unrealized loss on foreign exchange	1,037,415,462	670,648,742	366,766,720
Non-cash expenses	32,348,967	21,112,863	11,236,104
Total expenses	1,257,735,085	1,066,975,586	190,759,499
Profit before tax	244,602,305	557,139,744	(312,537,439)
Income tax expense	29,742,091	124,392,927	(94,650,836)
Net income	214,860,214	432,746,817	(217,886,603)
Other comprehensive income/(loss) for the period	-	-	-
Comprehensive income	**214,860,214**	**432,746,817**	**(217,886,603)**

III. Comparison of 2020 Budget and Actual Amounts

	Approved COB	Actual	Variance
Personnel services	85,604,000	74,892,439	10,711,561
Maintenance and other operating expenses	323,844,000	113,078,217	210,765,783
Capital outlays	5,800,000	1,670,613	4,129,387
Total	**415,248,000**	**189,641,269**	**225,606,731**

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, 2020 and 2019 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 faithful representation in the financial statements of the balances of the Trust Liabilities (TL) – Visa Deposits (VDs) account of P16,852.907 million and TL – Interest Payable (IP) account of P198.849 million as at December 31, 2020 were not established due to discrepancies of P269.958 million and P42.169 million between their contra-accounts, Other Non-Current Assets (ONCA) – Restricted Funds (RFs)-VDs of P16,582.948 million, and Interest Receivable – VDs & Investments in Time Deposits (TDs) – Foreign Currency – RFs totaling P156.680 million, respectively, which remained unreconciled at year-end, contrary to Paragraph 15 of the International Accounting Standards (IAS) 1.

2. The faithful representation in the financial statements of the balance of the ONCA-RFs account in the amount of P16,606.182 million as at December 31, 2020 was not ascertained due to the: (a) net variance of P123.061 million between the balances per books and the confirmed bank balances of the ONCA-RFs-Visa Deposits (VDs)-Receiving and Disbursing accounts in view of the various book reconciling items which remained unreconciled and unadjusted as of year-end; (b) non-preparation of Bank Reconciliation Statements (BRSs) on a monthly basis; and (c) non-maintenance of Subsidiary Ledgers (SLs) for the accounts of the Retiree-Members, contrary to Paragraph 15 of IAS 1.

3. The Property, Plant and Equipment (PPE) – Right-of-Use Asset (RUA) under Building and Other Structures sub-account; Accumulated Depreciation - PPE - RUA; Other Payables - RUA; Interest Expense; Depreciation - PPE - RUA; and Prepaid Interest accounts were understated by P16.183 million; P12.969 million; P6.811 million; P2.690 million; P0.701 million; and P0.206 million, respectively, due to the: (a) use of inappropriate rate to arrive at the present value during the initial measurement of the RUA and Lease Liability accounts corresponding to the leases; (b) inconsistent application in the subsequent measurement of the recognized RUA and Lease Liability accounts; and (c) erroneous recognition of interest expenses for advance lease payments on one of PRA's leases, contrary to Paragraphs 23, 24, 26, 29 and 36 of Philippine Financial Reporting Standard (PFRS) 16.

4. Collections totaling P12.215 million from Annual PRA Fees (APF) pertaining to prior years and Calendar Years (CYs) 2021 - 2024 were erroneously recognized as income in CY 2020, contrary to Paragraphs 4.25(a) and 4.47 of the Conceptual Framework of General Purpose Financial Reporting and resulted in the overstatement of Income - APF account by P12.215 million and understatement of the Retained Earnings (RE) and Unearned Revenue - APF accounts by P3.664 million and P8.551 million, respectively, as of December 31, 2020. Meanwhile, the non-recognition of exchange rate difference between initial recognition and at year-end resulted in the overstatement of the Service Income - APF account and understatement of the Gain on Foreign Exchange (Forex) – Unrealized account in the amount of P5.545 million, contrary to Paragraph 28 of IAS 21.

5. Visitorial Fees (VFs), Accounts Receivable-VFs (AR-VFs), and Impairment Loss (IL) accounts were understated by P9.396 million, P6.271 million, and P1.220 million, respectively, while Allowance for Impairment (AFI)-VFs and RE accounts were overstated by P1.823 million and P0.083 million, respectively, due to erroneous recording of various transactions, contrary to Qualitative Characteristic (QC) 12 of the Conceptual Framework of General Purpose Financial Reporting.

6. The fair presentation of the balances of the Cash in Bank accounts in the amount of P249.076 million as at December 31, 2020, included under the Cash and Cash Equivalents account, could not be ascertained due to variances totaling P32.928 million between the balances per books and confirmed bank balances caused by various errors and book reconciling items that remained unadjusted as of year-end, contrary to Paragraph 15 of IAS 1.

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

1.1. Direct the concerned personnel of Financial Management Division (FMD) to expedite and exert all efforts to reconcile the balances of TL-VDs and TL-IP accounts with their contra accounts, ONCA-RFs-VDs and Interest Receivable-VDs & Investment in TDs-Foreign Currency-RFs accounts considering the material discrepancies noted.

2.1. Instruct the FMD to:

a. Fast track the reconciliation of the ONCA - RFs – VDs - Receiving and Disbursing accounts in order to determine the specific 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;

b. Exercise due diligence in the identification/determination of book and bank reconciling items to avoid errors which will affect the reliability of the prepared BRSs;

c. Ensure the timely preparation of the monthly BRSs for the ONCA-RFs-VDs Receiving and Disbursing accounts by assigning specific personnel to handle the task in order to facilitate prompt identification of reconciling items and recording thereof, in compliance with Sections 5 and 7 of Chapter 21 of the Government Accounting Manual (GAM), Volume I; and

d. Maintain SLs for the accounts of Retiree-Members (SRRV holders) to facilitate the reconciliation and monitoring of balances of the ONCA-RFs and the Trust Liability accounts.

3.1. Require the FMD to: (a) effect the necessary adjusting entries in order to correct the misstatements noted on various accounts so that the correct balances of the affected asset, liability and expense accounts shall be reflected in the financial statements for the year ended December 31, 2020; and (b) evaluate the other possible effects of said errors/misstatements in the financial statements such as taxes and make the necessary corrections and adjustments.

4.1. Direct the FMD to effect the necessary adjustments to:

a. Correct the overstatement of Service Income - APF account in the amount of P12.215 million and understatement of the RE and Unearned Revenue - APF accounts in the amounts of P3.664 million and P8.551 million, respectively, to fairly present these accounts in the financial statements as of December 31, 2020; and

b. Recognize the unrealized gain on advance collections arising from the exchange rate differences between the spot rate on the date of collection and the exchange rate during translation at year-end to correct the understatement and overstatement of the Gain on Forex – Unrealized and Service Income – APF accounts in the amount of P5.545 million to fairly present these accounts in the financial statements as of December 31, 2020.

5.1. Require the FMD to immediately effect the necessary adjustments to correct the misstatements of the VFs, AR-VFs, IL, AFI-VFs and RE accounts due to erroneous recording of various transactions.

5.2. Direct the concerned FMD personnel to be extra careful in the recording of financial transactions to avoid errors and/or misleading information.

6.1. Instruct the FMD to: (a) expedite the reconciliation of accounts; (b) verify thoroughly the book reconciling items for each of the affected bank accounts and immediately effect the necessary adjusting entries to fairly present the balances of the Cash in Bank accounts in the financial statements as of December 31, 2020; (c) make representations with the concerned officials of the Land Bank of the Philippines (LBP) and the Development Bank of the Philippines (DBP) - Head Offices to facilitate the correction of errors in the accounts of PRA and the submission of pertinent documents such as Debit Memos, Credit Memos, etc. so that necessary adjustments could be effected in the PRA's books and in the concerned banks' records; and (d) ensure proper preparation of BRSs to avoid confusion, errors, inaccurate, and/or misleading information.

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

7. The non-enforcement of the pertinent provisions of the EO No. 1037 and of the Memoranda of Agreement (MOAs) executed between PRA and the servicing foreign/domestic banks deprived the Authority of additional income (in an undetermined amount) in the form of Management Fees (MFs) from the outstanding Visa Deposits (VDs) of Member-Retirees totaling P372.143 million maintained with de-accredited banks.

7.1. We recommended that Management direct the FMD and other concerned Divisions to:

a. Maintain a complete record of the VDs being kept by each accredited and de-accredited bank to facilitate the computation of MFs due to PRA and for reconciliation purposes with the Report provided by the concerned bank;

b. Enforce the pertinent provisions embodied in the Implementing Rules and Regulations (IRR) of the EO No. 1037 and in the MOA between the PRA and servicing foreign/domestic banks specifically the payment of MFs;

c. Formulate policies and procedures that would expedite the transfer of the remaining/outstanding balances of Resident Retirees' VDs from de-accredited to PRA accredited banks pursuant to Section 1, Rule VIII of the IRR of EO No. 1037; and

d. Consider requiring as mandatory for the Retirees to update PRA annually about their personal information including the status of their VDs to facilitate updating/monitoring of their records, in compliance with Section 1(e) of Rule VI of the IRR of EO No. 1037.

8. The withheld salaries totaling P232,628 of the former Accountant, determined as solidarily liable, applied as partial payment to a final and executory Notice of Disallowance in the amount of P1.341 million and covered by a COA Order of Execution (COE), were refunded/returned to her by PRA despite the total amount of disallowance is not yet fully settled by all the persons found liable, contrary to COA rules and regulations.

8.1. We recommended that Management:

a. Cause the immediate return of the amount of P232,628 refunded to the former Accountant, otherwise the disbursement will be disallowed in audit; and

b. Enforce collection/payment of the audit disallowances covered by COE from all the persons found liable pursuant to COA rules and regulations.

SUMMARY OF SUSPENSIONS, DISALLOWANCES AND CHARGES

The unsettled audit disallowances and suspensions as of December 31, 2020 amounted to P2.072 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-six (36) audit recommendations embodied in the prior year's Annual Audit Report (AAR), six (6) were fully implemented, twenty-two (22) were partially implemented, and eight (8) 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 financial statements of the **Philippine Retirement Authority (PRA**), which comprise the statements of financial position as at December 31, 2020 and 2019, 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, 2020 and 2019, 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 faithful representation in the financial statements of the balances of the Trust Liabilities (TL) – Visa Deposits (VDs) account of P16,852.907 million and TL – Interest Payable (IP) account of P198.849 million as at December 31, 2020 were not established due to discrepancies of P269.958 million and P42.169 million between their contra-accounts, Other Non-Current Assets (ONCA) – Restricted Funds (RFs)-VDs of P16,582.948 million, and Interest Receivable – VDs & Investments in Time Deposits (TDs) – Foreign Currency – RFs totaling P156.680 million, respectively, which remained unreconciled at year-end, contrary to Paragraph 15 of the International Accounting Standards (IAS) 1.

Likewise, the faithful representation in the financial statements of the balance of the ONCA-RFs account in the amount of P16,606.182 million as at December 31, 2020 was not ascertained due to the: (a) net variance of P123.061 million between the balances per books and the confirmed bank balances of the ONCA-RFs-VDs-Receiving and Disbursing accounts in view of the various book reconciling items which remained unreconciled and unadjusted as of year-end; (b) non-preparation of Bank Reconciliation Statements on a monthly basis; and (c) non-maintenance of Subsidiary Ledgers for the accounts of the Retiree-Members, contrary to Paragraph 15 of IAS 1.

Also, the Property, Plant and Equipment (PPE) – Right-of-Use Asset (RUA) under Building and Other Structures sub-account; Accumulated Depreciation - PPE - RUA; Other Payables - RUA; Interest Expense; Depreciation - PPE - RUA; and Prepaid Interest accounts were understated by P16.183 million; P12.969 million; P6.811 million; P2.690 million; P0.701 million; and P0.206 million, respectively, due to the: (a) use of inappropriate rate to arrive at the present value during the initial measurement of the RUA and Lease Liability accounts corresponding to the leases; (b) inconsistent application in the subsequent measurement of the recognized RUA and Lease Liability accounts; and (c) erroneous recognition of interest expenses for advance lease payments on one of PRA's leases, contrary to Paragraphs 23, 24, 26, 29 and 36 of PFRS 16.

Moreover, collections totaling P12.215 million from Annual PRA Fees (APF) pertaining to prior years and Calendar Years (CYs) 2021 - 2024 were erroneously recognized as income in CY 2020, contrary to Paragraphs 4.25(a) and 4.47 of the Conceptual Framework of General Purpose Financial Reporting and resulted in the overstatement of Income - APF account by P12.215 million and understatement of the Retained Earnings (RE) and Unearned Revenue - APF accounts by P3.664 million and P8.551 million, respectively, as of December 31, 2020. Meanwhile, the non-recognition of exchange rate difference between initial recognition and at year-end resulted in the overstatement of the Service Income - APF account and understatement of the Gain on Foreign Exchange (Forex) – Unrealized account in the amount of P5.545 million, contrary to Paragraph 28 of IAS 21**.**

Further, the Visitorial Fees (VFs), Accounts Receivable-VFs, and Impairment Loss accounts were understated by P9.396 million, P6.271 million, and P1.220 million, respectively, while Allowance for Impairment-VFs and RE accounts were overstated by P1.823 million and P0.083 million, respectively, due to erroneous recording of various transactions, contrary to Qualitative Characteristic (QC) 12 of the Conceptual Framework of General Purpose Financial Reporting.

Furthermore, the fair presentation of the balances of the Cash in Bank accounts in the amount of P249.076 million as at December 31, 2020, included under the Cash and Cash Equivalents account, could not be ascertained due to variances totaling P32.928 million between the balances per books and confirmed bank balances caused by various errors and book reconciling items that remained unadjusted as of year-end, contrary to Paragraph 15 of IAS 1.

We were not able to perform alternative procedures to determine if any adjustments to the Other Non-Current Assets – Restricted Funds, Trust Liabilities, and Cash in Bank accounts are necessary due to the status of the records of the PRA's Financial Management Division.

We conducted our audits in accordance with the 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 Revised Code of Conduct and Ethical Standards for the Commission on Audit Officials and Employees (Code of Ethics) together with the ethical requirements that are relevant to our audit of the financial statements in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Matter

In our report dated August 5, 2020, we expressed a qualified opinion on the CY 2019 financial statements because 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 by P64.556 million, P0.294 million, P72.712 million, and P64.639 million, respectively, due to erroneous closing rate used in the translation of foreign currency monetary items to Philippine Peso, contrary to Paragraph 23 of IAS 21.

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 other related accounts in the total amount of P4.858 million were understated due to erroneous reclassification of various items to the R&M Expense account.

PRA Management has already made necessary adjustments in the books to correct the misstatements noted and restated the 2019 financial statements. Accordingly, our present opinion on the restated CY 2019 financial statements, as presented herein, is no longer modified concerning these matters.

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

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

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.

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, 2020, 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
Acting Supervising Auditor
Audit Group D – PRA/VFP/BSoP
Corporate Government Sector – Cluster 6

June 11, 2021

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, 2020 and 2019**, 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

12 May 2021
Date Signed

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

May 12, 2021
Date Signed

ATTY. BIENVENIDO K. CHY
General Manager and CEO

May 12, 2021
Date Signed

PHILIPPINE RETIREMENT AUTHORITY
STATEMENTS OF FINANCIAL POSITION
As at December 31, 2020 and 2019
(In Philippine Peso)

	Note	2020	2019 (As Restated)
ASSETS			
Current Assets			
Cash and cash equivalents	5	251,015,320	117,078,562
Investment in time deposits	6	852,116,446	2,321,603,866
Receivables - net	7	130,800,554	162,142,536
Inventories	8	3,842,006	4,002,889
Other current assets	9	16,648,709	9,143,119
Total Current Assets		**1,254,423,035**	**2,613,970,972**
Non-Current Assets			
Investment in time deposits	6	1,427,865,102	-
Investment in stocks	10	3,500,000	3,500,000
Other receivables	11	7,043,740	7,525,779
Property, plant and equipment	12	128,130,857	59,465,397
Intangible assets	13	2,323,125	3,089,175
Deferred tax assets	31.3	849,413,040	553,157,823
Other non-current assets	14	16,611,403,737	17,285,632,605
Total Non-Current Assets		**19,029,679,601**	**17,912,370,779**
Total Assets		**20,284,102,636**	**20,526,341,751**
LIABILITIES			
Current Liabilities			
Financial liabilities	15	49,945,170	87,056,479
Inter-agency payables	16	48,001,504	54,531,906
Intra-agency payables	17	9,417	9,417
Other payables	19	77,655,615	427,580
Total Current Liabilities		**175,611,706**	**142,025,382**
Non-Current Liabilities			
Trust liabilities	18	17,057,764,813	17,585,813,763
Deferred credits/unearned income	20	372,147,736	357,669,825
Provisions	21	10,087,575	6,929,021
Deferred tax liabilities	31.4	618,081,295	381,981,055
Total Non-Current Liabilities		**18,058,081,419**	**18,332,393,664**
Total Liabilities		**18,233,693,125**	**18,474,419,046**
EQUITY			
Government equity	22	63,217,089	63,217,089
Retained earnings	23	1,984,292,422	1,985,805,616
Other comprehensive income	10	2,900,000	2,900,000
Total Equity		**2,050,409,511**	**2,051,922,705**
Total Liabilities and Equity		**20,284,102,636**	**20,526,341,751**

The notes on pages 10 to 62 form part of these statements.

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

1. GENERAL INFORMATION

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, 2020, 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 166 workforce consisting of eighty-three (83) regular employees and eighty-three (83) job order contracts.

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 and amendments effective in 2020 that are relevant to the Authority

The accounting policies adopted are consistent with those of the previous financial year except for the adoption of the following new and amended PFRS which the Authority adopted effective for annual periods beginning on or after January 1, 2020:

- Amendments to PAS 1, *Presentation of Financial Statements,* and PAS 8*, Accounting Policies, Changes in Accounting Estimates and Errors*, Definition of Material – The new definition states 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.

- Amendments to PFRS 16, *Leases, COVID-19-related Rent Concessions* – The amendment exempts lessees from having to consider individual lease contracts to determine whether rent concessions occurring as a direct consequence of the COVID-19 pandemic are lease modifications and allow lessees to account for such rent concessions as if they were not lease modifications. It applies to COVID-19-related rent concessions that reduce lease payments due on or before June 30, 2021.

The foregoing amendments do not have any material effect on the financial statements of PRA. Additional disclosures have been included in the notes to financial statements, as applicable.

b. **New *Standards effective in 2020 that are not relevant or not applicable to the PRA***

- Amendments to PFRS 3, *Business Combinations*, Definition of a Business – The amendments are effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2020 and to assets acquisitions that occur on or after the beginning of that period. Earlier application is permitted. The amendment defines business as an integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing goods or services to customers, generating investment income (such as dividend and interest) or generating other income from ordinary activities. A business consists of inputs and processes applied to those inputs that have the ability to contribute to the creation of outputs.

- Amendments to PFRS 9 *Financial Instruments*, PAS 39 *Financial Instruments: Recognition and Measurement* and PFRS 7 *Financial Instruments: Disclosures – Interest Rate Benchmark Reform*. The amendment states:

    - entities would continue to apply certain hedge accounting requirements assuming that the interest rate benchmark on which the hedged cash flows and cash flows from the hedging instrument are based will not be altered as a result of interest rate benchmark reform;
    - are mandatory for all hedging relationships that are directly affected by the interest rate benchmark reform;
    - are not intended to provide relief from any other consequences arising from interest rate benchmark reform (if a hedging relationship no longer

meets the requirements for hedge accounting for reasons other than those specified by the amendments, discontinuation of hedge accounting is required); and

- require specific disclosures about the extent to which the entities' hedging relationships are affected by the amendments.

The application of these amendments will not have an impact on the disclosures and amounts recognized on the Authority's financial statements.

c. New and amended standards and interpretations issued but not yet effective

The new and amended PFRSs which are not yet effective for the year ended December 31, 2020 and have not been applied in preparing the financial statements are summarized below:

<u>Effective for annual periods beginning on or after January 1, 2021</u>

- PFRS 17, *Insurance Contracts* – This standard will replace PFRS 4 Insurance Contract. It requires insurance liabilities to be measured at current fulfillment 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 new Standard will not have an impact on the disclosures and amounts recognized in the Authority's financial statements.

