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, 2021 and 2020

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for the world's retirees, the PRA offers various retirement products with required visa deposits that can be withdrawn when the retiree leaves/withdraws from the program or in case of end-of-term obligations.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 No. 9593 on May 12, 2009, the supervision of PRA was transferred from the Department of Trade and Industry to the Department of Tourism (DOT).

The PRA administration is composed of the following principal officers and Board of Trustees as of December 31, 2021:

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, 2021, the PRA had a total of 170 manpower complement consisting of 90 regular employees and 80 job orders.

FINANCIAL HIGHLIGHTS (In Philippine Peso)

I. Comparative Financial Position

	2021	2020	Increase (Decrease)
Assets	21,747,486,690	20,332,554,513	1,414,932,177
Liabilities	19,743,859,920	18,276,543,722	1,467,316,198
Equity	2,003,626,770	2,056,010,791	(52,384,021)

II. Comparative Financial Performance

	2021	2020	Increase/ (Decrease)
Income	1,810,519,476	1,502,337,390	308,182,086
Personnel services	73,769,315	74,892,439	(1,123,124)
Maintenance and other operating expenses	69,334,238	71,371,675	(2,037,437)
Financial expenses	3,188,652	966,614	2,222,038
Direct costs	16,613,302	40,739,928	(24,126,626)
Unrealized loss on foreign exchange	1,048,487,221	1,037,415,462	11,071,759
Non-cash expenses	160,679,211	32,348,967	128,330,244
Total expenses	1,372,071,939	1,257,735,085	114,336,854
Profit before tax	438,447,537	244,602,305	193,845,232
Income tax expense	90,831,558	29,742,091	61,089,467
Net income	347,615,979	214,860,214	132,755,765
Other comprehensive income/(loss) for the period	-	-	-
Comprehensive income	**347,615,979**	**214,860,214**	**132,755,765**

III. Comparison of 2021 Budget and Actual Amounts

	Approved COB	Actual	Variance
Personnel services	85,247,000	73,769,315	11,477,685
Maintenance and other operating expenses	242,779,000	119,682,595	123,096,405
Capital outlays	25,481,000	2,832,950	22,648,050
Total	**353,507,000**	**196,284,860**	**157,222,140**

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, 2021 and 2020 in accordance with International Standards of Supreme Audit Institutions. 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 Trust Liabilities – Visa Deposits and Interest Payable accounts having a total balance of P17.975 billion were not ascertained due to the unaccounted net discrepancy of P191.300 million in absolute amount, compared to the balances of its contra assets accounts totaling P17.784 billion, contrary to Paragraph 15 of the International Accounting Standard (IAS) 1.

2. The Deferred Tax Asset (DTA), Deferred Tax Liability (DTL), and Retained Earnings accounts were overstated by P52.752 million; P39.350 million; and P27.909 million respectively, while the Income Tax Expense account was understated by P13.402 million, due to the misapplication of the corporate income tax rate of 30 per cent instead of tax rate of 25 per cent, contrary to Paragraphs 47 and 51 of the IAS 12. Likewise, various transactions pertaining to deferred tax cannot be verified due to non-maintenance of subsidiary ledgers, contrary to Qualitative Characteristic (QC) 26 of the Conceptual Framework of General Purpose Financial Reporting (CFGPFR). Moreover, the significant accounting policies and relevant information about the deferred tax were not disclosed in the financial statements, contrary to Paragraphs 79 to 81 of the IAS 12.

3. The fair presentation of the balance of the Cash in Bank account amounting to P349.227 million, presented under Cash and Cash Equivalent account in the financial statements as at December 31, 2021, was not established due to net variance of P95.741 million between the balances per books and confirmed bank balances consisting of various errors and book reconciling items, which remained unadjusted as of year-end contrary to Paragraph 15 of the IAS 1.

4. The faithful representation in the financial statements of the Accounts Receivable account with carrying amount of P60.993 million as of December 31, 2021 was not ascertained due to non-compliance of the provision for allowance for impairment with Paragraph 5.5 of the International Financial Reporting Standard (IFRS) 9 and inadequate disclosures of relevant information, contrary to Paragraph 15 of the IAS 1. Moreover, due to the erroneous manner of computation with respect to aging of receivable method, the Impairment Loss and Allowance for Impairment accounts were both overstated in the amount of P44.172 million, which is inconsistent with the QC 12 of the CFGPFR.

5. The faithful representation in the financial statements of the balance of the Other Non-Current Assets (ONCA) – Restricted Funds (RF) account in the amount of P17.504 billion as at December 31, 2021 was not ascertained due to the: (a) net variance of P15.258 million between the balances per books and the confirmed bank balances of the ONCA-RF-Visa Deposits (VDs) accounts caused by various book reconciling items which remained unreconciled and unadjusted as of year-end; and (b) error on the preparation of Bank Reconciliation Statements (BRS) and non-maintenance of Subsidiary Ledgers for the accounts of the Retiree-Members, contrary to Paragraph 15 of IAS 1.

6. The Withholding Tax at Source account included in the Other Current Assets account and Income Tax Payable account with year-end balances of P24.883 million and P102.226 million, respectively, were both overstated by P11.530 million due to the non-recording of transactions pertaining to recognition and utilization of the creditable tax withheld, contrary to COA Circular No. 2020-002 dated January 28, 2020.

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 the Trust Liabilities – VD and Interest Payable with their contra accounts, ONCA-RFs-VDs, Interest Receivable-VDs, Investment in Time Deposits-Foreign Currency-RF and Cash in Bank-Foreign Currency-Savings Account accounts considering the substantial amount of discrepancies noted. If necessary, assign additional personnel who will be tasked exclusively for the monitoring and reconciliation of the said discrepancies.

2.1. Instruct the concerned personnel of the FMD to:

a. Effect the necessary adjustments to correct the overstatement of the DTA, DTL and Retained Earnings accounts in the amounts of P52.752 million; P39.350 million; and P27.909 million, respectively, and the understatement of the Income Tax Expense account by P13.402 million to fairly present the said accounts in the financial statements as of December 31, 2021;

b. Maintain subsidiary ledger for the DTA and DTL accounts that would serve as supporting document for verification and monitoring purposes to ensure accurate information as well as facilitate the preparation of detailed schedules for DTA and DTL and income tax returns;

c. Keep abreast with the new rules and regulations to strictly and timely comply with the taxation requirements prescribed by the Government or the Bureau of Internal Revenue, in particular; and

d. Disclose all the necessary information about the deferred taxes and income taxes in compliance with the disclosure requirements under Paragraphs 80-81 of IAS 12 to ensure that complete information shall be available to the users of the Financial Statements.