<u>Effective for annual periods beginning on or after January 1, 2022:</u>

- Amendments to PFRS 3, *Business Combinations*, Reference to the Conceptual Framework – Reference to the 1989 Framework in paragraph 11 of PFRS 3 Business Combinations was updated to 2018 Framework. Potential conflicts occur as the definitions of assets and liabilities in the 2018 Framework differ from those in the 1989 Framework potentially leading to day 2 gains or losses post acquisition for some balances recognized.

- Amendments to PAS 16, *Property, Plant and Equipment, Proceeds before Intended Use* – This amends the standard to prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognizes the proceeds from selling such items, and the cost of producing those items, in profit or loss.

- Amendments to PAS 37, *Provisions, Contingent Liabilities and Contingent Assets, Onerous Contracts - Cost of Fulfilling a Contract* – The changes specify that the 'cost of fulfilling' a contract comprises the 'costs that relate directly to the contract'. Costs that relate directly to a contract can either be incremental costs of fulfilling that contract (examples would be direct labor, materials) or an allocation of other costs that relate directly to fulfilling contracts (an example would be the allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract).

- Amendments to PFRS 1, *First-time Adoption of Philippine Financial Reporting Standards, Subsidiary as a first-time adopter* – The amendment permits a subsidiary that applies paragraph D16(a) of PFRS 1 to measure cumulative translation differences using the amounts reported by its parent, based on the parent's date of transition to PFRSs.

- Amendments to PFRS 9, *Financial Instruments*, Fees in the '10 per cent' test for derecognition of financial liabilities – The amendment clarifies which fees an entity includes when it applies the '10 per cent' test in paragraph B3.3.6 of PFRS 9 in assessing whether to derecognize a financial liability. An entity includes only fees paid or received between the entity (the borrower) and the lender, including fees paid or received by either the entity or the lender on the other's behalf.

- Amendments to PFRS 16, *Leases, Lease Incentives* – The amendment to Illustrative Example 13 accompanying PFRS 16 removes from the example the illustration of the reimbursement of leasehold improvements by the lessor in order to resolve any potential confusion regarding the treatment of lease incentives that might arise because of how lease incentives are illustrated in that example.

- Amendments to PAS 41, *Agriculture, Taxation in fair value measurements* – The amendment removes the requirement in paragraph 22 of PAS 41 for entities to exclude taxation cash flows when measuring the fair value of a biological asset using a present value technique. This will ensure consistency with the requirements in PFRS 13.

Management is currently assessing the impact of this new standards/amendments in its financial statements.

<u>Effective for annual periods beginning on or after January 1, 2023:</u>

- Amendments to PAS 1, *Presentation of Financial Statements, Classification of Liabilities as Current or Non-Current* – The amendments affect only the presentation of liabilities in the statement of financial position not the amount or timing of recognition of any asset, liability income or expenses, or the information that entities disclose about those items. Clarify that the classification of liabilities as current or non-current (i) should be based on rights that are in existence at the end of the reporting period and align the wording in all affected paragraphs to refer to the "right" to defer settlement by at least twelve months and make explicit that only rights in place "at the end of the reporting period" should affect the classification of liability, (ii) is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability, and (iii) settlement refers to the transfer to the counterparty of cash, equity instruments, and other assets or services.

- Amendments to PFRS 17, *Insurance Contracts* – The main changes resulting from Amendments to PFRS 17 are:

  - Deferral of the date of initial application of PFRS 17 by two years to annual periods beginning on or after January 1, 2023 and change the fixed expiry date for the temporary exemption in PFRS 4 *Insurance Contracts* from applying PFRS 9 *Financial Instruments*, so that entities would be required to apply PFRS 9 for annual periods beginning on or after January 1, 2023.

  - Additional scope exclusion for credit card contracts and similar contracts that provide insurance coverage as well as optional scope exclusion for loan contracts that transfer significant insurance risk.

  - Recognition of insurance acquisition cash flows relating to expected contract renewals, including transition provisions and guidance for insurance acquisition cash flows recognized in a business acquired in a business combination.

  - Clarification of the application of PFRS 17 in interim financial statements allowing an accounting policy choice at a reporting entity level.

  - Clarification of the application of contractual service margin attributable to investment-return service and investment-related service and changes to the corresponding disclosure requirements.

  - Extension of the risk mitigation option to include reinsurance contracts held and non-financial derivatives.

  - Amendments to require an entity that at initial recognition recognizes losses on onerous insurance contracts issued to also recognize a gain on reinsurance contracts held.

  - Simplified presentation of insurance contracts in the statement of financial position so that entities would present insurance contract assets and liabilities in the statement of financial position determined using portfolios of insurance contracts rather than groups of insurance contracts.

  - Additional transition relief for business combinations and additional transition relief for the date of application of the risk mitigation option and the use of the fair value transition approach.

  - Several small amendments regarding minor application issues.

Under prevailing circumstances, the adoption of the foregoing amendments to Standards is expected to have no material impact on the disclosures and amounts recognized in the Authority's 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 in December 2015 but earlier application is still permitted.

The new amendment to the Standard will not have an impact on the disclosures and amounts recognized in the Authority's financial statements.

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 of 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 participants 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 an 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, 2020 and 2019, the PRA's receivables, short term investments and long term investments are classified under this category.

Financial Assets at FVOCI – debt instruments

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, 2020 and 2019, the PRA has no externally managed funds, hence, no financial assets have been classified under this category.

Below is the Authority's accounting policy on the classification and subsequent measurement of financial assets applicable before January 1, 2019:

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	2020	2019 (As Restated)
Less than 90 days	18,911,386	12,900,705
91-365 days	14,041,103	21,581,267
Over one year	18,611,334	12,242,344
Over three years	35,644,586	39,788,130
Total	**87,208,409**	**86,512,446**

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 P48.023 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 a 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 Authority 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 Authority'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. Thereafter, PRA will request authority from the Commission on Audit (COA) for the write-off of receivable balance (and any related allowances for impairment losses) when it has determined that the receivables are finally uncollectible after exhausting its efforts to collect and legal action.

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 the 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 assets 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.

<u>Financial Liabilities</u>

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 unrecognized, 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 the 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
ICT equipment	5 years
Library books	7 years
Other equipment	10 years
Transport vehicles	7 years

Considered machinery and equipment are office equipment, information and communication technology equipment, and other equipment *(Note 12)*.

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 derecognition 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 the 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.

<u>Intangible assets acquired through non-exchange transactions</u>

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

<u>Internally generated intangible assets</u>

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.

<u>Recognition of an expense</u>

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.

<u>Subsequent measurement</u>

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 life 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 derecognition 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 derecognized.

<u>Research and development costs</u>

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 amortized 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

<u>Web Site Costs</u>

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 research and development costs and charged the 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 per cent regular corporate income tax (RCIT) rate or 2 per cent 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 PRA assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Lease in which a significant portion of the risks and rewards of ownership are retained by the lessor is classified as operating lease. Payments made under operating lease (net of any incentives received from the lessor) are charged to the pre-operating expenses on a straight-line basis over the period of the lease.

Lease that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration are assessed by PRA whether the contract meets three key evaluations, whether:

(a) The contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the PRA.

(b) The PRA has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract.

(c) The PRA has the right to direct the use of the identified asset throughout the period of use.

Measurement and recognition of Right of Use and Lease Liabilities

At lease commencement date, the PRA recognizes a right-of-use asset and a lease liability on the balance sheet. The right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liability, any initial direct costs incurred by the PRA, an estimate of any costs to dismantle and remove the asset at the end of the lease, and any lease payments made in advance of the lease commencement date (net of any incentives received).

The PRA depreciates the right-of-use assets on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The PRA also assesses the right-of-use asset for impairment when such indicators exist.

At the commencement date, the PRA measures the lease liability at the present value of the lease payments unpaid at that date, discounted using the interest rate implicit in the lease if that rate is readily determinable, or the PRA's incremental borrowing rate.

Lease payments included in the measurement of the lease liability are made up of fixed payments (including in substance fixed), variable payments based on an index or rate, amounts expected to be payable under a residual value guarantee and payments arising from options reasonably certain to be exercised.

Subsequent to initial measurement, the liability will be reduced for payments made and increased for interest. It is remeasured to reflect any reassessment or modification, or if there are changes in substance fixed payments.

When the lease liability is remeasured, corresponding adjustment is reflected in the right-of-use asset, or profit and loss if the right-of-use is already reduced to zero.

Short-term leases and leases of low-value assets

The PRA applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered to be low value. Lease payments on short-term leases and leases of low-value assets are recognized as expense on a straight-line basis over the lease term.

The PRA has elected to account for short-term leases and leases of low-value assets using the practical expedients. Instead of recognizing a right-of-use asset and lease liability, the payments in relation to these are recognized as an expense in profit and loss on a straight-line basis over the lease term.

<u>Adoption of PFRS 16</u>

The PRA adopted PFRS 16 using the modified retrospective approach effective for reporting periods beginning on or after January 1, 2019 and to apply the new standard to contracts that were previously identified as leases under PAS 17. Likewise, the PRA will not apply the standard to contracts that were not previously identified as lease under PAS 17.

The adoption of this new Standard has resulted in the PRA recognizing a right-of-use asset and related lease liability in connection with all former operating leases except for those identified as low-value or having a remaining lease term of less than twelve (12) months from the date of initial application.

The new Standard has been applied using the modified retrospective approach, with the cumulative effect of adopting PFRS 16 being recognized in equity as an adjustment to the opening balance of retained earnings for the current period. Prior periods have not been restated.

For contracts in place at the date of initial application, the PRA has elected to apply the definition of a lease from PAS 17 and IFRIC 4 and has not applied PFRS 16 to arrangements that were previously not identified as lease under PAS 17 and IFRIC 4.

Likewise, the PRA has elected not to include initial direct costs in the measurement of the right-of-use asset for operating leases in existence at the date of initial application of PFRS 16, beginning 1 January 2020. At this date, the PRA has also elected to measure the right-of-use assets at an amount equal to the lease liability adjusted for any prepaid or accrued lease payments that existed at the date of transition.

Instead of performing an impairment review on the right-of-use assets to the date at the date of initial application, the PRA has relied on its historic assessment as to whether leases were onerous immediately before the date of initial application of PFRS 16.

On transition, for leases previously accounted for as operating leases with a remaining lease term of less than twelve (12) months and for leases of low-value assets the PRA has applied the optional exemptions to not recognize right-of-use assets but account for the lease expense on a straight-line basis over the remaining lease term.

The following is a reconciliation of total operating lease commitments at 31 December 2019 (as disclosed in the financial statements at 31 December 2019) to the lease liabilities recognized at 1 January 2019.

Total operating lease commitments disclosed at 31 December 2019		3,004,973
Recognition exemptions		
• Leases of low-value assets	-	
• Leases with remaining lease term of less than 12 months	3,004,973	
Variable lease payments not recognized	-	
Other minor adjustments relating to commitment disclosures	-	3,004,973
Operating lease liabilities before discounting		-
Discounted using incremental borrowing rate		-
Operating lease liabilities		-
Reasonably certain extension options		-
Finance lease obligations		-

For those leases previously classified as finance leases, the right-of-use asset and lease liability are measured at the date of initial application at the same amounts as under PAS 17 immediately before the date of initial application, hence reconciliation of the financial statement line items from PAS 17 to PFRS 16 at 1 January 2020 is not necessary.

The PRA has benefited from the use of hindsight for determining the lease term when considering options to extend and terminate leases.

The right-of-use assets and lease liabilities are recorded in Other PPE, Right-of-Use (ROU) and Other Payables-ROU accounts and are presented under the Property Plant and Equipment and Other Payables, respectively in the statement of financial position. *(See Notes 12, 19 and 33)*

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 the 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 an 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.

Advance 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 2020 and monetary items as at December 31, 2020 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 in 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 the end-user.

Prior period errors are omissions from, and misstatements in, the Authority's financial statements for one or more prior periods arising from a failure to use, or misuse of reliable information that was available and could reasonably be expected to have been obtained and taken into account in preparing those statements.

Changes in accounting policies and correction of errors are generally retrospectively accounted for, whereas changes in accounting estimates are generally accounted for on a prospective basis.

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 Judgments 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 a 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 Authority'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	2020	2019 (As Restated)
Financial Assets:			
Cash and cash equivalents	5	251,015,320	117,078,562
Investment in time deposits	6	2,279,981,548	2,321,603,866
Receivables, net	7	130,800,554	162,142,536
Investment in stocks	10	3,500,000	3,500,000
Other receivables	11	7,043,740	7,525,779
Restricted fund	14	16,606,181,702	17,281,281,423
		19,278,522,864	**19,893,132,166**

	Note	2020	2019 (As Restated)
Financial Liabilities:			
Financial liabilities-current	15	49,945,170	87,056,479
Inter-agency payables	16	48,001,504	54,531,906
Intra-agency payables	17	9,417	9,417
Trust liabilities	18	17,057,764,813	17,585,813,763
Other payables	19	77,655,615	427,580
		17,233,376,519	**17,727,839,145**

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 Authority 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 Authority 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 Authority'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, 2020 and 2019, without considering the effects of credit risk mitigation techniques.

	Note	2020	2019 (As Restated)
Financial Assets:			
Cash and cash equivalents	5	251,015,320	117,078,562
Investment in time deposits	6	2,279,981,548	2,321,603,866
Receivables – gross	7	176,580,084	201,930,666
Investment in stocks	10	3,500,000	3,500,000
Other receivables – gross	11	11,573,097	12,055,136
		2,722,650,049	**2,656,168,230**

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 a 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 behavior and known market factors. The amount and timing of recorded expenses for any period would differ if the Authority made different judgments or utilized different estimates.

The Authority will request authority from COA for the write-off of receivables balances (and any related allowances for impairment losses) when the Finance Management Division - Treasury determines that the receivables are finally uncollectible after exhausting all 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 Authority 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. Fundraising 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 behavior. 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:

	2020	2019 (As Restated)
Cash on hand	1,939,163	1,490,680
Cash in bank-local currency	9,401,217	3,718,454
Cash in bank-foreign currency	239,674,940	111,869,428
	251,015,320	**117,078,562**

In conformity with PAS No. 8, the Cash and cash equivalent account is restated as follows:

	Amount
Unrestated amount as of December 31, 2019	115,893,033
Adjustments/Recording of Cash and cash equivalents	1,185,529
Restated amount as of December 31, 2019 - Cash and cash equivalents	**117,078,562**

Cash on hand is composed of various accounts but mainly: (a) cash collecting officer – local currency which amounted to P1,072,027 and P725,604 for the years ended December 31, 2020 and 2019, respectively; (b) cash collecting officer – foreign currency which amounted to $18,316.28 and $14,448.39 as of December 31, 2020 and 2019, respectively, and translated into peso amounts using the corresponding year-end closing rates of P48.023:$1 and P50.635:$1 to arrive at the year-end balances of P879,603 and P731,594; and (c) Petty Cash Fund amounting to P(26,873) and P33,482, as of December 31, 2020 and 2019, respectively.

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 \$4,990,836.47 and \$2,209,330.06 for the years ended December 31, 2020 and 2019, respectively, and translated into peso amounts using the corresponding year-end closing rates of P48.023:\$1 and P50.635:\$1.

Regular deposits accounts with LBP and 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	
	2020	**2019 (As Restated)**	**2020**	**2019**
Foreign currency time deposits	654,484,830	2,126,298,999	1,427,865,102	-
Investment in high-yield deposits	197,631,616	195,304,867	-	-
	852,116,446	**2,321,603,866**	**1,427,865,102**	**-**

In conformity with PAS No. 8, the Investments in Time Deposits are restated as follows:

	Amount
Unrestated amount as of December 31, 2019	2,329,414,503
Adjustments/Recording of Investment in time deposits	(7,810,637)
Restated amount as of December 31, 2019 - Investment in time deposits	**2,321,603,866**

Current Investments in Time Deposits refer to items that have maturities beyond 90 days but within the next twelve (12) months.

Current foreign currency time deposits with LBP and DBP amounted to US\$13,628,570.27 and US\$41,992,673.03 as of December 31, 2020 and 2019 and were converted to peso at year-end using the closing rates of P48.023:US\$1 and P50.635:US\$1, respectively.

Current Investments in high-yield deposits with LBP yield interest rates of 1.250 per cent to 1.5 per cent in CY 2020 and 1.125 per cent to two (2%) per cent in CY 2019.

Included in the foreign currency time deposits is the Investments in Time Deposits – Restricted account amounting to US\$2,778,801.97 and US\$2,751,227.62 as of December 31, 2020 and 2019, 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 Fund. 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 Investments in Time Deposits-Foreign Currency-Restricted as of December 31, 2020 pertain to time deposits with LBP amounting to US\$316,129.60, purchased on July 27, 2020, with a term of two (2) years and interest rate of two (2) per cent. The time deposits will mature on July 27, 2022.

Non-current Investments in Time Deposits-Foreign Currency as of December 31, 2020 pertain to LBP investments yielding interest rates of one (1) to two (2) per cent for a total of US$29,732,942.60 which will mature starting on May 18, 2022 to November 19, 2022.

7. RECEIVABLES

This account consists of the following:

	2020	2019 (As Restated)
Accounts receivable	41,428,879	46,724,316
Due from officers and employees	-	158,470
Interest receivable	89,371,675	115,259,750
	130,800,554	**162,142,536**

In conformity with PAS No. 8, the Receivables are restated as follows:

	Amount
Unrestated amount as of December 31, 2019	162,813,930
Adjustments/Recording of Receivables	(671,394)
Restated amount as of December 31, 2019 - Receivables	**162,142,536**

7.1 Accounts receivable consists of:

	2020	2019 (As Restated)
Visitorial fees (VF)	37,658,582	40,319,144
Allowance for impairment-VF	(38,790,444)	(36,062,060)
Visitorial fees – net	*(1,131,862)*	*4,257,084*
Management fees	*17,180,263*	*12,764,328*
Harmonization fees	2,316,228	1,839,206
Allowance for impairment-HF	(376,369)	(466,587)
Harmonization fees – net	*1,939,859*	*1,372,619*
Annual PRA fees	30,053,336	31,589,768
Allowance for impairment-APF	(6,612,717)	(3,259,483)
Annual PRA fees – net	*23,440,619*	*28,330,285*
	41,428,879	**46,724,316**

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 of the visa deposit amount converted into active investment of Section 16 of Rule VIII-A of the Implementing Rules and Regulations (IRR) of EO No. 1037. 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 per approved PRA Circular No. 01, series of 2006 and approved Board Resolution No. 24, series of 2006 dated May 2, 2006 and affirmed further by Resolution 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 rates were 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 one and half (1.5) per cent of the outstanding daily balance of the retirees' visa 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)** pertain 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:

	2020	2019 (As Restated)
Office supplies inventory	1,113,980	1,113,980
Accountable forms, plates and stickers	1,406,106	1,566,989
Information material inventory	1,321,920	1,321,920
	3,842,006	**4,002,889**

In conformity with PAS No. 8, the Inventories are restated as follows:

	Amount
Unrestated amount as of December 31, 2019	2,762,886
Adjustments/Recording of Inventories	1,240,003
Restated amount as of December 31, 2019 - Inventories	**4,002,889**

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:

	2020	2019
Creditable withholding tax at source	15,160,203	6,585,330
Advances to special disbursing officers	650,156	1,547,414
Advances to officers and employees	-	199,139
Prepaid insurance	95,359	68,247
Other prepayments	742,991	742,989
	16,648,709	**9,143,119**

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 2020 which remained unliquidated.

Other prepaid expenses include purchases of supplies from Procurement Service (PS) which were already paid but not yet delivered as of December 31, 2020.

10. INVESTMENT IN STOCKS

The account Investment in Stocks 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 still amounted to P3.500 million as at December 31, 2020 and 2019.

11. OTHER RECEIVABLES

This account consists of:

	2020	2019
COA disallowances	5,745,310	5,811,692
Due from officers and employees	1,335,719	1,335,719
Marketers accreditation	677,331	677,331
Other receivables	3,814,737	4,230,394
	11,573,097	**12,055,136**
Allowance for impairment	(4,529,357)	(4,529,357)
	7,043,740	**7,525,779**

COA disallowances pertain 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.

In CY 2020, a reclassification was made among the sub-accounts which increased the year-end balance of the Other Receivables account by P816,787 consisting of P518,882 and P297,905 from COA Disallowances and Due from Officers and Employees accounts, respectively.

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, 2020	68,347,885	43,311,360	18,529,724	5,547,843	135,736,812
Additions	84,015,723	400,395		1,270,818	85,686,936
(Disposals/adjustments)	-	(1,191,998)	-	-	(1,191,998)
Balance, December 31, 2020	**152,363,608**	**42,519,757**	**18,529,724**	**6,818,661**	**220,231,750**
Accumulated depreciation:					
Balance, January 1, 2020	38,601,429	21,499,391	11,661,589	4,509,006	76,271,415
Additions	9,886,332	4,892,066	878,378	172,702	15,829,478
(Disposals/adjustments)	-	-	-	-	-
Balance, December 31, 2020	**48,487,761**	**26,391,457**	**12,539,967**	**4,681,708**	**92,100,893**
Net book value, Dec. 31, 2020	**103,875,847**	**16,128,300**	**5,989,757**	**2,136,953**	**128,130,857**
Net book value, Dec. 31, 2019	**29,746,456**	**21,811,969**	**6,868,135**	**1,038,837**	**59,465,397**

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

Included under the Property, Plant and Equipment are right-of-use assets over the following:

	2020	**2019**
Office building	84,015,723	-
Accumulated depreciation	5,669,535	-
Net book value	**78,346,188**	**-**

13. INTANGIBLE ASSETS

The details of the account are as follows:

	Computer software	Website	Total
Cost:			
Balance, January 1, 2020	2,796,000	1,335,000	4,131,000
Additions	-	-	-
(Disposals/adjustments)	-	-	-
Balance, December 31, 2020	**2,796,000**	**1,335,000**	**4,131,000**
Accumulated depreciation:			
Balance, January 1, 2020	741,450	300,375	1,041,825
Additions	525,750	240,300	766,050
(Disposals/adjustments)	-	-	-
Balance, December 31, 2020	**1,267,200**	**540,675**	**1,807,875**
Net book value, Dec. 31, 2020	**1,528,800**	**794,325**	**2,323,125**
Net book value, Dec. 31, 2019	**2,054,550**	**1,034,625**	**3,089,175**

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:

	2020	2019 (As Restated)
Restricted funds	16,606,181,702	17,281,281,423
Guaranty deposits	5,222,035	4,351,182
	16,611,403,737	**17,285,632,605**

In conformity with PAS No. 8, the Other non-current assets are restated as follows:

	Amount
Unrestated amount as of December 31, 2019	17,349,184,104
Adjustments/Recording of Other non-current assets	(63,551,499)
Restated amount as of December 31, 2019 - Other non-current assets	**17,285,632,605**

Restricted fund (RF) represents the required visa deposit from the retiree-members which are deposited with the DBP totalling US$345,796,424.67 and US$341,291,229.85 as of December 31, 2020 and 2019, and translated into peso amounts using the corresponding year-end closing rates of P48.023:US$1 and P50.635:US$1, respectively. Details are as follows:

	2020		2019	
	Amount (in USD)	Amount (In Peso)	Amount (In USD)	Amount (In Peso)
RF-Visa Deposits-Receiving	337,749,720.61	16,219,754,833	338,136,508.20	17,121,542,092
RF-Visa Deposits-Disbursing	7,562,910.47	363,193,650	2,706,434.82	137,040,327
RF-Interest on Visa Deposits	483,793.59	23,233,219	448,286.83	22,699,004
Total Restricted Fund	**345,796,424.67**	**16,606,181,702**	**341,291,229.85**	**17,281,281,423**

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 other 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:

	2020	2019
Accounts payable	48,409,520	86,038,718
Due to officers and employees	1,535,650	1,017,761
	49,945,170	**87,056,479**

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:

	2020	2019 (As Restated)
Due to BIR	38,243,354	51,168,860
Due to GSIS	6,311,339	2,444,167
Due to Pag-IBIG fund	170,010	162,238
Due to PhilHealth	144,568	110,373
Due to NGAs	2,082,283	646,268
Due to LBP	1,049,950	-
	48,001,504	**54,531,906**

In conformity with PAS No. 8, the Inter-agency payables account is restated as follows:

	Amount
Unrestated amount as of December 31, 2019	42,990,857
Adjustments/Recording of Inter-agency payables	11,541,049
Restated amount as of December 31, 2019 - Inter-agency payables	**54,531,906**

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 National Government Agencies (NGAs) account pertains to liability to the BI for the processing of applications for SRRV.

17. INTRA-AGENCY PAYABLES

This account pertains to Due to Other Funds representing contributions to the PRA employee's cooperative amounting to P9,417 as of December 31, 2020 and 2019.

18. TRUST LIABILITIES

This account consists of:

	2020	2019 (As Restated)
Visa deposits of retiree-members	16,852,906,686	17,410,230,567
Interest on visa deposits	198,848,948	169,791,347
Customers' deposit payable	5,789,616	5,572,286
Guaranty/security deposits payable	219,563	219,563
	17,057,764,813	**17,585,813,763**

In conformity with PAS No. 8, the Trust liabilities are restated as follows:

	Amount
Unrestated amount as of December 31, 2019	17,650,391,310
Adjustments/Recording of Trust liabilities	(64,577,547)
Restated amount as of December 31, 2019 - Trust liabilities	**17,585,813,763**

Visa deposits 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$350,934,067 and US$343,837,870 for the years ended December 31, 2020 and 2019, respectively, and was translated into peso amounts using the corresponding year-end closing rates of P48.023:US$1 and P50.635: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$4,140,702 and US$3,353,241 as of December 31, 2020 and 2019, respectively, was translated to peso amounts using the corresponding year-end closing rates of P48.023:US$1 and P50.635:US$1.

19. OTHER PAYABLES

This account consists of:

	2020	**2019**
Other payables	427,579	427,580
Lease liabilities	77,228,036	-
	77,655,615	**427,580**

Other payables pertain to unclaimed refunds by clients and employees prior to CY 2014.

Lease liabilities pertain to lease agreements with the PRA that were recognized as right-of-use assets in compliance with the PFRS 16 *(Note 33)*.

Lessor/Location	**Lease Term**	**Present Value**
BDO Unibank, Inc. - Trust & Investment Group Head Office, 29F, Unit 29C, Citibank Tower, 8741 Paseo de Roxas Avenue, Makati City, Philippines	March 1, 2020 to February 28, 2025	P33,552,924
Metropolitan Bank & Trust Company - Trust Banking Group Head Office, 29F, Unit 29A & D, Citibank Tower, 8741 Paseo de Roxas Avenue, Makati City, Philippines	January 1, 2020 to December 31, 2024	61,337,444
J.A.D. Savers Development Co., Inc. 4th Floor, Saver's Mall, Balibago, Angeles City, Philippines	October 29, 2020 to October 28, 2023	1,392,842
Total		**96,283,210**
Less: Lease payments in 2020		(19,055,174)
Outstanding Balance		**P77,228,036**

20. DEFERRED CREDITS/UNEARNED INCOME

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

	2020	2019
Annual PRA fee	359,099,549	335,799,378
Visitorial fee	8,898,202	13,086,570
Registration/ID fee	2,897,333	6,855,233
Harmonization fee	1,189,542	1,785,319
Accreditation fee	63,110	143,325
	372,147,736	**357,669,825**

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

21. PROVISIONS

This account pertains mainly to the money value of unused leave benefits of regular employees amounting to P10.088 million and P6.929 million as of December 31, 2020 and 2019, respectively.

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). There were no additions nor reductions of the amount during CY 2020.

23. RETAINED EARNINGS

	2020	2019 (As Restated)
Retained Earnings, January 01	1,985,805,616	1,811,547,608
Dividend paid during the year	(216,373,408)	(258,488,809)
Net income for the year	214,860,214	432,746,817
Retained earnings, December 31	**1,984,292,422**	**1,985,805,616**

In conformity with PAS No. 8, the Retained earnings are restated as follows:

	Amount
Unrestated amount as of December 31, 2019	2,002,377,118
Adjustment for prior period errors	(4,880,661)
Settlement of CY 2013 final tax assessment (BIR)	(11,690,841)
Restated amount as of December 31, 2019 – Retained Earnings	**1,985,805,616**

24. INCOME

This account consists of the following:

	2020	2019
Service income	558,305,485	896,581,600
Business income	145,486,999	142,496,653
Gains on forex	798,300,035	584,898,743
Other non-operating income	244,871	138,334
	1,502,337,390	**1,624,115,330**

24.1 Service Income

This account consists of:

	2020	2019
Annual PRA fee	307,729,161	353,732,220
Visa application fee	91,333,900	336,848,838
Management fee	132,203,379	160,872,597
Visitorial fee	7,374,140	26,706,460
Registration/ID fee	14,602,710	6,548,025
Processing fee	2,305,553	8,380,279
Harmonization fee	2,756,642	3,493,181
	558,305,485	**896,581,600**

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:

	2020	2019
Interest income	145,461,999	142,496,653
Other business income	25,000	-
	145,486,999	**142,496,653**

24.3 Gains on Forex

This account consists of:

	2020	2019
Realized gains on forex	11,299,234	32,747
Unrealized gains on forex	787,000,801	584,865,996
	798,300,035	**584,898,743**

24.4 Other Non-operating Income

Other Non-operating income account pertains to Miscellaneous Income amounting to P244,871 and P138,334 in CY 2020 and CY 2019, respectively.

25. DIRECT COST

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

	2020	2019
Marketers' fee	23,438,968	86,329,578
Bureau of Immigration (BI) fee	13,783,352	45,451,441
Medical examination fee	864,000	6,570,568
Visa stickers and IDs and membership kits	2,653,608	1,499,502
	40,739,928	**139,851,089**

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 166 and 268 accredited marketers in CYs 2020 and 2019, respectively, that were able to enroll a total of 944 principal retiree-applicants in CY 2020 and 3,276 principal retiree-applicants in CY 2019.

The 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:

	2020	2019
Salaries and wages	47,384,066	46,243,531
Other compensation	15,590,428	15,356,215
Benefits contribution	6,174,505	5,852,080
Other benefits	5,743,440	2,956,484
	74,892,439	**70,408,310**

26.1. Other Compensation

	2020	2019
Year-end bonus	4,051,070	3,896,277
Mid-year bonus	3,977,615	3,623,197
Personnel economic relief allowance	1,978,275	1,945,817
Overtime pay	766,803	1,812,788
Representation allowance	1,182,000	1,110,272
Transportation allowance	1,006,235	866,864
Longevity pay	862,000	788,000
Clothing/uniform allowance	510,000	498,000
Cash gift	450,430	408,000
Productivity incentive allowance	416,000	407,000
Other bonuses and allowances	237,000	-
Hazard pay	153,000	-
	15,590,428	**15,356,215**

26.2. Benefits Contribution

This account pertains to the PRA share of the following premiums:

	2020	2019
Retirement and life insurance premium	5,378,037	5,205,203
PhilHealth contribution	598,668	454,352
Pag-IBIG fund contribution	98,900	95,700
Employees compensation insurance premium	98,900	96,825
	6,174,505	**5,852,080**

26.3. Other Benefits

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:

	2020	2019
Professional services	4,572,411	5,631,981
Repairs and maintenance	9,358,053	16,429,067
Traveling expenses	432,893	9,490,191
Communication expenses	5,597,446	5,778,935
Supplies and materials	2,684,672	2,335,793
Utility expenses	908,831	866,279
Training and scholarship expenses	373,772	423,039
Taxes, insurance premiums and other fees	853,263	457,045
General services	21,134,261	20,491,420
Confidential, intelligence and extraordinary expenses	1,600	67,758
Other maintenance and operating expenses	25,454,473	102,918,029
	71,371,675	**164,889,537**

27.1. Professional Services

	2020	2019
Auditing services	3,159,091	3,158,485
Consultancy services	324,320	1,529,136
Legal services	1,089,000	944,360
	4,572,411	**5,631,981**

27.2. Repairs and Maintenance

	2020	2019
Machinery and equipment	7,186,256	14,891,993
Buildings and other structures	1,833,486	233,627
Furniture and fixtures	90,777	988,080
Transportation equipment	247,534	283,297
Leasehold improvement	-	32,070
	9,358,053	**16,429,067**

27.3. Traveling Expenses

	2020	2019
Traveling expenses – local	432,893	4,227,223
Traveling expenses – foreign	-	5,262,968
	432,893	**9,490,191**

Local marketing traveling expenses include P77,404.00 and P941,745.24 for CYs 2020 and 2019, respectively.

27.4. Communication expenses

	2020	2019
Internet subscription expenses	4,340,998	4,036,580
Telephone expenses	879,370	1,242,471
Postage and courier services	350,678	475,684
Cable, satellite, telegraph and radio expenses	26,400	24,200
	5,597,446	**5,778,935**

27.5. Supplies and Materials

	2020	2019
Office supplies expenses	1,793,237	1,629,573
Fuel, oil and lubricants expenses	516,464	584,588
Accountable forms expenses	59,092	88,346
Drugs and medicines expenses	193,379	33,286
Semi-Expendable Machinery and Equipment Expense	122,500	-
Other supplies and materials expenses	-	-
	2,684,672	**2,335,793**

27.6. Utility Expenses

Utility expenses represent those incurred by the Authority for electric consumption during CYs 2020 and 2019 totaling to P908,831 and P866,279, respectively.

27.7. Training and Scholarship Expenses

Training and scholarship expenses pertain to various seminars and conferences attended by employees amounting to P373,772 and P423,039 for CYs 2020 and 2019, respectively.

27.8. Taxes, Insurance Premiums and Other Fees

	2020	2019
Fidelity bond premiums	189,548	277,191
Taxes, duties and licenses	526,578	11,130
Insurance expenses	137,137	168,724
	853,263	**457,045**

27.9. General Services

	2020	2019
Security services	324,984	412,183
Other general services	20,809,277	20,079,237
	21,134,261	**20,491,420**

Other general services pertain to the salaries and wages including overtime pay of temporary workers under “job order” contracts. This was moved from other professional services costs in CY 2020.

27.10. Confidential, Intelligence and Extraordinary Expenses

Confidential, intelligence and extraordinary expenses consist of extraordinary and miscellaneous expenses incurred by the Authority in CYs 2020 and 2019 amounting to P1,600 and P67,758, respectively.

27.11. Other Maintenance and Operating Expenses

	2020	2019
Advertising, promotional and marketing expenses	16,353,216	64,206,219
Rent/lease expenses	2,034,709	24,061,027
Representation expenses	1,931,338	8,597,078
Membership dues and contributions to organizations	4,977,568	5,150,681
Major events and convention expenses	-	388,552
Transportation and delivery expenses	86,968	156,694
Printing and publication expenses	17,280	311,261
Subscription expenses	15,269	46,517
Other maintenance and operating expenses	38,125	-
	25,454,473	**102,918,029**

28. NON-CASH EXPENSES

	2020	2019
Depreciation		
Machinery and equipment	4,892,066	4,518,373
Building and other structures	4,216,798	1,966,301
Furniture and fixtures	172,702	41,374
Transportation equipment	878,378	750,827
Right of use (ROU)	17,937,023	
	28,096,967	7,276,875
Amortization-intangible assets	766,050	716,770
Impairment loss-loans and receivables	3,485,950	13,119,218
Loss on sale of PPE	-	-
	32,348,967	**21,112,863**

29. FINANCIAL EXPENSES

This account consists of:

	2020	2019
Bank charges	9,325	65,045
Interest expense for leasing arrangements	957,289	-
	966,614	**65,045**

Finance costs for the reporting periods consist of the following:

	2020	2019
Interest expense for borrowings at amortized cost	-	-
Interest expense for leasing arrangements	957,289	-
	957,289	**-**

30. LOSS ON FOREIGN EXCHANGE (FOREX)

This account consists of:

	2020	2019
Realized loss on forex	70,367,382	24,412,153
Unrealized loss on forex	967,048,080	646,236,589
	1,037,415,462	**670,648,742**

Unrealized loss on foreign exchange amounting to P967.048 million and P646.237 million as at December 31, 2020 and 2019, resulted in the translation of monetary assets and liabilities denominated in US Dollars using the year-end closing rates of P48.023:US$1 and P50.635:US$1, respectively.

31. TAXES

31.1. Payment of Taxes and Exemption from VAT

Section 12 of EO 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.

Value Added Tax (VAT)

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 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:

	2020	2019
Income tax expense – current	89,897,068	161,715,635
Income tax expense – deferred	(60,154,977)	(37,322,708)
Total	**29,742,091**	**124,392,927**

The details of statutory reconciliation are provided below:

	2020	2019
Income tax at statutory rate	73,380,691	167,141,923
Permanent differences:		
Interest income subject to final tax	(43,638,600)	(42,748,996)
Income tax expense	**29,742,091**	**124,392,927**

31.3. Deferred Tax Assets

This account consists of the following:

	2020	2019
Unrealized loss on FOREX	722,676,053	432,561,629
Unearned income	111,644,321	107,300,948
Allowance for impairment	15,092,666	13,295,246
Total	**849,413,040**	**553,157,823**

31.4. Deferred Tax Liabilities

This account consists of:

	2020	2019
Unrealized gain on forex	618,081,295	381,981,055
Total	**618,081,295**	**381,981,055**

32. RELATED PARTY TRANSACTIONS

32.1. Key Management's Personnel

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

32.2. Key Management Personnel Compensation

The aggregate remuneration of the key management personnel determined on a full time equivalent basis receiving remuneration within this category, follows:

	2020	2019
Salaries and wages	7,973,948	8,342,733
Other compensation	2,649,012	2,570,990
Other personnel benefits	1,600	67,749
	10,624,560	**10,981,472**

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. LEASES

The PRA entered into lease agreements for its Main Office at the 29 Floor, Citibank Tower Quadrants A, C, and D and for its four (4) local satellite offices in Davao, Baguio, Subic, and Cebu. With the exception of short-term leases and leases of low-value underlying assets, each lease is reflected on the balance sheet as a right-of-use asset and a lease liability. Variable lease payments which do not depend on an index or a rate (such as lease payments based on a percentage of sales) are excluded from the initial measurement of the lease liability and asset. The PRA classifies its right-of-use assets in a consistent manner to its property, plant and equipment (see *Note 3.9*).

Leases for satellite offices are generally of low-value or short term for a maximum period of twelve (12) months. PRA has no lease that is tied up with its revenue or index.

Each lease generally imposes a restriction that, unless there is a contractual right for the PRA to sublet the asset to another party, the right-of-use asset can only be used by the PRA. Leases are either non-cancellable or maybe terminated with substantial fee. PRA has no leases that contain an option to purchase the underlying leased asset outright at the end of the lease, or to extend the lease for a further term without complying with the lease renewal notification required by the lessor.

The PRA is prohibited from selling or pledging the underlying leased assets as a security. For leases of office buildings, the PRA must keep these properties in a good state of repair and return the properties in their original condition at the end of the lease term. Further, the PRA must insure items of property, plant and equipment and incur maintenance fees on such items in accordance with the lease contracts.

The table below describes the nature of the PRA's leasing activities by type of right-of-use asset recognized on the balance sheet:

Right-of-Use	Office Building
No. of right-of-use assets leased	3
Range of remaining term	2 – 4 years
Average remaining lease term	4 years
No. of leases with extension options	3
No. of leases with options to purchase	-
No. of leases with variable payments linked to an index	-
No. of leases with termination option	3

Right-of-use

Additional information on the right-of-use assets by class of assets is presented below:

	No of Assets	Carrying Amount (P)	Additions (P)	Depreciation (P)	Impairment (P)
Office building	3	-	84,015,722	5,669,534	-

The right-of-use assets are included in the same line item as where the corresponding underlying assets would be presented if they were owned.