3.1. Require the concerned personnel of the FMD to:

a. Expedite the reconciliation of accounts. Consider assigning additional personnel to focus on the validation of collections through bank deposits in response to the increasing reconciling items pertaining thereto;

b. Verify thoroughly the book reconciling items for each of the affected bank accounts and thereafter, immediately effect the necessary adjusting entries to fairly present the balance of the Cash and Cash Equivalents account in the financial statements;

c. Scrutinize the validated deposit slip being submitted by the client or his authorized representative and verify it carefully with the client's records of payment to avoid double issuance of official receipt; and

d. Ensure proper preparation of Bank Reconciliation Statements to avoid confusion, further errors, and/or misleading information.

3.2. Strengthen the information dissemination among its clients on the proper procedures/guidelines about the online/direct payment to facilitate the recording of deposits/collection. If possible, require its clients to immediately notify/inform the FMD aside from the Resident Retiree Servicing Department personnel for any direct deposits made.

3.3. Continuously make representation to the concerned officials of the Land Bank of the Philippines (LBP) and the DBP - Head Office to facilitate the correction of errors in the accounts of PRA as well as the provision/submission of pertinent documents by the LBP/DBP branches such as Debit Memos, Credit Memos, etc. so that the necessary adjustments could be effected in the PRA's books and in the concerned banks' records.

4.1. Direct the concerned personnel of the FMD to:

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

b. Conduct immediate reassessment on the established Expected Credit Loss (ECL) in view of the noted deficiencies, through considering all relevant factors as required by IFRS 9 to come up with a more realistic, truthful, and reflective basis for its measurement at the reporting date;

c. Ensure full disclosure of all relevant information pertaining to the ECL formulation and measurement in compliance with Paragraph 15 of IAS; and

d. Effect the necessary adjustment to correct the overstatement of the Impairment Loss and Allowance for Impairment accounts amounting to P44.172 million.

5.1 Direct the concerned personnel of the FMD to:

a. Fast track the reconciliation of the ONCA-RF-VDs Receiving and Disbursing accounts and if necessary, assign additional personnel who shall be tasked for the retrieval of documents, monitoring, and reconciliation of 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 reconciling items as well as in the preparation of the bank reconciliation to avoid errors which will affect the reliability of the prepared BRSs; and

c. Maintain subsidiary ledgers for the accounts of Retiree-Members (SRRV holders) to facilitate the reconciliation and monitoring of balances of the ONCA-RF and the Trust Liability accounts.

6.1 Instruct the concerned personnel of the FMD to:

a. Effect the necessary adjusting entries to correct the overstatement of the Withholding Tax at Source and Income Tax Payable accounts by P11.530 million to fairly present the balances of these accounts in the financial statements as of December 31, 2021;

b. Conduct reconciliation between the unapplied Creditable Tax withheld (CTW) as reflected in the Withholding Tax at Source account and applied CTWs per Income Tax Return covering the previous years to determine whether all the necessary adjustments pertaining thereto were recorded in the books; and

c. Exercise prudence in the recording of tax transactions to avoid errors and misleading information.

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

7. The monetization of leave credits in the total amount of P2.241 million was not in accordance with Sections 22 and 23 of the Omnibus Rules on Leave under Civil Service Commission (CSC) Memorandum Circular (MC) Nos. 41, s. 1998 and 16, s. 2002 due to granting/allowing the monetization of earned Sick Leave credits, and Vacation Leave (VL) credits of less than 15 days.

7.1. We recommended that Management direct the concerned personnel of the Administrative Division to:

a. Strictly comply with the provisions of the CSC MC Nos. 41, s. 1998 and 16, s. 2002 on the monetization of the leave credits of the PRA employees. Likewise, discontinue the practice of allowing the monetization of Sick Leave credits of various employees including VL credits of below 15 days; and

b. In cases of monetization of 50 per cent or more of the accumulated leave credits, ensure that these are allowed only for those employees with valid and justifiable reasons in compliance with Section 23 of the Omnibus Rules on Leave under CSC MC. No. 16, s. 2002. Likewise, these must have supporting documents as required under Section 5.14 of COA Circular No. 2012-001 dated June 01, 2012.

SUMMARY OF SUSPENSIONS, DISALLOWANCES AND CHARGES

The unsettled audit disallowances and suspensions as of December 31, 2021 amounted to P2.272 million and P175,132.39 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 36 audit recommendations embodied in the prior year's Annual Audit Report, 23 were fully implemented, 12 were partially implemented, and one was not implemented.

TABLE OF CONTENTS

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, BDO Towers Valero
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, 2021 and 2020, 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, 2021 and 2020, 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 Trust Liabilities – Visa Deposits and Interest Payable accounts having a total balance of P17.975 billion were not ascertained due to the unaccounted net discrepancy of P191.300 million in absolute amount, compared to the balances of its contra assets accounts totaling P17.784 billion, contrary to Paragraph 15 of the International Accounting Standard (IAS) 1.

Also, the Deferred Tax Asset (DTA), Deferred Tax Liability (DTL), and Retained Earnings accounts were overstated by P52.752 million; P39.350 million; and P27.909 million respectively, while the Income Tax Expense account was understated by P13.402 million, due to the misapplication of the corporate income tax rate of 30 per cent instead of tax rate of 25 per cent, contrary to Paragraphs 47 and 51 of the IAS 12. In addition, various transactions pertaining to deferred tax cannot be verified due to non-maintenance of subsidiary ledgers, contrary to Qualitative Characteristic (QC) 26 of the Conceptual Framework of General Purpose Financial Reporting (CFGPFR). Moreover, the significant accounting policies and relevant information about the deferred tax were not disclosed in the financial statements, contrary to Paragraphs 79 to 81 of the IAS 12.