Lease Liabilities

The roll forward analysis of finance lease liability is as follows:

	Amount
At January 1, as previously reported	P -
Effect of adoption of PFRS 16	-
As at January 1, As Restated	**-**
New lease liabilities	95,325,922
Interest expense	957,289
Payments	(19,055,175)
As at December 31, 2020	**P77,228,036**

Additional information on the lease and amounts in respect of possible future lease termination options not recognized as a liability are as follows:

Right-of-use	Office building
Lease liability (P)	77,228,036
Lease termination options recognized as a liability (P)	-
Lease termination options not recognized as a liability (P)	5,406,656
Historical rate of exercise of termination options (%)	-
Number of leases with an extension option that is not considered reasonably certain of exercise (No.)	3
Additional lease liabilities that would be incurred were it to become reasonably certain that the extension option would be exercised (P)	-

On transition to PFRS 16 the weighted average incremental borrowing rate applied to lease liabilities recognized under PFRS 16 was five per cent (5%) and the ROU asset was depreciated over the lease term.

The following are the amounts recognized in the Statement of Comprehensive Income:

	Amount
Depreciation expense of leased assets, building and other structures	12,267,489
Interest expense on finance lease liability	613,795
Total amount recognized in Statement of Comprehensive ncome	**12,881,284**

The use of extension and termination options gives the PRA added flexibility in the event it has identified more suitable premises in terms of cost and/or location or determined that it is advantageous to remain in a location beyond the original lease term. An option is only exercised when consistent with the PRA's regional markets strategy and the economic benefits of exercising the option exceeds the expected overall cost.

At December 31, 2020, the PRA had no committed leases which had not commenced.

The lease liabilities are secured by the related underlying assets. The undiscounted schedule of minimum lease payable of the Authority related to its lease agreements is shown below:

	2020	**2019**
Rent payable within:		
One (1) year	19,295,971	17,621,540
More than one (1) year up to five (5) years	63,906,066	2,415,540
Beyond five (5) years	-	-
Total	**83,202,037**	**20,037,080**

Lease payments not recognized as a liability

The PRA has elected not to recognize a lease liability for short term leases (leases of expected term of 12 months or less) or for leases of low value assets. Payments made under such leases are expensed on a straight-line basis. In addition, certain variable lease payments are not permitted to be recognized as lease liabilities and are expensed as incurred.

The expenses relating to payments not included in the measurement of the lease liability are as follows:

	2020	**2019**
Short-term lease	54,366	69,708
Leases of low value assets	148,180	534,144
Variable lease payments	-	-
Total	**202,546**	**603,852**

For interest expense in relation to leasing liabilities, refer to finance costs (*Note 29*).

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, 2020 and 2019 are as follows:

	2020	2019
Creditable (Expanded)	5,028,626	17,275,992
Compensation and benefits	8,089,895	5,913,627
Creditable (VAT)	2,830,378	6,652,604
Total	**15,948,899**	**29,842,223**

b. Other Taxes & Licenses:

	2020	2019
Local		
Community tax	10,500	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, 2020, 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 faithful representation in the financial statements of the balances of the Trust Liabilities (TL) – Visa Deposits (VDs) account of P16,852.907 million and TL – Interest Payable (IP) account of P198.849 million as at December 31, 2020 were not established due to discrepancies of P269.958 million and P42.169 million between their contra-accounts, Other Non-Current Assets (ONCA) – Restricted Funds (RFs)-VDs of P16,582.948 million, and Interest Receivable – VDs & Investments in Time Deposits (TDs) – Foreign Currency – RFs totaling P156.680 million, respectively, which remained unreconciled at year-end, contrary to Paragraph 15 of the International Accounting Standards (IAS) 1. The inconsistent practice of recording the share of the Retirees in the accruals or interest earned from the VDs was one of the causes of the differences noted in the said accounts.

1.1. 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 representation 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. Xxx.*

1.2. This is a reiteration of the previous year's observation as the noted differences increased in Calendar Year (CY) 2020.

1.3. The account Trust Liabilitities – Visa Deposits (VDs) is the counter liability account of ONCA-Restricted Funds (RFs)-VDs Receiving and Disbursing accounts while the accounts RFs – Interest Receivable - VDs and Investment in TDs are the contra accounts of the TL – Interest Payable (IP) account. Sound accounting practice dictates that balances of Trust Liabilities accounts and their contra accounts must be equal at all times.

1.4. Comparison of the balances of TL-VDs and TL-IP accounts with their contra accounts, however, revealed variances of P269.958 million and P42.169 million, respectively, details are presented in Table 1.

Table 1 - Trust Liabilities – VDs and IP on VDs vs. ONCA – RFs (Receiving and Disbursing) and ONCA-Interest on VDs & Investments in TDs

Account		Amount
Trust Liabilities – VDs		P16,852,906,686
Less: Contra-Asset accounts:		
Other Non-Current Assets- RF-VDs		
Restricted Fund-Visa Deposits-Receiving	P16,219,754,833	
Restricted Fund-Visa Deposits-Disbursing	363,193,650	16,582,948,483
Discrepancy		**P 269,958,203**

Account		Amount
Trust Liabilities - Interest on Visa Deposits		P198,848,948
Less: Contra-asset accounts:		
Restricted Fund - Interest on Visa Deposits	P 23,233,219	
Investments in Time Deposits-Foreign Currency-RF*	133,446,407	156,679,626
Discrepancy		**42,169,322**
Total		**P312,127,525**

**Included under Foreign currency time deposits account*

1.5. The unreconciled balances of these contra – accounts were already brought to the attention of Management in the previous year's audit, however, the discrepancies noted continue to persist. Although an inquiry was made to the Financial Management Division (FMD), there was no information or report provided to the Audit Team that would explain the causes of the discrepancy noted between the TL – VDs and ONCA – RF – VDs in the amount of P269.958 million. As to the TL – Interest on VDs and its contra – accounts, the variance of P7.813 million in CY 2019 had increased to P42.169 million in CY 2020, which might have been due to the practice of recording the shares of the Retirees on the interest from the VDs placed with the Development Bank of the Philippines (DBP).

1.6. Review showed that the practice of the FMD in recording income from pre-terminated time deposits of withdrawing retirees is to debit the RF – Interest on VDs account and credit the Interest Income account. However, since the Retiree has a share on the interest income earned from the deposited VDs, the FMD should have credited said share to the TL-Interest Payable account for the Retiree instead of crediting the whole income to the Interest Income account of the PRA.

1.7. Moreover, the FMD informed that for the period July to December 2020, the subject share of the Retiree was no longer debited to RF-Interest on VDs account but rather to PRA's Cash-in-bank under DBP - Savings Account (SA). Thus, there was no consistency in the manner of recording the share of the Retirees in the accruals or interest earned from VDs. For consistency in recording, the interest income previously recorded under RF-Interest on VDs for the period January to June 2020 should have been adjusted to the DBP-SA account so that it would eventually tally with the TL - IP account.

1.8. It is emphasized, however, that Section 2 of Rule VIII of the Rules and Regulations Implementing Executive Order (EO) No. 1037 (PRA's Charter) provides that, "*The interest earnings of the retiree's US Dollar deposit or account with the bank shall be converted into and paid to the retiree in Philippine Currency.*" Inquiry with the concerned personnel disclosed that the PRA has no written policy as to the sharing/allocation and recording of the said interest earnings. Hence, said provision in the RRI has to be considered by the FMD personnel prior accruing all the interest earnings to the PRA considering that a portion thereof belongs to the Retiree.

1.9. In view of the noted discrepancies totaling P312.128 million, the correctness and reliability of the TL – Visa Deposits and TL – IP accounts with balances of P16,852.907 million and P198.849 million, respectively, were not established, thus, affecting the fair presentation of these accounts in the financial statements as of December 31, 2020.

1.10. **We reiterated our previous year's recommendation that Management direct the concerned personnel of FMD to expedite and exert all efforts to reconcile the balances of TL-VDs and TL-IP accounts with their contra accounts, ONCA-RFs-VDs and Interest Receivable-VDs & Investment in TDs-Foreign Currency-RFs accounts considering the material discrepancies noted.**

1.11. **We further recommended that Management:**

a. Consider formulating written Operations Manual that would provide proper guidance, uniformity, and consistency on the keeping of accounts of PRA in view of the inconsistent manner of recording transactions and the complexities in some transactions of the PRA to come up with reliable financial reports; and

b. Formulate a written policy as to the allocation and recording of the interest earnings of the Retirees' visa deposits with the depository bank, pursuant to Section 2 of Rule VIII of the Rules and Regulations Implementing EO No. 1037.

1.12. Management commented that:

a. The discrepancy of P42.169 million in the interest on visa deposit accounts is due to a change in the bookkeeping procedures introduced by FMD in early part of CY 2019 where all transactions related to interest on visa deposits were transferred to the DBP US$ Savings Account no. 0405-018674-530 from the DBP Disbursing Account no. 0405-027438-530. This new account should have been properly described as a Restricted Account - Interest on visa deposit and all others transferred to PRA operating accounts with Land Bank of the Philippines (LBP).

b. Resolutions for all other long outstanding reconciling items are being fast tracked by assigning dedicated staff on this specific purpose and hiring of additional contract of service personnel to further assist in this endeavor.

c. The development of written operation manuals related to Trust Accounting shall be one of the plans and programs of the FMD in the coming years.

1.13. As a rejoinder, the Audit Team acknowledged the plan of action presented by Management to address the recurring issue on the variances noted between TL-VDs and TL-IP accounts with their contra accounts, ONCA-RFs-VDs and Interest Receivable-VDs & Investment in TDs-Foreign Currency-RFs accounts. Their full implementation of the audit recommendations will be monitored in the CY 2021 audit. Likewise, the Team reiterates the need to address the issue on the proper recording and adjustments of the share of Retirees from the interest earned on their Visa Deposits.

2. **The faithful representation in the financial statements of the balance of the Other Non-Current Assets – Restricted Funds (ONCA-RFs) account in the amount of P16,606.182 million as at December 31, 2020 was not ascertained due to the: (a) net variance of P123.061 million between the balances per books and the confirmed bank balances of the ONCA-RFs-Visa Deposits (VDs)-Receiving and Disbursing accounts in view of the various book reconciling items which remained unreconciled and unadjusted as of year-end; (b) non-preparation of Bank Reconciliation Statements (BRSs) on a monthly basis; and (c) non-maintenance of Subsidiary Ledgers (SLs) for the accounts of the Retiree-Members, 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 representation 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. Xxx.*

2.2. Audit of the ONCA – RFs account with a balance of P16,606.182 million as of December 31, 2020 disclosed various deficiencies as discussed hereunder.

Net variance of P123.061 million between the balance per books and the confirmed bank balances of the ONCA-RFs-VDs sub-accounts due to various book reconciling items which remained unreconciled and unadjusted as of December 31, 2020

2.3. To determine the reliability and accuracy of the balance of the ONCA – RFs - VDs account, particularly its sub-accounts - Receiving and Disbursing, the Audit Team confirmed with the depository banks of the PRA. Results of the bank confirmation however, revealed a net discrepancy of P123.061 million when compared with the book balances as of December 31, 2020, as summarized in Table 2.

Table 2 – Balances per Books vs. per Bank of ONCA-RFs-VDs
As of December 31, 2020

Particulars	Balance per Books	Balance per Bank	Variance
ONCA – RFs – VDs Receiving account			
Amount (In US Dollar)	337,749,721	347,049,071	(9,299,350)
Amount (In Peso)	16,219,754,833	16,666,337,527	(446,582,694)
ONCA - RFs – VDs Disbursing account			
Amount (In US Dollar)	7,562,910	826,101	6,736,809
Amount (In Peso)	363,193,650	39,671,859	323,521,791
Total (In US Dollar)	**345,312,631**	**347,875,172**	**(2,562,541)**
Total (In Peso)	**16,582,948,483**	**16,706,009,386**	**(123,060,903)**

2.4. Verification of the BRSs for ONCA - RFs – VDs Receiving account showed that the variance of P446.583 million pertained to long outstanding book reconciling items (BRIs) covering CYs 2012 to 2019 in the total amount of P62.876 million and bank reconciling items of P21.877 million. However, the BRIs were merely presented and labeled in the BRSs as "Total Book vs. Bank transactions and Unrecorded bank transactions" without any explanation/details. The same observation was noted in the previous years' audits and was already included in the 2019 Annual Audit Report (AAR), but the variance remained unreconciled and unadjusted in the books as of December 31, 2020. As to the BRIs in CY 2020, it was noted that the FMD was able to identify the nature of the same. Shown in Table 3 is the summary of all identified BRIs.

Table 3 – Summary of BRIs

Long outstanding BRIs in Prior Years	Amount	BRIs for CY 2020	Amount
Book vs. Bank Transactions - 2012	P 215,508	Erroneous debits to Book Balance	P(284,007,545)
-do - CY 2013	51,193	Unrecorded debits to Book Balance	528,590,581
-do - CY 2014	(124,860)	Erroneous credits to Book Balance	137,270,605
-do - CY 2015	564,325	Unrecorded credits to Book Balance	(11,170,534)
-do - CY 2016	(2,528,966)		
-do - CY 2018	(57,076,848)		
-do - CY 2019	119,673,304		
Unrecorded Bank Transactions - CY 2017	2,102,455		
Total	**P62,876,111**	**Total**	**P370,683,107**

2.5. Further verification disclosed that the erroneous debits to the book balance consist of additional deposits already included in a prior Time Deposits (TDs) or already terminated/pre-terminated resulting in double recording while others pertained to incorrect use of account code for recording interbank transfers which overstated the book balance. The unrecorded debits pertained to the unrecorded transactions on new deposit placements, additional deposits, interbank transfers to the account, and interests on matured TDs, thereby, overstating the book balance.

2.6. Moreover, the erroneous credits to the book balance resulted from incorrect use of account code for recording of interbank transfers, and a transaction on re-deposit recorded as release/transfer of deposit, thereby, understating the book balance. The unrecorded credits refer to the unrecorded pre-termination and/or cancellation of the time deposits.

2.7. It was also verified that in CY 2020, the bank reconciling items totaling P21.877 million were identified as erroneous credit to the account representing Retirees' and PRA's Share in the Time Deposit Placement of PRA. Since these concern the bank records, such should have been communicated to the respective depository banks for appropriate action.

2.8. On the noted variance of P323.522 million under ONCA - RFs – VDs Disbursing account, review of the submitted BRSs disclosed that this was caused by BRIs of CYs 2018 and 2019 which were presented as total book vs. bank transactions without explanation, similar to those under the ONCA-RFs-VDs-Receiving account. The total BRIs for CY 2020 amounted to P234.621 million consisting of items classified as erroneous/unrecorded debits to the book balance, erroneous/unrecorded credits to the book balance, while bank reconciling items amounted to P14.654 million, summarized in Table 4.

Table 4 – Summary of Bank Reconciling Items on ONCA-RFs-VDs Disbursing Account

Particulars	Amount
Erroneous Withdrawal to the Bank Balance	P 961,661
Unrecorded Withdrawal	(2,648,060)
Erroneous Deposit to the Bank Balance	(13,073,350)
Unrecorded Deposit	105,651
Total	**P(14,654,098)**

2.9. Verification, however, revealed that of the total P14.654 million bank reconciling items, only the amount of P2.648 million, which pertained to an unreleased VD at year end, was correctly identified as a reconciling item. The remaining bank reconciling items in the total amount of P12.006 million should have been reflected as BRIs in the BRSs since their nature is to correct and record adjustments in the books of accounts, thus, the BRSs were not prepared correctly.

BRSs were not prepared on a monthly basis while SLs were not maintained for the accounts of the Retiree-Members

2.10. The Audit Team further noted that majority of the aforementioned BRIs (ONCA-RFs-VDs Receiving and Disbursing accounts) in CY 2020 with substantial amounts were already identified as early as January 2020, yet these remained unadjusted as at year-end. The FMD informed that the same were still subject for verification. However, it was further noted that the BRSs were prepared only at year-end instead of the regular monthly basis, contrary to Sections 5 and 7 of Chapter 21 of the Government Accounting Manual (GAM), Volume I which provide that:

> *Section 5. Preparation of the Bank Reconciliation Statement. The Chief Accountant/Designated Staff shall within ten days from receipt of the monthly Bank Statement (BS) together with the paid checks, original copies of Debit Memoranda (DM)/Credit Memoranda (CM) from the GSB, reconcile the BS with the GL and prepare the BRS in four copies. Xxxx*
>
> *Section 7. Reporting. The Chief Accountant shall submit the BRS within twenty days after receipt of the monthly BS to the following: Original – COA Auditor (with all the supporting documents and JEVs), Copy 2 – Head of Agency/Entity, Copy 3 – Accounting Division/Unit file, Copy 4 – Bank, if necessary.*

2.11. Had the BRSs been prepared regularly on a monthly basis, the BRIs in material amounts could have been immediately adjusted in the books.

2.12. Meanwhile, the continuing issue on unreconciled ONCA-RFs-VDs Receiving and Disbursing accounts could also be attributed to the non-maintenance by the FMD of the required SL for each Retireee-member, which was already brought to the attention of PRA Management in the CY 2019 AAR.

2.13. The concerned FMD personnel admitted that said issue was not yet addressed, but he verbally informed that the Retiree Bank Management Information System (RBMIS) that would serve as database of retirees' information and improve the monitoring of VDs has been already installed and migration of data is underway.

2.14. Although the system was not yet verified by the Audit Team, it is emphasized that such should not limit the FMD to continue its function as primary responsible in the keeping of accounts of PRA as well as in the improvement of its recording and reconciliation process to safeguard against inaccurate or misleading information.

2.15. **We reiterated our previous year's recommendations that Management instruct the concerned personnel of FMD to:**

a. Fast track the reconciliation of the ONCA - RFs – VDs - Receiving and Disbursing accounts in order to determine the specific 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;

b. Exercise due diligence in the identification/determination of book and bank reconciling items to avoid errors which will affect the reliability of the prepared BRSs;

c. Ensure the timely preparation of the monthly BRSs for the ONCA-RFs-VDs Receiving and Disbursing accounts by assigning specific personnel to handle the task in order to facilitate prompt identification of reconciling items and recording thereof, in compliance with Sections 5 and 7 of Chapter 21 of GAM, Volume I; and

d. Maintain SLs for the accounts of Retiree-Members (SRRV holders) to facilitate the reconciliation and monitoring of balances of the ONCA-RFs and the Trust Liability accounts.

2.16. Management commented that:

a. The Visa Deposit monitoring system called RBMIS developed in-house by Management Services Department (MSD) through its Information and Communication Technology Division (ICTD) was partly deployed in June 2019 for accredited private banks (at 70% completion) and February 2020 for DBP (at 60% completion). Data migration from the old excel ledgers is still ongoing, though the system is now partly able to monitor the visa deposits. On the other hand, the billing system for management fees is still being developed.

b. Resolution of other long outstanding reconciling items are being fast tracked by assigning dedicated staff on this specific purpose and hiring of additional contract of service that can further assist in this endeavor.

2.17. As a rejoinder, the Audit Team would like to emphasize that despite the development of RBMIS by the ICTD, the FMD should still maintain a separate SL for each Member-Retiree and not merely rely on the said system. Meanwhile, the full implementation of the audit recommendations shall be monitored in CY 2021 audit.