Likewise, the fair presentation of the balance of the Cash in Bank account amounting to P349.227 million, presented under Cash and Cash Equivalent account in the financial statements as at December 31, 2021, was not established due to net variance of P95.741 million between the balances per books and confirmed bank balances consisting of various errors and book reconciling items, which remained unadjusted as of year-end contrary to Paragraph 15 of the IAS 1.

Moreover, the faithful representation in the financial statements of the Accounts Receivable account with carrying amount of P60.993 million as of December 31, 2021 was not ascertained due to non-compliance of the provision for allowance for impairment with Paragraph 5.5 of the International Financial Reporting Standard 9 and inadequate disclosures of relevant information, contrary to Paragraph 15 of the IAS 1. Moreover, due to the erroneous manner of computation with respect to aging of receivable method, the Impairment Loss and Allowance for Impairment accounts were both overstated in the amount of P44.172 million, which is inconsistent with the QC 12 of the CFGPFR.

Further, the faithful representation in the financial statements of the balance of the Other Non-Current Assets (ONCA) – Restricted Funds (RF) account in the amount of P17.504 billion as at December 31, 2021 was not ascertained due to the: (a) net variance of P15.258 million between the balances per books and the confirmed bank balances of the ONCA-RF-Visa Deposits accounts caused by various book reconciling items which remained unreconciled and unadjusted as of year-end; and (b) error on the preparation of Bank Reconciliation Statements and non-maintenance of Subsidiary Ledgers for the accounts of the Retiree-Members, contrary to Paragraph 15 of IAS 1.

Furthermore, the Withholding Tax at Source account included in the Other Current Assets account and Income Tax Payable account with year-end balances of P24.883 million and P102.226 million, respectively, were both overstated by P11.530 million due to the non-recording of transactions pertaining to recognition and utilization of the creditable tax withheld, contrary to COA Circular No. 2020-002 dated January 28, 2020

We were not able to perform alternative procedures to determine if any adjustments to the ONCA-RF, 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 June 11, 2021, we expressed a qualified opinion on the CY 2020 financial statements because, among others, 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.

Likewise, 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 Retained Earnings accounts were overstated by P1.823 million and P0.083 million, respectively, due to erroneous recording of various transactions, contrary to QC 12 of the CFGPFR.

PRA Management has already made the necessary the adjustments in the books to correct the misstatements noted and restated the 2020 financial statements. Accordingly, our present opinion on the restated CY 2020 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, 2021, 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 Audit Sector – Cluster 6

May 10, 2022

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 (PRA)** is responsible for the preparation of the financial statements, including the schedules attached therein, for the years ended **December 31, 2021 and 2020,** in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as Management determines is necessary to enable the preparation of the financial statements that are free from material misstatements, whether due to fraud or error.

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

The Board of Trustees is responsible for overseeing the PRA's financial reporting process.

The Board of Trustees reviews and approves the financial statements, including the schedules attached therein, and submits the same to the stakeholders and other users.

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

PHILIP JOHN B. MORENO
Head, Administrative and Finance Services Department
May 02, 2022
Date Signed

ATTY. BIENVENIDO K. CHY
General Manager and CEO
May 02, 2022
Date Signed

OIC - Undersecretary **REYNALDO LACAO CHING**
Representing Secretary Bernadette Fatima Romulo Puyat
Chairman of the Board of Trustees
May 02, 2022
Date Signed

PHILIPPINE RETIREMENT AUTHORITY
STATEMENTS OF FINANCIAL POSITION
As at December 31, 2021 and 2020
(In Philippine Peso)

	Note	2021	2020 As Restated
ASSETS			
Current Assets			
Cash and cash equivalents	5	349,597,290	250,556,774
Investment in time deposits	6	2,513,411,952	852,116,446
Receivables - net	7	108,325,667	177,146,488
Inventories	8	3,913,224	3,857,816
Other current assets	9	26,322,175	16,648,707
Total Current Assets		**3,001,570,308**	**1,300,326,232**
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	7,540,541	7,043,740
Property, plant and equipment	12	103,221,409	130,679,787
Intangible assets	13	1,579,545	2,323,125
Deferred tax assets	31.3	1,120,401,119	849,413,040
Other non-current assets	14	17,509,673,768	16,611,403,487
Total Non-Current Assets		**18,745,916,382**	**19,032,228,281**
Total Assets		**21,747,486,690**	**20,332,554,513**
LIABILITIES			
Current Liabilities			
Financial liabilities	15	44,988,390	49,908,126
Inter-agency payables	16	115,373,786	48,001,504
Other payables	18	250,457,337	436,997
Total Current Liabilities		**410,819,513**	**98,346,627**
Non-Current Liabilities			
Trust liabilities	17	17,982,092,828	17,057,778,461
Deferred credits/unearned income	19	366,762,803	408,153,641
Provisions	20	10,332,319	10,087,575
Deferred tax liabilities	31.4	908,074,293	618,081,295
Lease Payable	21	65,778,164	84,096,123
Total Non-Current Liabilities		**19,333,040,407**	**18,178,197,095**
Total Liabilities		**19,743,859,920**	**18,276,543,722**
EQUITY			
Government equity	22	63,217,089	63,217,089
Retained earnings	23	1,937,509,681	1,989,893,702
Other comprehensive income	10	2,900,000	2,900,000
Total Equity		**2,003,626,770**	**2,056,010,791**
Total Liabilities and Equity		**21,747,486,690**	**20,332,554,513**

The notes on pages 10 to 60 form part of these statements.

PHILIPPINE RETIREMENT AUTHORITY
STATEMENTS OF COMPREHENSIVE INCOME
For the years ended December 31, 2021 and 2020
(In Philippine Peso)

	Note	2021	2020
Income			
Service income	24.1	559,745,008	558,305,485
Business income	24.2	75,123,904	145,486,999
Gains on forex	24.3	1,175,001,564	798,300,035
Other non-operating income	24.4	649,000	244,871
Total Income		**1,810,519,476**	**1,502,337,390**
Expenses			
Personnel services	26	73,769,315	74,892,439
Maintenance and other operating expenses	27	69,334,238	71,371,675
Financial expenses	29	3,188,652	966,614
Direct costs	25	16,613,302	40,739,928
Loss on foreign exchange (FOREX)	30	1,048,487,221	1,037,415,462
Non-cash expenses	28	160,679,211	32,348,967
Total Expenses		**1,372,071,939**	**1,257,735,085**
Profit before tax		438,447,537	244,602,305
Income tax expense	31.2	90,831,558	29,742,091
Profit after tax		347,615,979	214,860,214
Net assistance/subsidy(financial assistance/subsidy/contribution)		-	-
Net income		347,615,979	214,860,214
Other comprehensive income(loss) for the period	10	-	-
Total Comprehensive Income		**347,615,979**	**214,860,214**

The notes on pages 10 to 60 form part of these statements.