3. The Property, Plant and Equipment (PPE) – Right-of-Use Asset (RUA) under Building and Other Structures sub-account; Accumulated Depreciation - PPE - RUA; Other Payables - RUA; Interest Expense; Depreciation - PPE - RUA; and Prepaid Interest accounts were understated by P16.183 million; P12.969 million; P6.811 million; P2.690 million; P0.701 million; and P0.206 million, respectively, due to the: (a) use of inappropriate rate to arrive at the present value during the initial measurement of the RUA and Lease Liability accounts corresponding to the leases; (b) inconsistent application in the subsequent measurement of the recognized RUA and Lease Liability accounts; and (c) erroneous recognition of interest expenses for advance lease payments on one of PRA's leases, contrary to Paragraphs 23, 24, 26, 29 and 36 of Philippine Financial Reporting Standard (PFRS) 16.

3.1. PFRS 16, which took effect on or after January 1, 2019, introduces a single lessee accounting model and requires that all leases shall be accounted for as a finance lease. The lessee is to recognize assets and liabilities for all its leases with a term of more than 12 months, unless the underlying asset is of low value. Accordingly, a lessee is required to recognize a Right-Of-Use (ROU) asset for the use of the underlying asset over the lease term and a Lease Liability for the obligation to make lease payments.

3.2. Review of the Lease Contracts of the PRA with lease terms of more than one year disclosed the following relevant information (Table 5).

Table 5 – Details of the Lease Contracts of the PRA with More than 1 Year Term

Particulars	Lease Contract No. 1	Lease Contract No. 2	Lease Contract No. 3
Lessor	Metropolitan Bank & Trust Company - Trust Banking Group	BDO Unibank, Inc. Trust and Investment Group	J.A.D. Savers Development Co. Inc.
Lease Term	January 1, 2020 to December 31, 2024 / (5 years)	March 1, 2020 to February 28, 2024 / (5 years)	October 29, 2020 to October 28, 2023 / (3 years)
Amount of Rental	P958,415.28/month exclusive of VAT	P524,274.03/month exclusive of VAT	P38,000/month exclusive of VAT
Total Contract Price	**P 71,176,216**	**P38,934,944**	**P1,690,488**

3.3. Based on the total contract prices as presented in Table 5, the Audit Team computed the quarterly and annual rental fees for a five-year period, as shown in detail in Table 6.

Table 6 – Computed Quarterly and Annual Rental Fees of the Lease Contracts of the PRA with More than 1 Year Term

	LC No. 1		LC No. 2		LC No. 3	
Period	**Quarterly Rental***	**Rental Fee per Annum**	**Quarterly Rental***	**Rental Fee per Annum**	**Monthly Rental***	**Rental Fee per Annum**
1st Year	P3,220,275	P12,881,100	P1,761,561	P 7,046,244	42,560	P 510,720
2nd Year	3,381,289	13,525,156	1,849,639	7,398,556	46,816	561,792
3rd Year	3,550,354	14,201,416	1,942,121	7,768,484	51,498	617,976
4th Year	3,727,871	14,911,484	2,039,227	8,156,908	n/a	n/a
5th Year	3,914,265	15,657,060	2,141,188	8,564,752	n/a	n/a
Total		**P71,176,216**		**P38,934,944**		**P1,690,488**

**Inclusive of VAT and automatic escalation rates*

3.4. Examination of the Accounting records disclosed that the FMD accounted the subject leases as operating leases at the start of the lease contract. However, several adjustments were recorded in the books on December 29, 2020 to reflect the application of PFRS 16 since their commencement dates on January 01, 2020; March 01, 2020; and October 01, 2020.

3.5. Verification and analysis of the recorded adjustments, however, revealed that the application of PFRS 16 on the aforementioned leases was not in conformity with the pertinent provisions of the Standard as discussed hereunder.

Lease payments were not discounted using the appropriate and required rate to arrive at the correct present value during the initial measurement of the RUA and Lease Liability accounts corresponding to the leases

3.6. Paragraphs 23, 24 and 26 of PFRS 16 provide the recognition principle of the RUA and Lease Liability accounts, quoted as follows:

> *23 At the commencement date, a lessee shall measure the right-of-use asset at cost.*
>
> *24 The cost of the right-of-use asset shall comprise:*
>
> *(a) the amount of the initial measurement of the lease liability, as described in paragraph 26;*
> *(b) any lease payments made at or before the commencement date, less any lease incentives received xxx.*
>
> *26 At the commencement date, a lessee shall measure the lease liability at the present value of the lease payments that are not paid at that date. The lease payments shall be discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the lessee shall use the lessee's incremental borrowing rate.*

3.7. Inquiry with the concerned personnel of FMD disclosed that the escalation rates of five per cent (5%) for Lease Contract Nos. 1 and 2 and ten per cent (10%) for Lease Contract No. 3 were used in the computation of the present value of the lease payments instead of the required rate in the afore-mentioned provisions of PFRS 16. The FMD asserted during verbal inquiry that the escalation rates were used as the interest rates implicit in the leases as these have been provided in the Lease Contracts.

3.8. Verification disclosed that these rates were merely used as basis for the rental rates to be charged to/paid by PRA being the lessee in the succeeding years, hence cannot be regarded as the Implicit Rate Interest (IRI) being required in the Standard. As defined in PFRS 16, the IRI is the "*rate of interest that causes the present value of (a) the lease payments and (b) the unguaranteed residual value to equal the sum of (i) the fair value of the underlying asset and (ii) any initial direct costs of the lessor.*" Since the IRI cannot be determined, the Standard provides that the lessee's incremental borrowing rate (IBR) shall be used as the discount rate.

3.9. Applying the IBR, the Audit Team came up with the prevailing rates, as shown in Table 7, of government debts securities posted at the Philippine Dealing System (PDS) Group Website's Government Securities Rates with terms and dates similar with the lease terms of PRA with its Lessors that can be used as the appropriate rates for the initial measurement/recognition of the RUA and Lease Liability accounts.

Table 7- Government Securities (GS) Rates

Lease Contract	Lease Term	GS as Basis	Term	Interest Rate
LC 1 – MB	5 years	Treasury Bond	5 years	4.23
LC 2 – BDO	5 years	Treasury Bond	5 years	4.018
LC 3 - JAD	3 years	Treasury Bond	3 years	2.182

3.10. Due to the erroneous rate used for the initial measurement of the RUA and Lease Liability accounts, the PPE – RUA and Other Payables – RUA accounts were understated in the amounts of P3.916 million and P6.811 million, respectively, while other related accounts were likewise misstated, details are presented in Table 8.

Table 8 - Summary of Misstated Accounts Due to Erroneous Rate Used for the Initial Measurement of the RUA and Lease Liability Accounts

Account	LC No. 1 (MBTC) Over (under)	LC No. 2 (BDO) Over (under)	LC No. 3 (J.A.D.) Over (under)	Total Over (under)
PPE- RUA	P(2,251,473)	P(1,424,631)	P(239,801)	P(3,915,905)
Acc. Depreciation- PPE- RUA	(450,295)	(237,439)	(13,322)	(701,056)
Other Payables-RUA	(4,164,686)	(2,408,711)	(237,926)	(6,811,323)
Interest Expense	(1,913,214)	(778,464)	1,874	(2,689,804)
Depreciation- PPE-RUA	(450,295)	(237,439)	(13,322)	(701,056)
Total	**P(9,229,963)**	**P(5,086,684)**	**P(502,497)**	**P(14,819,144)**

LC- Lease Contract

Inconsistent application in the subsequent measurement of the recognized RUA and Lease Liability accounts

3.11. Paragraphs 29 and 36 of PFRS 16 provide for the subsequent measurement of the RUA and Lease Liability accounts, respectively, as follows:

> *29. After the commencement date, **a lessee shall measure the right of use asset applying a cost model,** unless it applies either of the measurement models described in paragraphs 34 and 35.*
>
> *Xxxx*
>
> *36. After the commencement date, a lessee shall measure the lease liability by:*
>
> *(a) increasing the carrying amount to reflect interest on the lease liability;*
> *(b) reducing the carrying amount to reflect the lease payments made; and Xxx.*

3.12. Verification disclosed that the Accumulated Depreciation account for Lease Contract No. 1 which corresponds to the recorded depreciation of P12.267 million was not set up in the books. Instead, this was taken up as a decrease in RUA and Lease Liability accounts, which is not in consonance with the cost model approach as provided under PFRS 16.

3.13. As a result of the inconsistent and inappropriate application of the cost model approach, the PPE - RUA and Accumulated Depreciation – PPE -RUA accounts were understated by P12.267 million.

Erroneous recognition of interest expenses for advance lease payments on one of PRA's leases

3.14. As lease payment/settlement is made to the Lessor, the Lessee debits the Lease Liability and Interest expense accounts in its books for the amounts equivalent to the principal and interest, respectively. In November 2020, the PRA settled the lease payments of P7.046 million on Lease Contract No. 2 representing December 2020 and January to February 2021. The total amount of P1.174 million was recorded as Other Prepayments representing January and February 2021 rentals. This was eventually reversed on December 29, 2020 per Journal Entry Voucher (JEV) No. 202012239 to comply with the transition to PFRS 16.

3.15. Further review of the journal entries (JE), however, disclosed that the recorded Interest Expenses on lease liabilities pertained to lease payments for three months (December 2020 to February 2021) instead of one (1) month. Inasmuch as the other two lease payments cover CY 2021, the corresponding interests of P0.206 million should be treated and recorded as Other Prepayments as of December 31, 2020 as the interest expenses are not yet incurred in CY 2020.

3.16. Due to the misapplication of the provisions of PFRS 16 and errors in the recording of transactions pertaining to leases as discussed in the foregoing paragraphs, the PPE - RUA and Other Payables-RUA accounts were understated by P16.183 million and P6.811 million, respectively, while other related accounts were likewise understated, as summarized in Table 9.

Table 9 – Summary of Misstatements due to Misapplication of PFRS 16

Account	LC No. 1 (MBTC) Over (under)	LC No. 2 (BDO) Over (under)	LC No. 3 (J.A.D.) Over (under)	Total Over (under)
PPE-RUA	P(14,518,961)	P(1,424,631)	P(239,801)	P(16,183,393)
Acc. Depreciation- PPE - RUA	(12,717,783)	(237,439)	(13,322)	(12,968,544)
Other Payables-RUA	(4,164,686)	(2,408,711)	(237,926)	(6,811,323)
Interest Expense	(1,913,214)	(778,464)	1,874	(2,689,804)
Depreciation-PPE- RUA	(450,295)	(237,439)	(13,322)	(701,056)
Prepaid Interest	-	(205,616)	-	(205,616)
Total	**P(33,764,939)**	**P(5,292,300)**	**P(502,497)**	**P(39,559,736)**

3.17. **We recommended and Management agreed to require the FMD to:**

a. **Effect the necessary adjusting entries in order to correct the misstatements noted on various accounts so that the correct balances of the affected asset, liability and expense accounts shall be reflected in the financial statements for the year ended December 31, 2020; and**

b. **Evaluate the other possible effects of said errors/misstatements in the financial statements such as taxes and make the necessary corrections and adjustments.**

4. **Collections totaling P12.215 million from Annual PRA Fees (APF) pertaining to prior years and CYs 2021 - 2024 were erroneously recognized as income in CY 2020, contrary to Paragraphs 4.25(a) and 4.47 of the Conceptual Framework of General Purpose Financial Reporting and resulted in the overstatement of Income - APF account by P12.215 million and understatement of the Retained Earnings and Unearned Revenue - APF accounts by P3.664 million and P8.551 million, respectively, as of December 31, 2020. Meanwhile, the non-recognition of exchange rate difference between initial recognition and at year-end resulted in the overstatement of the Service Income - APF account and understatement of the Gain on Foreign Exchange (Forex) – Unrealized account in the amount of P5.545 million, contrary to Paragraph 28 of IAS 21.**

4.1. Paragraphs 4.25 (a) and 4.47 of the Conceptual Framework of General Purpose Financial Reporting provide the definition and recognition of income as follows:

4.25(a) Income is increases in economic benefits ***during the accounting period*** *in the form of inflows or enhancements of assets or decreases of liabilities that result in increases in equity, xxx*

Xxxx

> 4.47 *Income is recognized in the income statement when an increase in the future economic benefits related to an increase in an asset or a decrease of a libility has arisen that can be measured reliably.*

4.2. The PRA reported a total Service Income – APF of P307.729 million for CY 2020. It is one of the main sources of revenue of PRA where membership is collected from active members of the Authority amounting to USD360 for the principal retiree and two (2) qualified dependents and USD100 for every additional dependent per year. The PRA allows advance payments of APF from its Member-Retirees, thus, it received payments/collections in CY 2020 covering the succeeding years. In the course of audit, several errors in the recording of transactions related to APF account were noted as discussed hereunder.

Erroneous recognition of Service Income – APF in CY 2020 for collections received despite pertaining to previous and future years

4.3. Verification disclosed that adjustments in the total amount of P2.408 million were included in the Service Income – APF account per JEV Nos. 202012185 and 202012185B; however, these pertained to unrecorded income/collections from APF for CYs 2010 to 2018. Hence, these should have been recorded in the books as credit to the Retained Earnings account instead of the Service Income – APF account.

4.4. Also, it was noted that adjustments were made by the FMD personnel per JEV No. 202012185-E as for the reversal of previous year's accruals in both Peso and Dollar since these were already collected in CY 2020 by the PRA Cashier and through direct deposit. The FMD credited the whole collections of P48.291 million under Service Income – APF account, but it was verified that said collections included income for CY 2019 and below totaling P1.256 million. Further, a total of P8.551 million from P48.291 million collections pertained to revenue for CYs 2021 to 2024, hence, should have been recognized under the Deferred/Unearned Revenue – APF account.

4.5. In summary, the erroneous recording of collections from APF, resulted in misstatements of affected accounts as presented in Table 10.

Table 10 - Summary of the Effects of Erroneous Recognition of Collections from APF

Particulars	Retained Earnings Under (over)	Annual PRA Fee Under (over)	Unearned Revenue-APF Under (over)
JEV No. 202012185	P 356,703	P (356,703)	P -
JEV No. 202012185-B	2,051,146	(2,051,146)	-
JEV No. 202012185-E	1,256,153	(9,807,058)	8,550,905
Total	**P3,664,002**	**P(12,214,907)**	**P8,550,905**

4.6. As can be gleaned from Table 10, the Service Income - APF account was overstated by P12.215 million, while the Retained Earnings and Unearned Revenue - APF accounts were understated by P3.664 million and P8.551 million, respectively, as of December 31, 2020.

Overstatement of Service Income - APF account while understatement of the Gain on Forex – Unrealized account by P5.545 million due to non-recognition of the exchange rate difference between initial recognition and at year-end

4.7. Records showed that during CY 2020, the FMD initially recorded the receipt of APF as income regardless of the coverage of the collections. The spot rate at that time was used in recording while at year-end, the collections from the retirees are adjusted to reflect in the books the advance collections from them for the succeeding years by debiting Service Income - APF account and crediting the Unearned Revenue - APF account. On December 29, 2020, the FMD prepared JEV Nos. 202012185-A and 202012185-B with amounts of P57.572 million and P158.909 million, respectively, or a total amount of P216.480 million, to recognize the Unearned - APF representing the advance collections for CYs 2021 to 2024.

4.8. As noted, the FMD used the year-end exchange rate of P48.023:US$1 during the setting up and reporting of the Unearned Revenue – APF. However, it was verified that PRA did not make additional adjustments for the change and/or the effect of foreign exchange rates from initial recording up to the translation at year-end, contrary to Paragraph 28 of IAS 21, quoted as follows:

> *28. Exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were translated on initial recognition during the period or in previous financial statements shall be recognized in profit or loss in the period in which they arise.*

4.9. Records showed that collections/advance payments on APF from member-retirees during the year were initially recorded as Service Income - APF at different spot rates depending upon the date of transaction. At year-end, it was noted that the total advance collections in dollar denomination were simply deducted from the recognized income on APF and thereafter, the Unearned Revenue – APF was set up using the prevailing exchange rate at that time.

4.10. There were no adjustments made for the unrealized gain arising from the exchange rate difference between the receipt of collections and at year-end, which involved transactions under JEV Nos. 202012185A and 202012185B. The recorded amount of income upon receipt of advance collections totaled P222.025 million but had these been translated at year-end using the prevailing exchange at the time these were reclassified as deferred income, the same should have been adjusted/recorded only in the amount of P216.480 million, or a difference of P5.545 million.

4.11. The total difference of P5.545 million due to the change of exchange rate at year-end was not recognized in the books. As a result, the Service Income – APF account was overstated by P5.545 million while the Gain on Forex – Unrealized was understated by the same amount.

4.12. **We recommended that Management direct the FMD to effect the necessary adjustments to:**

   a. Correct the overstatement of Service Income - APF account in the amount of P12.215 million and understatement of the Retained Earnings and Unearned Revenue - APF accounts in the amounts of P3.664 million and P8.551 million, respectively, to fairly present these accounts in the financial statements as of December 31, 2020; and

   b. Recognize the unrealized gain on advance collections arising from the exchange rate differences between the spot rate on the date of collection and the exchange rate during translation at year-end to correct the understatement and overstatement of the Gain on Forex – Unrealized and Service Income – APF accounts in the amount of P5.545 million to fairly present these accounts in the financial statements as of December 31, 2020.

4.13. Management commented that:

   a. The FMD has prepared JEV#202101204 in January 2021 to take up the required adjustments to correct the overstatement in Annual PRA Fees for CY 2020 and JEV#202101205 for the overstatement of Unrealized Gain on Forex.

   b. Henceforth, the FMD will take into account the correct year or accounting period when recognizing revenue and revalue the Unearned Revenue at year-end considering the exchange rate difference from initial recording (date of receipt) using spot rate and the year-end closing rate.

4.14. As a rejoinder, in view that the adjustments were taken up in CY 2021 to correct the misstatements in CY 2020, **we further recommended that the CY 2020 financial statements be restated.** It is also requested that the original copies of the JEVs drawn to correct the erroneous recordings be submitted to the Audit Team, for verification purposes.

5. Visitorial Fees (VFs), Accounts Receivable-VFs (AR-VFs), and Impairment Loss (IL) accounts were understated by P9.396 million, P6.271 million, and P1.220 million, respectively, while Allowance for Impairment (AFI)-VFs and Retained Earnings (RE) accounts were overstated by P1.823 million and P0.083 million, respectively, due to erroneous recording of various transactions, contrary to Qualitative Characteristic (QC) 12 of the Conceptual Framework of General Purpose Financial Reporting.

5.1. Qualitative Characteristic (QC) 12 of the Conceptual Framework of General Purpose Financial Reporting provides that:

> *QC12 Financial reports represent economic phenomena in words and numbers. To be useful, financial information must not only represent relevant phenomena, but it must also faithfully represent the phenomena that it purports to present. To be*

a perfectly faithful representation, a depiction would have three characteristics, it would be complete, neutral and free from error. Of course, perfection is seldom, if ever, achievable. The Board's objective is to maximize those qualities to the extent possible.

5.2. Section 111(2) of Presidential Decree (PD) No. 1445 on the recording of financial transactions 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.

5.3. Analysis of the AFI-VFs; IL; Accounts Receivable – VFs (AR-VFs); and VFs accounts disclosed several errors in the recording of various transactions in CY 2020. Shown in Table 11 is the summary of misstatements which resulted from erroneous recording of transactions under JEV Nos. 202012198- C, 202012184– F and 202012184- E.

Table 11 - Summary of the Misstatements caused by the erroneous recording of various transactions

JEV No.	Particulars	AFI-VFs	AR-VFs	VFs	IL	RE
202012198- C	Erroneous recording of impairment loss	P7,484,001	P6,264,408	P -	P1,219,593	P -
202012184– F	Double recording of allowance for impairment and erroneous reversal of VF	(9,076,366)	(99,917)	9,174,550	-	(198,101)
202012184- E	Erroneous recording of reversal of accruals of VF and doubtful accounts	(230,562)	106,452	221,733	-	115,281
Total (Over) / Under		**P(1,822,927)**	**P6,270,943**	**P9,396,283**	**P1,219,593**	**P(82,820)**

5.4. The above-mentioned misstatements caused by errors in the recording of financial transactions affected the fair presentation of the AFI-VFs, AR-VFs, VFs, IL and RE accounts in the financial statements as of December 31, 2020, contrary to QC 12 of the Conceptual Framework of General Purpose Financial Reporting.