PHILIPPINE RETIREMENT AUTHORITY
STATEMENTS OF CHANGES IN EQUITY
For the years ended December 31, 2021 and 2020
(In Philippine Peso)

	Note	Retained Earnings (As Restated)	Other Comprehensive Income	Government Equity	Total
		23	10	22	
BALANCE AT JANUARY 1, 2020		**1,985,805,615**	**2,900,000**	**63,217,089**	**2,051,922,704**
CHANGES IN EQUITY FOR 2020					
Add/(deduct):					
Comprehensive income		214,860,214	-	-	214,860,214
Dividends	23	(216,373,408)	-	-	(216,373,408.00)
Other adjustments	23	5,601,281	-	-	5,601,281
BALANCE AT DECEMBER 31, 2020		**1,989,893,702**	**2,900,000**	**63,217,089**	**2,056,010,791**
CHANGES IN EQUITY FOR 2021					
Add/(deduct):					
Comprehensive income		347,615,979.00			347,615,979
Dividends	23	(400,000,000.00)			(400,000,000.00)
BALANCE AT DECEMBER 31, 2021		**1,937,509,681**	**2,900,000**	**63,217,089**	**2,003,626,770**

The notes on pages 10 to 60 form part of these statements.

PHILIPPINE RETIREMENT AUTHORITY
STATEMENTS OF CASH FLOWS
For the years ended December 31, 2021 and 2020
(In Philippine Peso)

	Note	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash inflows			
Collection of income/revenue		236,827,461	633,708,848
Collection of receivables		265,494,022	66,934,550
Trust receipts		6,131,960	1,722,834
Other receipts		696,214	754,220
Total cash inflows		**509,149,657**	**703,120,452**
Adjustments		1,230,196	15,039,239
Adjusted cash inflows		**510,379,853**	**718,159,691**
Cash outflows			
Payment of expenses		99,090,091	140,564,821
Purchase of inventories		1,435,076	2,069,513
Grant of cash advances		1,340,627	4,543,891
Prepayments		430,054	1,751,281
Refund of deposits		78,911	134,437
Payments of accounts payable		25,962,730	49,295,544
Remittance of personnel benefit contributions		30,581,700	40,789,463
Other disbursements		9,884,729	86,566,925
Total cash outflows		**168,803,918**	**325,715,875**
Adjustments		9,860,151	7,611,732
Adjusted cash outflows		**178,664,069**	**333,327,607**
Net cash provided by (used in) operating activities		**331,715,784**	**384,832,084**
CASH FLOWS FROM INVESTING ACTIVITIES			
Cash inflows			
Receipt of interest earned		23,367,721	29,316,898
Proceeds from matured investments		76,665,868	330,384,169
Total cash inflows		**100,033,589**	**359,701,067**
Adjustments		-	-
Adjusted cash inflows		**100,033,589**	**359,701,067**
Cash outflows			
Purchase of property, plant and equipment		2,632,950	701,485
Purchase of investments		166,980,012	320,461,309
Total cash outflows		**169,612,962**	**321,162,794**
Net cash provided by (used in) investing activities		**(69,579,373)**	**38,538,273**
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash outflows			
Interest Expenses (Right of Use)		3,181,732	957,289
Repayment of borrowings and leasing liabilities (Right of Use)		18,261,195	19,055,358
Payment of cash dividends		150,000,000	216,373,408
Total cash outflows		**171,442,927**	**236,386,055**
Net cash provided by (used in) financing activities		**(171,442,927)**	**(236,386,055)**
Net increase (decrease) in cash and cash equivalents		**90,693,484**	**186,984,302**
Effects of exchange rate changes on cash and cash equivalents		8,347,032	(53,506,090)
CASH AND CASH EQUIVALENTS, JANUARY 1	5	**250,556,774**	**117,078,562**
CASH AND CASH EQUIVALENTS, DECEMBER 31	5	**349,597,290**	**250,556,774**

The notes on pages 10 to 60 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/or 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. The 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 11 basic needs of man;

c. To provide the organizational framework to encourage foreign investment in its 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 its 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.

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.

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 to the DOT.

As of December 31, 2021, PRA is headed by General Manager and Chief Executive Officer, Atty. Bienvenido K. Chy, assisted by a Deputy General Manager and four Department Managers. The Authority has a total of 161 workforce consisting of 83 regular employees and 78 job order contracts.

The PRA's registered office address is at the 29th Floor, Citibank Tower, 8741 Paseo de Roxas, Makati City, 1200 Philippines. The PRA has four satellite offices operating in major cities, i.e., Angeles (Subic/Clark), Baguio, Cebu and Davao. It can be reached through its website at 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 and Standing Interpretations Committee as approved by the Financial Reporting Standards Council and Board of Accountancy and adopted by the Securities and Exchange Commission.

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 (COA) through COA Circular No. 2017-004 dated December 13, 2017 and PAS 1, *Presentation of Financial Statements.*

3.2 Changes in accounting policies and disclosures

a. New standards and amendments effective in 2021 that are relevant to the PRA

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, 2021:

- 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 Coronavirus Disease 2019 (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 2021 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 PRA'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, 2021 and have not been applied in preparing the financial statements are summarized below:

Effective for annual periods beginning on or after January 1, 2022

- 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 PRA's financial statements.

Effective for annual periods beginning on or after January 1, 2022:

- 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 (PPE) 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 PPE 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.

Effective for annual periods beginning on or after January 1, 2023:

- 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 12 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 as follows:

    - 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 PRA'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 PRA's financial statements.

3.3 Financial Instruments

The PRA 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 (FVTPL), 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 FVTPL ; (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, 2021 and 2020, 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 FVTPL 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 Other Comprehensive Income 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, 2021 and 2020, the PRA has no externally managed funds, hence, no financial assets have been classified under this category.

Below is the PRA'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 years and above = 100%

The PRA's aging of receivable is presented below:

Age	2021	2020
Less than 90 days	63,958,558	18,911,386
91-365 days	103,194,897	14,041,103
Over one year	18,890,345	18,611,334
Over three years	49,265,418	35,644,586
Total	**235,309,218**	**87,208,409**

c. Investments in time deposits

Surplus peso and dollar cash funds of the PRA are placed in Time Deposits, and High Yield (HY) Deposits in government banks, i.e. Land Bank of the Philippines (LBP) and Development Bank of the Philippines (DBP), to generate additional interest income. US Dollar investments are revalued and recorded using the US Dollar rates conversion at the end of the year of P50.999 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 12 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 FVOCI 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 PRA applies an Expected Credit Loss (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 PRA 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 PRA'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 years past due.

It considers a financial asset to be in default when:

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

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

The maximum period considered when estimating ECLs is the maximum contractual period over which the PRA 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 PRA expects to receive). ECLs are discounted at the effective interest rate of the financial asset.

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

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

Retirees who had been delinquent in paying dues for the past three years were sent collection/demand letters or notices. After three 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, the PRA will request authority from the 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 PRA neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the PRA recognizes its retained interest in the asset and an associated liability for the amount it may have to pay. If the PRA retains substantially all the risks and rewards of ownership of a transferred financial asset, the PRA 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 PRA 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 OCI is recognized in profit or loss. A cumulative gain or loss that had been in OCI 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 PRA are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Financial Liabilities

Initial recognition

Financial liabilities are recognized in the PRA's financial statements when it becomes a party to the contractual provisions of the instrument. Financial liabilities are initially recognized at fair value. Transaction costs are included in the initial measurement of the PRA'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 PRA 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 PRA's documented risk management or investment strategy, and information about the PRA 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 PRA derecognizes financial liabilities when, and only, the PRA'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

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 10 per cent 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
Other PPEs	5 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 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 years.

3.6 Intangible Assets

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

Intangible assets acquired separately are initially recognized at cost.

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

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

i. Recognized as an expense when incurred if it is research expenditures;
ii. Recognized as an expense when incurred if it is a development expenditure that does not satisfy the criteria for recognition as an intangible asset; and
iii. Added to the carrying amount of the acquired in-process research or development project if it is a development expenditure that satisfies the recognition criteria for intangible assets.

Intangible assets acquired through non-exchange transactions

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

Internally generated intangible assets

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

Recognition of an expense

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

Subsequent measurement

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

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

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

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

The amortization period and the amortization method, for an intangible asset with a finite useful life, are reviewed at the end of each reporting period. Changes in the expected useful 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.

Research and development costs

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

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

Web Site Costs

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

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

a. Planning – accounted for similar 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 rate or two 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 OCI or directly in equity, in which case, the current and deferred tax are also recognized in OCI 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.

<u>Derecognition of Non-financial assets</u>

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 the 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.

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 PPE, Right-of-Use Assets, Building and Other Structures and Lease Payable accounts and are presented under the PPE and Non-Current Liabilities, respectively in the statement of financial position. *(See Notes 12, 18 and 33)*

3.10 Retained Earnings

Retained Earnings represent accumulated profit attributable to equity holders of the PRA 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 PRA 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 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 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 seven accredited banks and 16 formerly accredited 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 VFs for the conversion of deposits into active investments. The minimum qualifying deposit and VF 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

However, the minimum qualifying age has been raised to at least 50 years old staring April 30, 2021 per Board Resolution No. 4, series of 2021.

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 years were sent collection letters/notices. After three 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 and COA Circular No. 2016-005 dated December 19, 2016.

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 of members not subjected to APF (old members prior to the introduction of the visa options the Courtesy option.

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	PRA	BI
Cancellation (plus BI fee)	US$ 10	₱500 *
Visa downgrade	US$ 10	₱4,020*
Re-stamping (plus BI fee)	US$ 10	₱1,010*
Accreditation – New Marketer	US$ 300	
Accreditation – Renewal – Marketer	US$ 150	
ID Issuance – Marketer (for each additional representative in excess of two	₱300	
Courier Fee (retiree is in the Philippines)	₱150**	
Courier Fee (retiree is abroad)	US$ 20**	
Membership Certification	US$ 5	

**Includes ₱500 per document for BI express lane.*
***Minimum charge, otherwise actual.*

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.

The 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 PRA translated its transactions in CY 2021 and monetary items as at December 31, 2021 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 PRA 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 PRA'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 PRA 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 PRA's risk management framework. The Board has established the PRA's credit, finance, operational risk and executive committees, which are responsible for developing and monitoring the PRA'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 they faced, 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 PRA's Audit Committee is responsible for monitoring compliance with its 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	2021	2020 As Restated
Financial Assets:			
Cash and cash equivalents	5	349,597,290	250,556,774
Investment in time deposits	6	2,513,411,952	2,279,981,548
Receivables, net	7	108,325,667	177,146,488
Investment in stocks	10	3,500,000	3,500,000
Other receivables	11	7,540,541	7,043,740
Restricted fund	14	17,509,673,768	16,611,403,487
		20,492,049,218	**19,329,632,037**

	Note	2021	2020 As Restated
Financial Liabilities:			
Financial liabilities-current	15	44,988,390	49,908,126
Inter-agency payables	16	115,373,786	48,001,504
Trust liabilities	17	17,982,092,828	17,057,778,461
Lease payables	21	65,778,164	84,096,123
Other payables	18	250,457,337	436,997
		18,458,690,505	**17,240,221,211**

4.2 Credit Risk

a. Credit Risk Exposure

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

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

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

The table below shows the gross maximum exposure to credit risk of the PRA as of the years ended December 31, 2021 and 2020, without considering the effects of credit risk mitigation techniques.

	Note	2021	2020
Financial Assets:			
Cash and cash equivalents	5	349,597,290	250,556,774
Investment in time deposits	6	2,513,411,952	2,279,981,548
Receivables – gross	7	235,309,219	131,794,610
Investment in stocks	10	3,500,000	3,500,000
Other receivables – gross	11	12,069,899	11,573,097
		3,113,888,360	**2,677,406,029**

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 PRA 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 PRA'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 PRA 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 PRA might encounter difficulty in meeting obligation from its financial liabilities.

a. Management of Liquidity Risk

The PRA'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 PRA's reputation.