5.5. **We recommended that Management:**

a. Require the FMD to immediately effect the necessary adjustments to correct the misstatements of the VFs, AR-VFs, IL, AFI-VFs and RE accounts due to erroneous recording of various transactions; and

b. Direct the concerned FMD personnel to be extra careful in the recording of financial transactions to avoid errors and/or misleading information.

5.6. Management commented that the FMD already adjusted the errors in the recording of accruals and collections of VF for CY 2020 per JEV No. 202104174 dated April 30, 2021.

5.7. As a rejoinder, in view that the adjustments were taken up in CY 2021 to correct the misstatements in CY 2020, **we further recommended that the CY 2020 financial statements be restated.** It is also requested that the original copy of the JEV drawn to correct the erroneous recordings be submitted to the Audit Team, for verification purposes.

6. The fair presentation of the balances of the Cash in Bank accounts in the amount of P249.076 million as at December 31, 2020, included under the Cash and Cash Equivalents account, could not be ascertained due to variances totaling P32.928 million between the balances per books and confirmed bank balances caused by various errors and book reconciling items that remained unadjusted as of year-end, contrary to Paragraph 15 of IAS 1.

6.1. 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 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*

6.2. As of December 31, 2020, the balances of the Cash in Bank accounts, included in the Cash and Cash equivalent account, totaled to P249.076 million.

6.3. Comparison of the Cash in Bank accounts disclosed that balances per books and the confirmed bank balances by PRA's depository banks for five (5) accounts as of December 31, 2020 showed variances totaling P32.928 million, details of which are shown in Table 12.

Table 12 – Cash in Bank accounts - Balances Per Books vs. Confirmed Bank Balances As of December 31, 2020

Bank Accounts	Balance per Books	Confirmed Bank Balance	Difference
Cash in Bank-Local Currency, CA LBP	P 8,769,782	P 6,596,339	P 2,173,443
Cash in Bank-Local Currency, CA LBP	154,762	1,713,472	(1,558,710)
Cash in Bank-Foreign Currency, SA LBP	141,973,765	177,888,987	(35,915,222)
Cash in Bank-Foreign Currency, SA LBP	3,077,755	4,499,857	(1,422,102)
Cash in Bank-Foreign Currency, SA DBP	94,623,420	90,829,149	3,794,271
	P 248,599,484	**P281,527,804**	**P(32,928,320)**

** One bank account not included in the Table as the depository bank did not reply to the confirmation letter*

6.4. This is a reiteration of previous year's observation as Management was not able to fully implement the audit recommendations. Although, it is worth mentioning that in the reconciliation undertaken by the FMD, total net deposits of P16.767 million classified as book reconciling items (BRIs) in the prior years were identified and accordingly adjusted in the books. Nevertheless, it was noted that the variances totaling P32.928 million between the balances per books and bank confirmations in the Cash in Bank accounts as of December 31, 2020 increased by P26.741 million or 432 per cent compared with CY 2019 variances of P6.187 million.

6.5. Verification of the Bank Reconciliation Statements (BRSs) submitted by the concerned personnel of FMD disclosed that of the total variances of P32.928 million, P32.890 million (net) of which pertained to unadjusted book and bank reconciling items in the amounts of P38.237 million and P5.347 million, respectively.

6.6. Further review revealed that the BRIs covered transactions of CY 2020 and long-outstanding items, details are presented in Table 13.

Table 13 – Summary of BRIs

Year	Unrecorded Credits/ Deposits	Unrecorded Debits/ Withdrawals	Error in Cash Collections	Errors from previous BRS/ For further verification
2009	P (2,632)	P -	P -	P -
2010	(192,767)	-	-	-
2011	(188,830)	-	-	-
2012	-	-	-	-
2013	(1,420)	-	(12,990)	-
2014	(126,179)	-	(400,366)	-
2015	(3,000)	111,277	(27,440)	(29,638)
2016	(1,597)	603,557	(384,291)	1,322
2017	(366,234)	771,323	(413,742)	-
2018	(214,094)	3,317,095	(1,981,095)	(61,203)
2019	(1,320,752)	10,012,554	(761,141)	3,145,293
2020	(572,743)	37,207,408	(1,404,161)	(8,466,739)
Total	**P(2,990,248)**	**P52,023,214**	**P(5,385,226)**	**P(5,410,965)**

6.7. Per inquiry, the unrecorded deposits of P2.990 million refer to various fees deposited directly by the clients to the bank accounts of the PRA, but the pertinent documents such as copies of validated deposit slips, etc. were not provided/sent to the Authority by the concerned clients after making direct deposits, hence, these remained unverified and unadjusted in the books of accounts. The Audit Team was likewise informed that PRA requested for Credit Memos from the concerned banks to enable to verify necessary information such as (a) name of the depositor, (b) bank branches where these were deposited, and (c) nature/particular of the deposits and/or bank credits prior to recording of the transactions in the books of accounts. However, the documents are being issued by the bank's head office so these could not be immediately provided by the bank branches despite repeated requests.

6.8. Said observation was already brought to the attention of PRA's Management in the previous year. In its reply, Management informed that discussions shall be made with the concerned banks for a more enhanced banking services related to online payments and collections such as (a) enrollment to digital banking with the DBP; (b) Tri-party agreement with the DBP and Pay Maya to enable online payment including via credit cards such as Mastercard and Visa; and (c) 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. It was informed, however, that these are not yet implemented pending the necessary documentations for finalizing the application with the bank.

6.9. As to the unrecorded debits/withdrawals totaling P52.023 million, these represent amounts debited to/deducted from the bank accounts of PRA by the LBP – Buendia and Cebu branches where the FMD personnel informed that the same were not supported by Debit Memos, hence these remained unadjusted in the books. PRA requested pertinent documents from the concerned depository banks to validate these transactions but to no avail.

6.10. Moreover, it was informed by the concerned FMD personnel that the P37.207 million of the BRIs identified as unrecorded debits/withdrawals in CY 2020 refer to the payroll remittances processed through the PRA's LBP Weaccess account as administered/supervised by the Human Resource (HR) Office and approved by the Office of the General Manager prior the disbursement. Since the FMD is responsible only for the recording of payroll transactions covering withdrawals from the banks, it only relied on the supporting documents such as the payroll file being submitted by the HR Office. Thus, any late and/or non-submission of pertinent documents would cause the delay of recording bank withdrawals. On the other hand, the manner of processing the personnel's payroll precluded the FMD from reviewing the correctness of the payroll prior authorization by the Head of the Agency.

6.11. The amount of P5.385 million pertained to "errors in cash collections". It was informed that further verification has to be done by the concerned FMD personnel to avoid the possibility of double issuance of Official Receipts (ORs) and/or erroneous recording in the books.

6.12. BRIs totaling P5.411 million pertained to errors from previous BRSs, as these were errors in the preparation or non-preparation of BRSs which have not been adjusted but merely carried forward to the succeeding years. The concerned personnel acknowledged the delay in the verification of the BRIs in view of the difficulty in the retrieval of supporting documents and late submission of bank statements, etc. by the concerned banks despite repeated requests.

6.13. Bank reconciling items were likewise identified in the BRSs as of December 31, 2020 as summarized in Table 14.

Table 14 – Summary of Bank Reconciling Items

Particulars	**Total Amount**
Outstanding checks	P (556,445)
Uncleared checks deposits	8,244,802
Erroneous credits to the account	(3,916,500)
Erroneous debits to the account	1,513,218
Delayed posting of online transaction (debit)	61,670
Total	**P 5,346,745**

6.14. As shown in Table 14, the uncleared checks deposits totaling P8.245 million pertained to Management Fee (MF) collections from PRA's five (5) accredited private banks. It was verified that these were deposited as early as January 2019 which should have been cleared and credited by the LBP to PRA's account as of December 31, 2019, but remained otherwise as of December 31, 2020, hence, these are doubtful deposits.

6.15. Furthermore, the Audit Team noted that there were erroneous postings (credits/debits) made by the bank personnel to PRA's bank account. Said transactions should have been posted under the Other Non-Current Assets-Restricted Funds - Disbursing account of PRA instead of its Savings Account. The FMD personnel informed during verbal inquiry that said errors were reported already to the concerned bank but remained unadjusted since validation of the transactions was not yet completed.

6.16. In view of the variances totaling P32.928 million between the balances per books and bank confirmations, the fair presentation in the financial statements of the balances of the Cash in Bank accounts totaling P249.076 million as at December 31, 2020, included under the Cash and Cash Equivalents account, could not be ascertained, contrary to Paragraph 15 of IAS 1.

6.17. **We recommended that Management:**

a. Instruct the FMD to:

a.1. Expedite the reconciliation of accounts;

a.2. Verify thoroughly the book reconciling items for each of the affected bank accounts and immediately effect the necessary adjusting entries to fairly present the balances of the Cash in Bank accounts in the financial statements as of December 31, 2020;

a.3. Make representations with the concerned officials of the LBP and the DBP - Head Offices to facilitate the correction of errors in the accounts of PRA and the submission of pertinent documents such as Debit Memos, Credit Memos, etc. so that necessary adjustments could be effected in the PRA's books and in the concerned banks' records; and

a.4 Ensure proper preparation of BRSs to avoid confusion, errors, inaccurate, and/or misleading information.

b. Require the HR Office and the FMD personnel to coordinate the preparation and processing of payroll so that payroll documents shall be reviewed first by the FMD prior final approval by the Office of the General Manager and payment of salaries to employees to ensure correctness/propriety as well as timely recording of payroll transactions in the books.

6.18. Management commented that:

a. Of the unrecorded bank credits, P17.288 million have already been issued with ORs as of May 31, 2021. Bulk of the credits pertained to collections during the quarantine (pandemic). In fact, these were unrecorded collections of P37.207 million and P10.012 million in CYs 2020 and 2019, respectively. Efforts to ascertain those collections prior to CY 2019 had been in place by coordinating with LBP through a formal request for assistance dated July 19, 2019 along with the unrecorded debits of P2.990 million. There will be a continuous dialogue with the LBP personnel on the said matters.

b. A large portion of the P8.245 million checks deposits in transit for Management Fees pertained to collections in December 2020. Only P0.133 million were collections from Bank of Commerce (BOC) in January 23 to 29, 2019. Nonetheless, the FMD will coordinate with the banks since they are unable to trace from the Credit Memos issued by the LBP to PRA and the notices that the checks were returned have not yet been received.

c. On the errors noted, the FMD had already corrected P4.875 million as of April 2021.

6.19. As rejoinders, the Audit Team acknowledged the initial actions taken by FMD on the book reconciling items. It is requested that the JEVs on the adjustments made be submitted to the COA for validation. Further, Management's full implementation of the recommendations shall be monitored in the CY 2021 audit.

7. The accuracy and reliability of the balance of the Inter-agency Payables - Due to BIR account in the amount of P38.243 million as of December 31, 2020 cannot be ascertained due to the existence of abnormal balances totaling P16.085 million that reduced the account by the same amount and unreconciled taxes withheld vis-a-vis remitted of P50.571 million, contrary to Paragraph 15 of IAS 1.

7.1. 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 representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the Framework. xxx."*

7.2. Likewise, 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."*

7.3. The PRA withholds taxes from the compensation of its employees, expanded withholding tax for acquired goods/services, and value added taxes pursuant to BIR regulations, which are recorded under the Inter-agency Payables - Due to BIR account. Said taxes shall be remitted to the Bureau of Internal Revenue (BIR) on certain dates on the following month. Thus, the balance of said accounts as of December 31, 2020 should only pertain to the unremitted taxes for the month of December 2020, which are supposed to be remitted to the BIR in January of the following year.

7.4. Review of Accounting records, however, disclosed that the sub-accounts of the Due to BIR account with balances as of December 31, 2020, as shown in Table 15, did not tally with the remittances made by PRA in January 2021. Also, shown in Table 15 are the details of the Due to BIR account together with the remittances in January 2021.

Table 15 - Details of the Due to BIR account vis-a-vis Remittances to BIR in January 2021

Account	December 31, 2020 Balances	Remittances in January 2021	Balance after deducting the January 2021 Remittances
Due to BIR	**P(15,617,855)**	**N/A**	**(15,617,855)**
Due to BIR-Compensation	(467,005)	P 477,982	P (944,987)
Due to BIR-EWT-Goods (1%)	65,560	1,698,670	3,684,198
Due to BIR-EWT-Services (2%)	660,926		
Due to BIR-EWT-Rent (5%)	654,370		
Due to BIR-EWT-IP (5%)	41,356		
Due to BIR-EWT-IP (10%)	30,484		
Due to BIR-EWT-NIP (10%)	-		
Due to BIR-EWT-NIP (15%)	3,637,060		
Due to BIR-Percentage (3%)	293,112		
Due to BIR-VAT Payable-Services (5%)	1,649,258	1,113,982	2,346,967
Due to BIR-Value Added Tax Payable	1,811,691		
Sub-total	**P 8,376,812**	**P3,290,634**	**P 5,086,178**
Due to BIR-Income Tax (IT) Payable	**P45,484,396**	**-**	**P45,484,396**
Sub-total	**P53,861,208**	**P3,290.634**	**P50,570,574**
Total	**P38,243,353**	**P3,290,634**	**P34,952,719**

7.5. As shown in Table 15, the total balance of the Due to BIR – Compensation/EWT/VAT amounted to P34.953 million after effecting the corresponding/applicable remittances in January 2021 which should be supposedly zero as the account's year-end balance should only refer to the unremitted December 2020 withheld taxes. Verification of records disclosed that the differences can be attributed to several factors as discussed hereunder.

Unreconciled tax transactions including discrepancies on the remittances of CY 2020 - prior years' withheld taxes from Compensation, EWT, VAT and IT totaling P50.571 million

7.6. As observed, the FMD complied with the mandatory deduction of withholding taxes from the compensation of PRA's personnel, Expanded Withholding Taxes (EWT), Withholding Tax on GMP - Value Added Taxes (GVAT), Withholding Tax on Government Money Payments (GMP) - Percentage Taxes and payment of quarterly Corporate Income tax including the filing of BIR prescribed forms within the required dates. Nevertheless, the Audit Team noted a total discrepancy of P50.571 million during the review of taxes withheld vis-à-vis corresponding remittances in CYs 2020 and January 2021.

7.7. For CY 2020, the amounts of taxes previously withheld did not tally with the amounts being remitted, resulting in a discrepancy on remittances to BIR totaling P0.515 million (net) which suggests that there were taxes withheld which remained unremitted. It was further noted that other discrepancies on the remittances of taxes (EWT/VAT) totaling P6.031 million were carried over from prior years.

7.8. According to the concerned FMD personnel, a substantial amount of the balances pertained to taxes withheld for periods covering CY 2019 and prior years that are being reconciled. Yet, the Team would like to emphasize that these sub-accounts which have unreconciled balances were newly-created pursuant to the adoption of the Revised Chart of Accounts (RCA) by the PRA starting in CY 2018.

7.9. The Audit Team also noted that the Due to BIR – IT Payable account has a balance of P45.484 million as of December 31, 2020, however, after verification of the copy of PRA's CY 2020 Annual Income Tax Return (ITR) filed and duly received by the BIR, it was noted that no remittances were made to BIR for the period in view of the Authority's tax credit totaling P97.072 million while tax due amounted to P29.742 million only. Moreover, the Team could not validate the details and computation of the total tax credits and other pertinent data because the JEV pertinent thereto together with the supporting documents were not yet submitted to COA despite several requests.

7.10. While the Team empathized with the rigors and complexities of handling various taxes, the continuing discrepancies on remittances of taxes withheld on compensation, EWT, income and other kinds of taxes might render the Agency liable thereof, along with the penalties provided for in the Tax Code, as reiterated in BIR Revenue Memorandum Circular No. 23-2012. Also, this might result in the overpayment of taxes to which the PRA has been subjected with in some instances in the past.

Errors in recording and remittances of taxes withheld which resulted in abnormal balances of the Due to BIR account and reduced the balance thereof

7.11. Sound accounting practice dictates that Due to BIR account being a liability account has a normal credit balance. Analysis of the account disclosed, however, that there were several errors in the recording of tax transactions of PRA which affected the year-end balance of the account.

7.12. Verification of JEV No. 3050861 dated December 7, 2020 showed that the amount of P0.556 million was for the remittance of the taxes withheld on EWT, however, this was erroneously debited to the sub-account Due to BIR – Compensation instead of the Due to BIR - EWT resulting in the abnormal balance of P467,004.61 of the Due to BIR – Compensation sub-account.

7.13. Moreover, it was noted that the old account Due to BIR has abnormal balance of P15.618 million as of December 31, 2020 yet, no transactions were recorded or reflected in CY 2020. Inquiry revealed that the subject balance pertains to prior years' transactions that were improperly charged/debited to certain sub-accounts of Due to BIR during the Authority's adoption of the RCA. Likewise, there were mispostings in the recognition of taxes withheld and recording of payments/remittances.

7.14. The FMD informed the Audit Team, even prior to CY 2020 audit, that there is an on-going reconciliation on the Due to BIR sub-accounts to resolve the correct balances of each sub-account. However, as of December 31, 2020 no reconciliation was made by the FMD in view of the absence of adjustments during CY 2020.

7.15. In view of the noted discrepancies, errors in recording and existence of abnormal balances, the accuracy and reliability of the balance of the Inter-agency Payables - Due to BIR account in the amount of P38.243 million as of December 31, 2020 cannot be ascertained.

7.16. **We recommended that Management instruct the FMD to:**

a. Conduct immediate reconciliation/analysis of the transactions affecting the: (i) Due to BIR (old) account and the Due to BIR – Compensation account in order to determine the cause/s of the abnormal balances totaling P16.085 million; and (ii) Other sub-accounts such as Due to BIR-EWT; Due to BIR-VAT and Due to BIR – IT Payable to determine the cause/s of the discrepancies/difference between the withheld and remittances totaling P50.571 million;

b. Effect the necessary adjusting entries so that the balance of the Due to BIR account shall be fairly presented in the financial statements as of December 31, 2020 in compliance with Paragraph 15 of IAS 1; and

c. Exercise due diligence in the recording of tax transactions to avoid errors and inaccurate or misleading information and ensure that taxes withheld are correctly, completely and promptly remitted to the BIR to avoid possible payment of penalties.

7.17. Management commented that the FMD-Disbursement Unit is undergoing reconciliation on the Due to BIR sub-accounts including those due to various agencies such as PhilHealth, GSIS, and Pag-IBIG and that the detected adjustments shall be recorded properly. The FMD shall exercise due diligence in recording tax related and other transactions of PRA.

7.18. As a rejoinder, the Audit Team shall monitor the full implementation of the audit recommendations in the CY 2021 audit.

8. The faithful representation in the financial statements of the balance of the Receivables - Accounts Receivable (AR) account with carrying amount of P41.429 million as of December 31, 2020 was not established due to:

a. Provision for Allowance for Impairment was not in conformity with Paragraphs 5.5.15 and 5.5.17 of the Philippine Reporting Standards (PFRS) 9 – Financial Instruments.

b. Non-maintenance of Subsidiary Ledgers (SLs) for the various accounts, contrary to the requirement of Paragraph QC26 of the Conceptual Framework for General Purpose Financial Reporting (CFGPFR); and

c. Variances of P1.902 million and P10.268 million between the General Ledgers (GLs) and Aging Schedule relative to the balances of AR and Allowance for Impairment (AFI) accounts, respectively.

8.1. As of December 31, 2020, the Receivables - AR account totaled P87.208 million while the AFI amounted to P45.779 million or with carrying amount of P41.429 million. Analysis of the account disclosed several deficiencies discussed hereunder.