The PRA 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 PRA intends to use internally generated funds and available short-term credit facilities.

As part of its liquidity risk management, the PRA 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 GOCCs.

b. Exposure to Liquidity Risk

The liquidity risk is the adverse situation when the PRA 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 PRA'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 PRA'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 PRA'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 PRA's operations and are faced by all business entities.

The PRA's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the PRA'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; and
- 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:

	2021	2020 As restated
Cash on hand	370,256	1,939,163
Cash in bank-local currency	281,639,844	8,847,075
Cash in bank-foreign currency	67,587,190	239,770,536
	349,597,290	**250,556,774**

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

	Amount
Unrestated amount as of December 31, 2020	251,015,320
Adjustments/Recording of Cash and cash equivalents	(458,546)
Restated amount as of December 31, 2020 - Cash and cash equivalents	**250,556,774**

Cash on hand is composed of various accounts mainly: (a) cash collecting officer – local currency which amounted to P228,561 and P1,072,027 for the years ended December 31, 2021 and 2020, respectively; (b) cash collecting officer – foreign currency which amounted to $2,120.00 and $18,316.28 as of December 31, 2021 and 2020, respectively, and translated into peso amounts using the corresponding year-end closing rates of P50.999:$1 and P48.023:$1 to arrive at the year-end balances of P108,118 and P879,603; (c) Petty Cash Fund amounting to P13,278 and (P26,673), as of December 31, 2021 and 2020, respectively; and (d) Change Funds of P5,000 and P0, as of December 31, 2021 and 2020, respectively for local currency and $500 in foreign currency translated at P50.999:$1 and P48.023:$1 to arrive at the year-end balances of P15,300 and P14,405 for CYs 2021 and 2020, respectively.

Cash in bank – local currency consists of checking and savings accounts with the LBP and the DBP.

Cash in bank – foreign currency consists of savings account with the LBP and the DBP which amounted to $1,325,265.01 and $4,992,827.10 for the years ended December 31, 2021 and 2020, respectively, and translated into peso amounts using the corresponding year-end closing rates of P50.999:$1 and P48.023:$1.

Regular deposits accounts with LBP and DBP earn interest at rates ranging from 0.015 per cent to 0.205 per cent and 0.150 per cent to 0.250 per cent in 2021 and 2020, respectively.

6. INVESTMENTS IN TIME DEPOSITS

This account consists of:

	Current		Non-current	
	2021	2020	2021	2020
Foreign currency time deposits	2,390,482,286	654,484,830	-	1,427,865,102
Investment in HY deposits	122,929,666	197,631,616	-	-
	2,513,411,952	**852,116,446**	**-**	**1,427,865,102**

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

Current foreign currency time deposits with LBP and DBP amounted to US$46,873,120.77 and US$13,628,570.27 as of December 31, 2021 and 2020 and were converted to peso at year-end using the closing rates of P50.999:US$1 and P48.023:US$1, respectively.

Investments in HY deposits with LBP yield interest rates of one per cent in CY 2021 and 1.125 per cent to 1.5 per cent in CY 2020. Current Investments in US$ time deposits with LBP and DBP yield interest rates of 0.15 per cent to two per cent in CY 2021 and 0.195 per cent to two per cent in CY 2020.

Included in the foreign currency time deposits is the Investments in Time Deposits – Restricted account amounting to US$4,039,786.73 and US$2,778,801.97 as of December 31, 2021 and 2020, 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 VD are contra accounts of the interest on VDs payable to retiree, as disclosed in Note 17.

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 years and interest rate of two 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 to two 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:

	2021	2020 As restated
Accounts receivable	60,993,349	87,803,481
Interest receivable	47,332,318	89,343,007
	108,325,667	**177,146,488**

In conformity with PAS No. 8, the Receivables and Allowance for Impairment are restated as follows:

	Amount
Unrestated amount as of December 31, 2020	130,800,554
Adjustments/Recording of Receivables	46,345,934
Restated amount as of December 31, 2020 - Receivables	**177,146,488**

7.1 Accounts receivable consists of:

	2021	2020
VF	50,347,560	47,988,124
Allowance for impairment-VF	(47,512,435)	(37,002,043)
VF – net	*2,835,125*	*10,986,081*
MF	61,697,175	24,228,907
Allowance for impairment-MF	(51,459,749)	-
MF – net	*10,237,426*	*24,228,907*
HF	2,753,379	2,947,700
Allowance for impairment-HF	(2,588,731)	(376,369)
HF – net	*164,648*	2,571,331
APF	120,511,105	56,629,879
Allowance for impairment-APF	(72,754,955)	(6,612,717)
APF – net	*47,756,150*	*50,017,162*
	60,993,349	**87,803,481**

a. **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 VF 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 of EO No. 1037. From SRRV Nos. M-002162 up to M-006392, the VF is one per cent of the VD 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 VD converted	Annual VF collected
US$20,000	US$500 or its peso equivalent
US$50,000	US$750 or its peso equivalent

b. **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' VDs.

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. **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. **APF** pertain to the amount collected from active members (who have not converted their requisite VD into active investment), other than those under the SRRV "Courtesy" scheme, at US$360 for principal retiree and two 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:

	2021	**2020 As restated**
Information material inventory	1,974,854	1,321,920
Accountable forms, plates and stickers	1,358,745	1,421,916
Office supplies inventory	188,459	1,113,980
Medical, dental and laboratory supplies inventory	70,696	-
Drugs and medicine inventory	10,146	-
Other supplies and materials inventory	310,324	-
	3,913,224	**3,857,816**

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

	Amount
Unrestated amount as of December 31, 2020	3,842,006
Adjustments/Recording of Inventories	15,810
Restated amount as of December 31, 2020 - Inventories	**3,857,816**

The information material inventory account pertains to the cost of promotional materials while the Office supplies inventory account pertains to cost of regular office supplies such as bond papers, pens and pencils, etc.

The Drugs and medicine and other medical supplies are COVID-19 related materials and supplies purchased and/or received for use in operations.

Other inventory held for consumption pertains to Visa stickers, accountable forms and plates while the other supplies inventory pertains to information technology consumables such as inks and cartridges.

9. OTHER CURRENT ASSETS

This account consists of the following:

	2021	2020
Creditable withholding tax at source	24,883,456	15,160,203
Advances	141,557	650,156
Prepaid insurance	124,118	95,358
Other prepayments	1,173,044	742,990
	26,322,175	**16,648,707**

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

Advances pertain to cash advances granted to various disbursing officers which remained unliquidated as year-end.

Other prepaid expenses include purchases of supplies from Procurement Service which were already paid but not yet delivered as at year-end.

10. INVESTMENT IN STOCKS

The Investment in Stocks account pertains to investment in proprietary shares of stock of the Baguio Country Club. 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, 2021 and 2020.

11. OTHER RECEIVABLES

This account consists of:

	2021	2020
COA disallowances	5,692,687	5,499,604
Due from officers and employees	1,335,719	1,335,719
Marketers accreditation	677,331	677,331
Other receivables	4,364,161	4,060,443
	12,069,898	**11,573,097**
Allowance for impairment	(4,529,357)	(4,529,357)
	7,540,541	**7,043,740**

COA disallowances pertain to disallowed payment of allowances and expenses which were issued with COA Order of Execution/Notice of Disallowance or Suspension.

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 in 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 MF (*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 Philippine Deposit Insurance Corporation.

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, 2021	152,363,608	42,519,757	18,529,724	6,818,661	220,231,750
Additions	-	2,832,950	-	-	2,832,950
(Disposals/adjustments)	16,183,393	927,978	-	(927,978)	16,183,393
Balance, December 31, 2021	**168,547,001**	**46,280,685**	**18,529,724**	**5,890,683**	**239,248,093**
Accumulated depreciation:					
Balance, January 1, 2021	48,487,761	26,391,457	12,539,967	4,681,708	92,100,893
Additions	24,256,197	4,606,552	827,357	101,222	29,791,328
(Disposals/adjustments)	14,134,463	83,518	-	(83,518)	14,134,463
Balance, December 31, 2021	**86,878,421**	**31,081,527**	**13,367,324**	**4,699,412**	**136,026,684**
Net book value, Dec. 31, 2021	**81,668,580**	**15,199,158**	**5,162,400**	**1,191,271**	**103,221,409**
Net book value, Dec. 31, 2020 – As restated	**106,424,777**	**16,128,300**	**5,989,757**	**2,136,953**	**130,679,787**

In conformity with PAS No. 8, the PPE account is restated as follows:

	Amount
Unrestated amount as of December 31, 2020	128,130,857
Adjustments/Recording of Property, plant and equipment	2,548,930
Restated amount as of December 31, 2020 - Property, plant and equipment	**130,679,787**

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

Included under the PPE are right-of-use assets over the following:

	2021	2020
Office building	100,199,115	100,199,115
Accumulated depreciation	(40,061,506)	(19,303,997)
Net book value	**60,137,609**	**80,895,118**

13. INTANGIBLE ASSETS

The details of the account are as follows:

	Computer software	Website	Total
Cost:			
Balance, January 1, 2021	2,796,000	1,335,000	4,131,000
Additions	-	-	-
(Disposals/adjustments)	-	-	-
Balance, December 31, 2021	**2,796,000**	**1,335,000**	**4,131,000**
Accumulated depreciation:			
Balance, January 1, 2021	1,267,200	540,675	1,807,875
Additions	503,280	240,300	743,580
(Disposals/adjustments)	-	-	-
Balance, December 31, 2021	**1,770,480**	**780,975**	**2,551,455**
Net book value, Dec. 31, 2021	**1,025,520**	**554,025**	**1,579,545**
Net book value, Dec. 31, 2020	**1,528,800**	**794,325**	**2,323,125**

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

14. OTHER NON-CURRENT ASSETS

This account consists of:

	2021	2020 As restated
Restricted funds	17,504,288,868	16,606,181,452
Guaranty deposits	5,384,900	5,222,035
	17,509,673,768	**16,611,403,487**

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

	Amount
Unrestated amount as of December 31, 2020	16,611,403,737
Adjustments/Recording of Other non-current assets - net	(250)
Restated amount as of December 31, 2020 - Other non-current assets	**16,611,403,487**

Restricted fund (RF) represents the required visa deposit from the retiree-members which are deposited with the DBP totalling US$343,228,080 and US$345,796,419 as of December 31, 2021 and 2020, and translated into peso amounts using the corresponding year-end closing rates of P50.999:US$1 and P48.023:US$1, respectively. Details are as follows:

	2021		2020	
	Amount (in USD)	Amount (In Peso)	Amount (In USD)	Amount (In Peso)
RF-VD-Receiving	339,623,688	17,320,468,453	336,984,463	16,183,004,877
RF-VD-Disbursing	3,131,117	159,683,837	8,328,163	399,943,356
RF-Interest on VD	473,275	24,136,578	483,794	23,233,219
Total Restricted Fund	**343,228,080**	**17,504,288,868**	**345,796,420**	**16,606,181,452**

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

The RF-VD-Receiving and Disbursing accounts are the contra-accounts of VD of Retiree-Members account under Note 17 – Trust Liabilities.

RF-Interest on VD account pertains to the accumulated interests earned from the Restricted Funds still not 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 VD, including those placed in TDs and part of Cash in Bank-Foreign Currency with DBP SA 0405-018674-530 (Restricted), is the contra-account of the Interest on VD under Note 17 – 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 Philippine Long Distance Telephone Company.

15. FINANCIAL LIABILITIES

This account consists of the following:

	2021	2020 As restated
Accounts payable	42,349,435	48,372,476
Due to officers and employees	2,638,955	1,535,650
	44,988,390	**49,908,126**

In conformity with PAS No. 8, the Financial liabilities account is restated as follows:

	Amount
Unrestated amount as of December 31, 2020	49,945,170
Adjustments/Recording of Financial liabilities	(37,044)
Restated amount as of December 31, 2020 - Financial liabilities	**49,908,126**

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:

	2021	2020
Due to BIR	109,427,180	38,243,354
Due to GSIS	2,813,953	6,311,339
Due to Pag-IBIG fund	188,933	170,010
Due to PhilHealth	168,987	144,568
Due to NGAs (BI)	2,101,737	2,082,283
Due to LBP	672,996	1,049,950
	115,373,786	**48,001,504**

Due to BIR represents the last quarter income tax and withholding taxes on compensation, Value-Added Tax (VAT) and Expanded Withholding Tax 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 account pertains to liability to the BI for the processing of applications for SRRV.