Provision for Allowance for Impairment was not in conformity with Paragraphs 5.5.15 and 5.5.17 of PFRS 9

8.2. Table 16 shows the details of the age of AR together with the corresponding AFI.

Table 16 - Aging Schedule of AR for CYs 2020 and 2019

Age of AR	Outstanding CY 2020	AFI	Outstanding CY 2019	AFI
Less than 90 days	P17,489,032	P -	P12,948,094	P -
91-365 days	13,674,845	-	19,355,469	-
Over one year	18,630,162	-	15,089,558	-
Sub-total	**49,794,039**	**-**	**47,393,121**	**-**
Over three years	35,511,871	45,779,530	39,788,130	P39,788,130
Total	**P85,305,910***	**P45,779,530**	**P87,181,251**	**P39,788,130**

******Note: The difference of P1.902 million between GL balance of P87.208 million and Aging Schedule of P85.306 million please refer to Audit Observation No. 8(c)*

8.3. As can be gleaned in Table 16 and per review of the submitted Aging Schedule, the Team noted that only accounts with age of more than three years were provided with AFI, which is not in accordance with the requirements of Paragraph 5.5.15 of IFRS 9, quoted as follows:

> *Paragraph 5.5.15*
>
> *Xxx, an entity shall always measure the loss allowance at an amount equal to lifetime expected credit losses for: (a) trade receivables or contract assets that result from transactions that are within the scope of IFRS 15, xxx.*

8.4. Under Note 3.3 of the Notes to Financial Statements, the PRA disclosed that it has adopted the expected credit lossess (ECL) and at each reporting date, it assesses whether its financial assets carried at amortized cost such as the AR are credit-impaired. However, records showed that no assessment was made and that the AFI was merely based on their old policy that accounts with age of more than three (3) years are assumed as impaired in full amount. The Audit Team verified that the adjustments for the impairment loss in CY 2020 pertained to receivables which were initially recognized in CYs 2017 to 2018 in the amounts of P3.486 million and P1.220 million for AR-Annual PRA Fees and AR-Visitorial Fees, respectively.

8.5. Moreover, Paragraph 5.5.17 of PFRS 9 provides that:

> *An entity shall measure expected credit losses of a financial instrument in a way that reflects:*
>
> *(a) An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcome;*
>
> *(b) The time value of money; and*
>
> *(c) Reasonable and supportable information that is available without undue cost of effort at the reporting date about past events, current conditions and forecast of future economic conditions.*

8.6. This audit observation was brought to the attention of Management in the CY 2019 AAR. Strict adherence to the requirements of PFRS 9 relative to the proper application of the ECL using reasonable and supportable information was recommended but the same remained unimplemented as of December 31, 2020.

8.7. Thus, the Audit Team would like to emphasize that proper application of the ECL requires the need for assessment at each reporting date to determine any significant increase in the credit risk from the initial recognition, and AFI may be provided in view of any determined significant increase in the credit risk.

8.8. Furthermore, the effect of a forecasted economic conditions brought about by the Coronavirus Disease 2019 (COVID-19) pandemic was not likewise considered despite the fact that PRA's receivables are mainly claims from foreigners/retirees who might have been possibly affected by the said pandemic. Given the forward-looking characteristic of ECLs, the PRA could have reassessed the impact on whether the credit risk on its receivables has significantly increased as its retiree-members might have experienced a temporary liquidity constraint and/or opted not to settle their annual obligations in view of the travel ban restrictions being imposed due to COVID-19.

8.9. Relative to the assessment being required under PFRS 9, COA Circular No. 2016-05 dated December 19, 2016 provides that all government entities shall conduct regular monitoring and analysis of receivable accounts to ensure that these are collected when these become due and demandable while the accountant shall conduct regular and periodic verification, analysis, and validation of the existence of the receivable.

Non-maintenance of SLs for various accounts

8.10. Paragraph QC26 of the CFGPFR provides that "*Verifiability help assure users that information faithfully represents the economic phenomena it purports to represent. Verifiability means that different knowledge and independent* *observers could reach consensus, although not necessarily complete agreement, that a particular depiction is a faithful representation."*

8.11. Verification of the AR – Management Fees (MFs) account, particularly payments from the banks, however, disclosed that the FMD did not maintain SLs for the receivables from each private bank which maintains the retirees' Visa Deposits. The details to support the balances of the AR-MFs account were merely year-end balances of receivable from each bank and did not show the various details of the receivables from each bank. Thus, the Audit Team was not able to validate how the amount due from each bank was arrived at.

8.12. Similar observation was noted for receivables on Annual PRA Fees, harmonization, and others where the total receivables of PRA from each Retiree cannot be identified immediately.

8.13. Further, it has been the practice of the FMD that instead of billing and recording the total MFs receivable based on PRA's own records, these were simply recorded in the books using the Management Fee Report submitted by the bank. With such practice, there was no reconciliation performed between PRA's records/computation and with that of the banks to determine the correctness of the remitted MFs, which defeats the purpose of check and balance.

8.14. The concerned FMD personnel acknowledged during verbal inquiry the non-maintenance of SL for each bank and informed that they had yet to come up with a mechanism to gather data for the receivables sourced from records of the retirees' VDs.

8.15. To easily monitor the balances of the Authority's receivables from concerned banks and Retirees as well as to facilitate the billing, reconciliation, and collection, it is then imperative for PRA to properly maintain SL for each bank and Retiree to ensure that the amounts reported in the financial statements are properly supported and verifiable.

Variance of P1.902 million and P10.268 million between the GLs and AR Aging Schedule relative to the balances of AR and AFI accounts, respectively

8.16. Paragraph 15 of IAS 1 provides that:

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

8.17. Review of the financial statements showed that the AR account and its corresponding AFI have year-end balances of P87.208 million and P45.779 million, respectively. The AR account is composed of collectibles from Annual

PRA Fees, Management Fees, Visitorial Fees, and Harmonization Fees. Each component was provided with AFI.

8.18. Comparison of the balances of AR and AFI accounts reflected in the GLs/financial statements and Aging Schedule as of December 31, 2020 disclosed significant discrepancies, as shown in Table 17, which is not in conformity with the afore-cited accounting standard.

Table 17 – GLs/Financial Statements vs. Aging Schedule
As of December 31, 2020

Account Title	GLs/Financial Statements	Schedule	Difference
AR sub-accounts			
AR-Annual PRA Fees (APFs)	P30,053,336	P29,920,621	P 132,715
AR-Management Fees (MFs)	17,180,263	17,180,263	-
AR-Visitorial Fees (VFs)	37,658,582	35,713,407	1,945,175
AR-Harmonization Fees (HFs)	2,316,228	2,491,619	(175,391)
Total	**P87,208,409**	**P85,305,910**	**P 1,902,499**
AFI sub-accounts			
AFI-AR-APFs	P 6,612,717	P 6,631,677	P (18,960)
AFI-AR-MFs	-	-	-
AFI-AR-VFs	38,790,444	28,323,388	10,467,056
AFI-AR-HFs	376,369	556,806	(180,437)
Total	**P45,779,530**	**P35,511,871**	**P10,267,659**

8.19. Sound accounting practice dictates that the balances of accounts reflected in the financial statements and GLs should always tally with the supporting schedule, however, as can be gleaned in Table 17, the total balances of the AR and the AFI accounts as presented in the GLs/financial statements vis-à-vis Aging Schedule were higher by P1.902 million and P10.268 million, respectively.

8.20. The concerned FMD personnel informed during verbal inquiry that the discrepancies pertained to adjustments that were omitted such as correcting entries for previous years' mispostings since these were prepared only after closing of the books. Said discrepancies between the GLs and AR Aging Schedule indicate the inadequacy of control system in the monitoring of collection and timely verification of receivables.

8.21. In view of the foregoing deficiencies, the faithful representation in the financial statements of the balance of the Receivables - AR account with carrying amount of P41.429 million as of December 31, 2020 was not established.

8.22. **We recommended that Management direct the FMD to:**

a. **Srictly conform with the requirements of PFRS 9, particularly on the impairment of financial assets to ensure that the correct valuation of the AR account is reflected in the financial statements as at year-end;**

b. **Conduct thorough and periodic assessment of the PRA's AR, taking into account all information that may be available especially those factors brought about by COVID-19 pandemic that could adversely**

affect the PRA's receivable from its clients, to be able to provide adequate and reasonable AFI;

c. **Maintain SLs on: (i) AR - MFs for each private bank having the Retirees' Visa Deposits, and (ii) AR – Annual PRA/Visitorial/Harmonization Fees to support the balances presented in the Schedule of AR-MFs, and other AR accounts and to ensure proper safekeeping of record, monitoring of accounts and accurate/reliable reporting of balances in the financial statements;**

d. **Reconcile the balances of the AR and AFI accounts presented in the GLs with their corresponding balances in the Aging Schedule and, make the necessary adjustments to correct the discrepancies of P1.902 million and P10.268 million in order to reflect the correct balances of the accounts in the financial statements as of December 31, 2020; and**

e. **Ensure that the concerned personnel be extra careful in the recording of financial transactions of PRA to avoid errors and/or inaccurate/misleading information.**

8.23. Management commented that:

a. PRA will establish credit history of the clients to further facilitate in determining a more compliant percentage of expected credit loss. A billing system is under development in-house – pending acquisition of the off-the-shelf Accounting software that will automate PRA's accounting and financial reporting. In addition, the existing policy of PRA is to consider impaired any account that has no payment for three (3) years and above.

b. The FMD had reconciled already the Aging Schedule to the balances of the AR and AFI accounts presented in the GLs/financial statements.

8.24. As rejoinders, the Audit Team suggests that the FMD set a timeline for the implementation of the audit recommendations considering the significance of presenting the correct valuation of the AR of the Authority. Likewise, it is requested that a copy of the results of reconciliation between the Aging Schedule and the GLs balances on AR and AFI accounts be provided to the Team, for verification.

B. <u>NON-FINANCIAL</u>

9. The non-enforcement of the pertinent provisions of the Executive Order (EO) No. 1037 and of the Memoranda of Agreement (MOAs) executed between PRA and the servicing foreign/domestic banks deprived the Authority of additional income (in an undetermined amount) in the form of Management Fees (MFs) from the outstanding Visa Deposits (VDs) of Member-Retirees totaling P372.143 million maintained with de-accredited banks.

9.1. Rule VIII of the Implementing Rules and Regulations (IRR) of EO No. 1037 states the salient provisions on the Financial Deposit System of the PRA, quoted hereunder:

> *Section 1. The Authority shall accredit any foreign or domestic bank or banks duly authorized by the Bangko Sentral ng Pilipinas to accept US dollar currency deposits, which bank or banks shall be the depository of the retiree's requisite US$50,000. For this purpose, the Authority shall enter into the necessary separate Memorandum of Agreement with such bank or banks, containing the system and procedure for the opening and maintenance of the retiree's account.*
>
> *Section 3. The Authority shall be authorized to negotiate the bank's service fee from the retiree's account in such proportionate amount and under such terms and conditions as may be mutually agreed upon by both parties. Xxx.*

9.2. Moreover, Section 5 of the MOA executed by the PRA with each servicing bank states the remuneration of the former on the required VDs of each qualified Resident Retiree being maintained by the latter, as follows:

> *The BANK shall pay the following fees to PRA:*
>
> *a. 1.5% p.a., Management Fee to be computed on the basis of the aggregate daily outstanding balance of áll Restricted Deposit Accounts maintained with the BANK;*
>
> *b. All fees shall be due and payable on the twenty fifth (25th) day of the month following the period covered. In case the twenty fifth calendar day of the month is a non-working day, payment shall be made on the first working day following the said non-working day; and*
>
> *c. Any fee(s) in arrears shall incur a penalty at a rate of one per cent (1%) per month, computed from the twenty fifth (25h) day of the month when said fees became due and payable, until the defaulted amount is fully paid.*

9.3. Initially, the PRA has twenty-five (25) accredited servicing private banks which cater the required VDs of PRA's Resident Retirees. Of the twenty-five (25) banks, sixteen (16) thereof with total balances of P582.084 million have been de-accredited in various years per FMD's Report on Outstanding Deposits from Current and Previously Accredited banks, summarized in Table 18. However, the FMD was not able to give the exact dates of de-accreditation of said banks when asked by the Audit Team.

Table 18 – List of De-Accredited Servicing Banks of the PRA with Corresponding Balances of VDs as December 31, 2020

	Name of Bank	No. of RR	Outstanding Balance	Remitted MF to PRA (2020)	AR –MF (2020)	Remitted MF to PRA (2019)
Servicing Banks without payments of MFs to PRA						
1	AUB	32	P 33,741,709	P -	P -	P -
2	BInc.**	25	92,340,352	-	-	-
3	CPI	5	12,571,578	-	-	-
4	CBC	26	37,364,381	42,504*	37,227*	460,149*
5	EWB	25	20,688,484	-	-	-
6	EIB	28	33,939,493	-	-	-
7	HSB	1	1,375,855	-	-	-
8	MB	25	63,409,778	-	-	-
9	PBC	1	795,472	-	-	-
10	PBB	6	8,000,462	-	-	-
11	RCBC*	29	65,207,137	209,650*	82,724*	3,535,442*
12	RCBCS	2	1,059,951	-	-	-
13	RB	1	812,413	-	-	-
14	SCB**	1	835,864	-	-	-
	Total	**207**	**P372,142,929**	**P252,154**	**P119,951**	**P3,995,591**
Servicing Banks with payments of MFs to PRA						
15	PSB	97	203,501,898	2,523,032	517,234	2,329,826
16	SB	4	6,439,505	98,486	8,318	93,402
	Total	**101**	**P209,941,403**	**P2,621,518**	**P525,552**	**P2,423,228**
	Grand Total	**308**	**P582,084,332**	**P2,873,672**	**P645,503**	**P6,418,819**

** remittance of 2019 MFs* ***with pending case*

9.4. As can be gleaned in Table 18, majority of the de-accredited servicing banks still maintain huge amount of VDs, yet, it was noted that only two (2) of these banks had remitted MFs in CYs 2020 in the total amount of P2.622 million. According to FMD, most of these banks had discontinued the payment of MFs to the PRA after their requests for de-accreditation were approved by the Board. Nonetheless, the Audit Team was not provided with any copy of approved de-accreditation of the said banks and as of audit date, no other pertinent documents related thereto were submitted for verification.

9.5. Despite clear provision (Section 5) in the MOA as to the continuous payment of MF to PRA, it was noted that accruals on MF/receivable from de-accredited banks were not recorded by the FMD in the books, contrary to the requirement of Paragraph 27 of IAS 1 which provides that, "*an entity prepares its financial statements, except for cash inflow information, using the accrual basis of accounting*." Inquiry with the concerned FMD personnel revealed that accruals on MFs income were not recognized since it was assumed that collection is no longer possible. Thus, the FMD merely recognized accruals for accredited banks which have provided them Management Fees Report that was used as basis for the amount of accruals.

9.6. Further inquiry revealed that Management did not send billing statements to these banks for collection purposes since accruals were not recognized. Nevertheless, the FMD informed that they had forwarded these concerns to the Legal Unit and coordinated with the Resident Retiree's Servicing Division (RRSD) to communicate to the retirees to transfer their VDs to other accredited banks or the Development Bank of the Philippines (DBP).

9.7. However, it is emphasized that mere assumption as to the non-collectibility of said MFs is not adequate and valid reason to discontinue the accruals of income considering that the PRA has valid claims from the said banks as provided in the MOA. Moreover, two of the de-accredited banks remained compliant in the settlement of MFs until CY 2020 as shown in Table 18, hence, this would indicate that the MFs from other de-accredited banks have to be billed, collected, and recorded accordingly.

9.8. Further review and analysis of records disclosed that the non-collection/non-remittance of MFs from the de-accredited banks could be attributed to the non-enforcement of the relevant provisions of EO No. 1037 and MOA between the PRA and the servicing and/or domestic banks.

9.9. However, despite having legal right, PRA did not demand from said banks the payments/remittance of MFs. It is noteworthy to mention that Section 8 of the MOA executed between PRA and the servicing banks provides stipulation as to the consequence of termination of the MOA, quoted as follows:

> *The termination of this Agreement shall not prejudice or otherwise affect the rights and liabilities of the parties hereto with respect to transactions commenced or effected prior to such termination, or with respect to any amount then owing by either party to the other, and the BANK shall continue to pay and remit to PRA the relevant fees, commissions and penalties on all Retiree Deposits that remain active with the BANK until closure of client's account.*

9.10. The Audit Team was also informed that upon de-accreditation of banks, the PRA had notified its Resident Retirees thru a Letter-Notice to transfer their VDs to other accredited banks, however many did not comply. The Audit Team noted though that it was not specified or imposed in the said letter that the required VDs of Resident Retiree must be maintained only with banks accredited by the PRA as authorized under Sections 1 and 3 of Rule IV of the IRR of EO No. 1037, to wit:

> *Section 1. Eligibility Requirement – A retiree can participate in the Program by making a minimum deposit of US$50,000* ***with a foreign or domestic bank duly accredited by the Authority;*** *Xxxx*

> *Section 3. Effect of Participation – A retiree who had qualified for participation in the program shall be issued with a Special Resident Retiree's Visa.*

9.11. The PRA could have included in the Letter-Notice to the Resident Retirees additional information as to the purpose and significance of said transfers, such as, safety of their deposits and maintenance of their eligibility with the Retirement Program, the fixed period to transfer the VDs, and the possible consequence for failure to transfer their VDs within the prescribed period. Such representation could have encouraged and prompted the Retirees to transfer their VDs to other existing accredited banks of PRA.

9.12. Meanwhile, it was explained that the Resident Retirees may not have received the Letters-Notice since these were returned to PRA which would indicate that their addresses maintained/stored in the PRA's Database may have not been regularly updated. However, Section 1(e) of Rule VI of the IRR of EO No. 1037 states that one of the obligations of a resident retiree is to:

> *Submit to the Authority within the first ten (10) days of every calendar year, a report that his required deposit with a duly accredited local bank has not been withdrawn nor reduced below the required value, together with a certification from the President of his depository bank, or any of its duly authorized officers, that his deposit has not been withdrawn nor reduced below the required value*.

9.13. Due to the non-enforcement of the pertinent provisions of EO No. 1037 and the MOAs executed between the PRA and the servicing foreign and/or domestic banks, the Authority has been deprived of additional income (in an undetermined amount) in the form of MFs from the outstanding VDs of Member-Retirees of P372.143 million maintained with de-accredited banks.

9.14. **We recommended that Management direct the FMD and other concerned Divisions to:**

a. **Maintain a complete record of the VDs being kept by each accredited and de-accredited bank to facilitate the computation of MFs due to PRA and for reconciliation purposes with the Report provided by the concerned bank;**

b. **Enforce the pertinent provisions embodied in the IRR of the EO No. 1037 and in the MOA between the PRA and servicing foreign/domestic banks specifically the payment of MFs;**

c. **Formulate policies and procedures that would expedite the transfer of the remaining/outstanding balances of Resident Retirees' VDs from de-accredited to PRA accredited banks pursuant to Section 1, Rule VIII of the IRR of EO No. 1037;**

d. **Consider requiring as mandatory for the Retirees to update PRA annually about their personal information including the status of their VDs to facilitate updating/monitoring of their records, in compliance with Section 1(e) of Rule VI of the IRR of EO No. 1037; and**

e. **Strictly adhere to the requirement of Paragraph 27 of IAS 1 by ensuring the uniform use of accrual basis of accounting in all accounts/revenues of the PRA so that income from MFs is recognized at the period it is earned.**

9.15. Management commented that:

a. The FMD, in coordination with Servicing Division (SD), have started to fast track the transfers of these remaining VDs from the de-accredited banks. For the old accounts, FMD will have to revisit the agreements, issue statement of accounts and demand letters, as well as coordinate with SD to ask again the Retirees to transfer their VDs to PRA accredited banks.

b. PRA will formulate policies and procedures relative to VDs and the monitoring of Retirees through the Authority's Policy Review and Formulation Committee (PRFC).

c. The FMD in coordination with the ICTD is automating the accounting for MFs through the in-house developed Retirees' Bank Deposit Management Information System (RBDMIS). Data migration of the old SLs in excel and system implementation is at 70% for private banks and 60% for the DBP.

9.16. As a rejoinder, the Audit Team acknowledged the initial actions taken by Management to implement the recommendations, their full implementation thereof will be monitored in the CY 2021 audit.

10. The withheld salaries totaling P232,628 of the former Accountant, determined as solidarily liable, applied as partial payment to a final and executory Notice of Disallowance (ND) in the amount of P1.341 million and covered by a COA Order of Execution (COE), were refunded/returned to her by PRA despite the total amount of disallowance is not yet fully settled by all the persons found liable, contrary to COA rules and regulations.

10.1. During post audit of Disbursement Vouchers (DVs), the Audit Team noted that DV No. 19-06-2600/Check No. 3006675 dated June 25, 2019 in the amount of P232,628 was processed and paid to the former Accountant. Review showed that said amount pertained to the refund/return of her withheld salaries for the period July 2015 to May 2017 which were previously applied to the unsettled final and executory audit disallowance of the four (4) former PRA employees, as the former Accountant was held solidarily liable with them. As shown in the books, the withholding and application of said salaries were reflected as a direct deduction from the Due from Officers and Employees sub-account under the Other Receivables account.

10.2. Verification of documents however disclosed that the refund was merely supported with copy of the Memorandum of the former Accountant requesting for refund; Letter of the current General Manager to the Office of the Government Corporate Counsel (OGCC); and Opinion issued by the OGCC regarding said refund, which is not in conformity with the existing rules and regulations set by COA for determined liable persons. The OGCC, in its Opinion No. 113 dated

June 04, 2019, stated that the release of the withheld salaries and benefits to the personnel who have been held solidarily liable in the Disallowance as discussed above, with those primary, quoted as follows:

> *Accordingly, with the ongoing implementation of the 7 January 2019 and 8 May 2018 Compromise Judgment against xxx, xxx, and xxx and pending civil case for collection against xxx, the withheld salaries and benefits of xxx and xxx in the amount of P232,628 and P138,000, respectively, may now be released to them.*

10.3. The said Opinion likewise stated that, "*PRA as creditor opted to go after xxx, xxx, xxx and xxx as payees for the satisfaction of the whole amount as indicated in their respective NDs, by filing the collection case against them"* which eventually resulted in the execution of a Compromise Agreement between and among them. However, Section 16.3 of COA Circular No. 2009-006 dated September 15, 2009, *Prescribing the use of the Rules and Regulations on Settlement of Accounts* clearly provides that:

> *The liability of persons determined to be liable under an ND/NC shall be solidary and the Commission may go against any person liable without prejudice to the latter's claim against the rest of the persons liable.*

10.4. Inasmuch as the settlement of the disallowed amount is concerned, the COA had already determined the persons solidarily liable as stated in COA Decision No. 2013-249 and in the COA Order of Execution (COE) which included the former Accountant. Thus, the COE has to be implemented by the PRA which applies to all including those still active in the service though not primary liable. It is noteworthy to mention that the Supreme Court Resolution affirmed COA Decision No. 2013-249 without any modification on the persons determined as liable to settle the disallowance, therefore, the former Accountant remained answerable for the audit disallowance until fully settled.

10.5. The mere existence of a Compromise Agreement where the claims of PRA shall be settled through installment is not a sufficient basis to refund/return the withheld salaries of the former Accountant previously applied to a final and executory ND considering that the indebtedness to PRA of the three (3) former employees, who were held liable with the former Accountant, were not yet fully satisfied and/or settled at the time of refund/return.

10.6. Considering that the withheld salaries of the former Accountant were for the payment of a final and executory ND, the refund/return of which is deemed unauthorized and irregular disbursement.

10.7. **We recommended that Management:**

a. Cause the immediate return of the amount of P232,628 refunded to the former Accountant, otherwise the disbursement will be disallowed in audit; and

b. **Enforce collection/payment of the audit disallowances covered by COE from all the persons found liable pursuant to COA rules and regulations.**

10.8. Management commented that:

a. PRA honestly thought that the Compromise Agreement has all the semblance of legality considering that the same was entered into and approved in a regular judicial proceeding by a proper judicial authority. Further, PRA humbly opines that a Compromise Agreement is advantageous in favor of the collecting party in case the debtor has little to no means of immediately paying off the whole obligation, considering the tedious process of a court execution where most debtor's property cannot be found with reasonable certainty or that there was no property at all to which the court sheriff can directly enforce the judgment of execution.

b. Nevertheless, in compliance to COA's recommendation, PRA commits itself to collect in full the disallowed disbursements from all liable persons. PRA is inclined to once again refer the matter to the OGCC to determine on how to legally set aside the judicial Compromise Agreement and eventually file for the execution of judgment for the immediate collection of the remaining balance from all liable persons.

c. Anent the legal basis on the refund of withheld salaries and benefits of the former Accountant, the PRA honestly thought in good faith that OGCC's official legal opinion is enough as blanket authority to effect the refund, considering that the OGCC officially rendered the same as legal counsel of PRA by virtue of Section 15 of EO No. 1037, s. 1985.

10.9. The following are the Audit Team's rejoinders:

a. The Team does not concur that the OGCC Opinion could be the basis of the PRA to effect the refund of the withheld salaries of the former Accountant considering that a valid obligation has existed when the ND attained its finality in the Supreme Court, where the former Accountant is among the persons liable.

b. While solidary liability is imposed to all persons liable and the COA may go against any person liable without prejudice to the latter's claim against the rest of the persons liable, the obligation is not extinguished until such time the whole disallowance is paid in full, either by all or any of the solidarily liable persons.

c. Hence, the Audit Team reiterates its recommendation that Management cause the immediate return of the amount of P232,628 refunded to the former Accountant, otherwise the disbursement will be disallowed in audit.

11. A total number of 821 DVs for CYs 2020 and 2019 in the amounts of P25.424 million and P84.609 million, respectively, or totaling P110.033 million were not yet submitted to COA, contrary to the requirement of Paragraph 6.5 of COA Circular No. 95-006 dated May 18, 1995.

11.1. Paragraph 6.5 of COA Circular No. 95-006 dated May 18, 1995, which provides that:

> *6.5 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.*

11.2. As verified from the records of the Audit Team, the unsubmitted DVs with total amount of P110.033 million pertained to disbursements covering various dates from January to December that should have been submitted to COA by January 2021, particularly the DVs in CY 2019 which have been the subject of an audit observation in the previous year. Of the 1,055 unsubmitted DVs, the FMD was able to submit 611 DVs only, thus, 444 DVs totaling P25.424 million remained unsubmitted as at audit date. As to CY 2020, 377 DVs totaling P84.609 million were not yet submitted to the COA. Table 19 shows the summary of the unsubmitted DVs to the Audit Team.

Table 19 - Summary of Unsubmitted DVs for CYs 2020 and 2019

	CY 2020		CY 2019	
Nature of Transactions	**No. of Unsubmitted DVs**	**Amount**	**No. of unsubmitted DVs**	**Amount**
Bureau of Immigration Fees	21	P 823,240	97	P 3,486,520
Marketers' Fee	221	10,278,547	145	3,943,672
Office Rentals	9	4,835,946	8	8,763,975
Tax Payments	3	59,708,652	2	1,087,791
Telephone/utilities	30	1,181,489	24	99,155
Granting of cash advances/Petty Cash Fund	9	284,266	12	712,194
Other Disbursements	84	7,496,920	156	7,330,588
Total	**377**	**P84,609,060**	**444**	**P25,423,895**

11.3. In view of the non-submission of the subject 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.

11.4. **We reiterated our previous year's audit recommendation that Management cause the immediate submission to COA of the 821 DVs covering CYs 2019 and 2020 in the total amount of P110.033 million, in compliance with Paragraph 6.5 of COA Circular No. 95-006 dated May 18, 1995 and to avoid issuance of the Notice of Suspension.**

11.5. Management commented that:

a. PRA modified its disbursement process to accommodate on time the submission to COA of all disbursements within the prescribed period of ten (10) days from check issuance. The FMD was able to comply with the revised process for a while; however, due to the longer implementation of skeletal workforce, the FMD was unable to keep up considering the very limited number of assigned staff in the Disbursing Unit and in the Accounting Unit in general. At present, another modification was made by requiring FMD to scan all documents and to keep digital copies before submitting to COA. This is aimed at facilitating easy retrieval whenever analysis of accounts so requires.

b. As to the remaining 821 DVs (444 for CY 2019 and 377 for CY 2020) yet to be submitted as of April 2021, the FMD is in the process of completing its verification.

GENDER AND DEVELOPMENT (GAD)

12. The Authority was not able to allocate at least five per cent (5%) of its total approved Corporate Operating Budget (COB) for CY 2020 for GAD activities, contrary to the Section 6.1 of Joint Circular No. 2012-001 of the Philippine Commission on Women (PCW)-National Economic Development Authority (NEDA)-Department of Budget and Management (DBM).

12.1. Section 6.1 of PCW-NEDA-DBM 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.*

12.2. Pursuant to the above-mentioned Joint Circular, the PRA has to allocate at least five (5) per cent of its approved CY 2020 COB of P415.248 million or a total amount of P20.762 million for its GAD Plan and Budget (GPB). It was noted, however, that the amount allocated by PRA as presented in its Approved GPB for CY 2020 was P3.066 million only or 0.74 per cent of its total COB, which was not in accordance with the above-stated provision.

12.3. Similar observation was brought to the attention of the PRA Management in the previous year and it informed that the required five per cent (5%) of the COB intended for GAD shall be attributed to trainings, setting up of emergency clinic which includes facilities such as Diaper Changing Station and Breastfeeding Area for lactating mothers, and establishment of sex disaggregated data/GAD Database.

12.4. Review of the CY 2020 GPB showed various trainings and set up of breastfeeding/lactation stations in PRA's emergency clinic as part of the planned GAD activities; however, the establishment of sex-disaggregated data was not included therein. It is emphasized that sex-disaggregated data is essential in making gender analysis that would aid the Agency in its gender mainstreaming.

12.5. Section 3.4 of PCW-NEDA-DBM Joint Circular No. 2012-001 provides that in order to attain the desired outcomes for GAD mainstreaming, gender perspectives in the agency's programs/activities/projects (PAPs) shall be priority in GAD planning and budgeting, which is a way for agencies to influence the entire agency program, plan and budget.

12.6. Moreover, the Agency GAD Focal Point System (GFPS) shall take the lead in mainstreaming gender within the Agency and that it shall provide the offices or units within the Agency needing technical assistance on gender mainstreaming. It is worth mentioning that in the review of the GAD Accomplishment Report (AR), seminars on the use of disaggregated data and GAD database collection were conducted.

12.7. **We recommended that Management:**

a. Comply with Section 6.1 of PCW-NEDA-DBM Joint Circular No. 2012-01, prescribing at least five (5) per cent of the COB shall be allocated for GAD activities; and

b. Exert all efforts to institutionalize GAD database/Sex-disaggregated data pursuant to Section 3.4 of the PCW-NEDA-DBM Joint Circular No. 2012-01 to ensure a more efficient and effective GAD planning and budgeting as well as implementation of GAD activities.

12.8. Management commented that:

a. 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 several GAD-related activities in order to maximize the required amount which is at least 5 per cent of the approved COB. Meeting the 5 per cent required budget can be possible by means of attribution. However, due to limitations such as no previous knowledge and skills in the application on the attribution, the said requirement was not met.

b. As part of PRA's efforts in meeting the allocation of five (5) per cent, the GFPS has started applying the attribution in CY 2021 GPB using the budget of the Resident Retiree Services Department. The GFPS also underwent consultation with PCW GAD Specialists in order to enhance its knowledge and skills on attribution. As the GFPS gains understanding on the attribution and the application of the Harmonized Gender and Development Guidelines tool in the implementation of gender responsive plans and programs, PRA will be able to reach the recommended allocation of at least five (5) per cent of the COB in the coming years.

COMPLIANCE WITH TAX LAWS

13. 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 the required periods. The balance of account *Due to BIR* as of December 31, 2020 were remitted in CY 2021, as shown in Table 20.

Table 20 - Remittances to BIR of the Due to BIR as of December 31, 2020

Particulars	Amount	Date Remitted
Employees' withholding tax	P 477,981.94	January 5, 2021
Withholding tax on VAT	1,113,981.99	January 11, 2021
Expanded withholding tax	1,698,670.34	January 11, 2021
Income tax payable	-	April 15, 2021

COMPLIANCE WITH GSIS, HDMF AND PHILHEALTH LAWS

14. 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 2020 were remitted in January 2021, as presented in Tables 21, 22 and 23.

Table 21 - Remittance to GSIS

Particulars	Amount	Date Remitted
Life and retirement premium	P761,567.73	January 11, 2021
Optional insurance	35.80	January 11, 2021
Calamaty/ Emergency loan	-	-
Policy loan	-	-
ECC	8,000.00	January 11, 2021
Conso loan	-	-

Table 22 - Remittance to HDMF

Particular	Amount	Date Remitted
HDMF contributions	P24,700.00	January 11, 2020

Table 23 - Remittance to PhilHealth

Particular	Amount	Date Remitted
PhilHealth contributions	P97,196.70	January 15, 2021

COMPLIANCE WITH PROPERTY INSURANCE LAW

15. For CY 2020, the PRA's properties such as buildings and motor vehicles were insured with the GSIS in compliance 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 24.

Table 24 - Insured Properties

Property	Amount Insured	Premiums Paid
Buildings/ Leasehold Improvements	P30,307,524.35	P 80,884.73
Motor Vehicles	13,205,475.50	104,865.81
Total	**P43,512,999.85**	**P 185,750.54**

SUMMARY OF SUSPENSIONS, DISALLOWANCES AND CHARGES

16. The summary of audit suspensions, disallowances and charges in CY 2020 is shown in Table 25 and the details and status of the unsettled suspensions and disallowances as of December 31, 2020 are presented in Part IV, Annex A of this Report. There was no audit charge in CY 2020.

Table 25 – Summary of Audit Suspensions, Disallowances and Charges

	Beginning balance January 1, 2020	Issued	Settled	Ending balance December 31, 2020
Suspensions	P 175,132.39	P -	P -	P 175,132.39
Disallowances	2,100,780.63	-	(28,446.20)	2,072,334.43
Charges	-	-	-	-
Total	**P2,275,913.02**	**P -**	**P (28,446.20)**	**P2,247,446.82**

PART III - STATUS OF IMPLEMENTATION OF PRIOR YEAR'S AUDIT RECOMMENDATIONS

Of the thirty-six (36) audit recommendations embodied in the prior year's Annual Audit Report (AAR), six (6) were fully implemented, twenty-two (22) were partially implemented, and eight (8) were not implemented. Details as follows:

Reference	Observations	Recommendations	Actions Taken/Comments
Financial AAR 2019 Audit Observation (AO) No. 1, page 53	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.	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	Fully Implemented.
		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	Fully Implemented.

Reference	Observations	Recommendations	Actions Taken/Comments
		the financial statements.	
AAR 2019 AO No. 2, page 56	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.	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.	 Partially Implemented. Reiterated with updates under Part II – Observation and Recommendation No. 2 of this Report. Partially Implemented. FMD will hire two (2) personnel to fill manpower requirements.

Reference	Observations	Recommendations	Actions Taken/Comments
AAR 2019 AO No. 3, page 61	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.	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.	 Partially Implemented. Reiterated with updates under Part II – Observation and Recommendation No. 1 of this Report. Partially Implemented.
AAR 2019 AO No. 4, page 63	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)	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	 Partially Implemented. Reiterated with updates under Part II – Observation and Recommendation No. 6 of this Report.

Reference	Observations	Recommendations	Actions Taken/Comments
	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.	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;	Partially Implemented.
		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	Partially Implemented.
		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)	Not Implemented.

Reference	Observations	Recommendations	Actions Taken/Comments
		effect the necessary adjusting entries based on the result of reconciliation to arrive at the correct balance of the Cash and Cash Equivalents account.	
AAR 2019 AO No. 5, page 68	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.	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 amounts 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	Fully Implemented.

Reference	Observations	Recommendations	Actions Taken/Comments
		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.	Fully Implemented.
AAR 2019 AO No. 6, page 70	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:	We recommended and Management agreed to:	
	a. Variance of P27.982 million between the results of physical count for several PPE units with their balances per books;	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;	Partially Implemented. ICTD will develop Fixed Asset Register module in CY 2021.
	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;	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;	Not Implemented.
		c. Instruct the IC to: (i) conduct physical inventory of the PPE items costing P5.987 million	Partially Implemented.

Reference	Observations	Recommendations	Actions Taken/Comments
	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.	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;	Partially Implemented.
		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	Partially Implemented.
		f. Conduct exhaustive investigation on the variance considering the balances per books of the Information and Communication Technology Equipment and	Partially Implemented.

Reference	Observations	Recommendations	Actions Taken/Comments
		Furniture & Fixtures accounts were greater than the balances per physical count, which may indicate missing items, and undertake appropriate legal and/or administrative actions, if warranted.	
AAR 2019 AO No. 7, page 74	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.	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	Not Implemented. Reiterated with updates under Part II – Observation and Recommendation No. 8 of this Report.
		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.	Not Implemented.

Reference	Observations	Recommendations	Actions Taken/Comments
AAR 2019 AO No. 8, Page 77	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.	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 (iii) 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.	Partially Implemented. FMD submitted credit policy to the Board of Trustees for consideration.
		b. Revisit the collection policies of the PRA and devise/ implement new strategies to improve and expedite collection of receivables.	Partially Implemented.
AAR 2019 AO No. 9, page 79	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	We recommended that Management direct the concerned FMD personnel to:	
		a. Evaluate the dormant/long outstanding accounts totaling P13.807 million for	Partially Implemented. FMD will hire two (2) personnel to fill

Reference	Observations	Recommendations	Actions Taken/Comments
	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.	possible reversion to Retained Earnings account pursuant to DBM and COA Joint Circular No. 99-6 and Section 98 of PD No. 1445;	manpower requirements.
		b. Analyze and determine the cause/s of the negative (abnormal) balances in the amount of P0.105 million and make necessary adjustments;	Not Implemented.
		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	Fully Implemented.
		d. Prepare and maintain SL for each creditor/supplier of the Authority as provided under Section 114(2) of PD No. 1445, to	Not Implemented. PRA will procure Accounting Software for the maintenance of

Reference	Observations	Recommendations	Actions Taken/Comments
		facilitate analysis of individual balances and reconciliation and confirmation of accounts.	Subsidiary Ledgers.
<u>Other Observations</u> AAR 2019 AO No. 10, page 84	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**.**	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	Not Implemented. Due to COVID-19, programs is currently being reviewed by the PRA Technical Working Group, Policy Review and Formulation Committee and the Board of Trustees (BOT).
		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.	Not Implemented.

Reference	Observations	Recommendations	Actions Taken/Comments
AAR 2019 AO No. 11, page 88	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.	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	Partially Implemented.
		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 &	Fully Implemented.

Reference	Observations	Recommendations	Actions Taken/Comments
		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.	
AAR 2019 AO No. 12, page 93	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.	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; and	Partially Implemented.
		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	Partially Implemented.

Reference	Observations	Recommendations	Actions Taken/Comments
		6(f) of the MCG of the PRA.	
AAR 2019 AO No. 13, page 95	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.	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.	Partially Implemented.
AAR 2019 AO No. 14, page 96	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	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	 Partially Implemented. Reiterated with updates under Part II – Observation and Recommendation No. 12 of this Report. Partially Implemented. Partially Implemented.

Reference	Observations	Recommendations	Actions Taken/Comments
	objectives to address the various gender issues of the Authority were not fully attained.	the GAD Database/ Sex-disaggregated Data to ensure a more effective GAD planning and budgeting as well as implementation of GAD PAPs.	

Status of Unsettled Audit Suspensions and Disallowances
As of December 31, 2020

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 Assistant II, former Audio-Visual Aide Technician III	Payment for unauthorized COLA, amelioration, additional COLA, rice, children's and medical allowances for the period October 2, 1995 to March 8, 1999	P1,069,834.41	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			**P2,072,334.43**	