17. TRUST LIABILITIES

This account consists of:

	2021	2020
Visa deposits of retiree-members	17,754,604,976	16,852,906,686
Interest on visa deposits	220,835,907	198,866,794
Customers' deposit payable	6,348,428	5,785,418
Guaranty/security deposits payable	303,517	219,563
	17,982,092,828	**17,057,778,461**

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

	Amount
Unrestated amount as of December 31, 2020	17,057,764,813
Adjustments/Recording of Trust liabilities	13,648
Restated amount as of December 31, 2020 - Trust liabilities	**17,057,778,461**

Visa deposits of retiree-members account pertains to the outstanding VD 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-VD- Receiving and RF- VD-Disbursing under Note 14 – RF. This account amounted to US$348,136,335 and US$350,934,067 for the years ended December 31, 2021 and 2020, respectively, and

was translated into peso amounts using the corresponding year-end closing rates of P50.999:US$1 and P48.023:US$1.
Interest on VD pertains to the liability of the PRA to Members/SRRV holders for their accumulated interest share on the interest income earned from their VD with the DBP.

Interest on VD is the contra account of the Investments in TD-Foreign Currency-Restricted and RF-Interest on VD accounts under Note 6 – Investment in TD and Note 14 – RF, respectively. The account with balance of US$4,330,201 and US$4,141,704 as of December 31, 2021 and 2020, respectively, was translated to peso amounts using the corresponding year-end closing rates of P50.999:US$1 and P48.023:US$1.

18. OTHER PAYABLES

This account consists of:

	2021	2020 As restated
Dividends payable	250,000,000	-
Other payables	457,337	436,997
	250,457,337	**436,997**

Dividends payable was set up on December 31, 2021 representing additional dividends for CY 2019 net earnings per Board Resolution No. 10 series of 2021 which shall be remitted to the Bureau of the Treasury.

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

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

	Amount
Unrestated amount as of December 31, 2020	77,655,615
Adjustments/Recording of Other payables	(77,218,618)
Restated amount as of December 31, 2020 – Other payables	**436,997**

19. DEFERRED CREDITS/UNEARNED INCOME

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

	2021	2020 As restated
Annual PRA fee	354,599,582	394,202,907
Visitorial fee	8,256,932	9,734,425
Registration/ID fee	2,894,869	2,897,333
Harmonization fee	948,310	1,255,866
Accreditation fee	63,110	63,110
	366,762,803	**408,153,641**

In conformity with PAS No. 8, the Deferred credits/unearned income account is restated as follows:

	Amount
Unrestated amount as of December 31, 2020	372,147,736
Adjustments/Recording of Deferred credits/unearned income	36,005,905
Restated amount as of December 31, 2020 – Deferred credits/unearned income	**408,153,641**

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

20. PROVISIONS

This account pertains mainly to the money value of unused leave benefits of regular employees amounting to P10.332 million and P10.088 million as of December 31, 2021 and 2020, respectively.

21. LEASE PAYABLE

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)*.

This account consists of the following of the recorded lease liabilities net of the accumulated lease payments as of the report dates, as follows:

Lessor/Location	Lease Term	2021	2020
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	34,977,555	34,977,555
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	63,588,917	63,588,917
J.A.D. Savers Development Co., Inc. 4th Floor, Saver's Mall, Balibago, Angeles City, Philippines	October 29, 2020 to October 28, 2023	1,632,643	1,632,643
Total		100,199,115	100,199,115
Less: Accumulated Lease payment		34,420,951	16,102,992
Outstanding Balance		**65,778,164**	**84,096,123**

In conformity with PAS No. 8, the Lease payable account is restated as follows:

	Amount
Unrestated amount as of December 31, 2020	-
Adjustments/Recording of Lease payable	84,096,123
Restated amount as of December 31, 2020 - Lease payable	**84,096,123**

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 P63,217,089. There were no additions nor reductions of the amount during CY 2021.

23. RETAINED EARNINGS

	2021	2020
Retained Earnings, January 1	1,989,893,702	1,985,805,615
Dividend paid during the year	(400,000,000)	(216,373,408)
Net income for the year	347,615,979	214,860,214
Other adjustments, net		5,601,281
Retained earnings, December 31	**1,937,509,681**	**1,989,893,702**

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

	Amount
Unrestated amount as of December 31, 2020	1,984,292,421
Adjustment for prior period errors	5,601,281
Restated amount as of December 31, 2020 – Retained Earnings	**1,989,893,702**

24. INCOME

This account consists of the following:

	2021	2020
Service income	559,745,008	558,305,485
Business income	75,123,904	145,486,999
Gains on forex	1,175,001,564	798,300,035
Other non-operating income	649,000	244,871
	1,810,519,476	**1,502,337,390**

24.1 Service Income

This account consists of:

	2021	2020
Annual PRA fee	292,253,339	307,729,161
Visa application fee	52,165,856	91,333,900
Management fee	182,369,072	132,203,379
Visitorial fee	23,059,511	7,374,140
Registration/ID fee	5,332,337	14,602,710
Processing fee	2,636,949	2,305,553
Harmonization fee	1,927,944	2,756,642
	559,745,008	**558,305,485**

APF pertains to the annual fee collected from active members at US$360 for the principal retiree and two 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.

MF are collected from private banks where retiree-members maintain their VD computed at agreed rates based on the outstanding amount of deposits. Presently there are nine accredited private banks maintaining VD of retiree-members and 16 previously accredited private banks that still have some retirees' VD remaining with them and not yet transferred including that of Bankwise Inc. (*see Note 11*).

VF represents the annual fee due from retirees who have converted their requisite VD 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:

	2021	2020
Interest income	75,121,304	145,461,999
Other business income	2,600	25,000
	75,123,904	**145,486,999**

24.3 Gains on Forex

This account consists of:

	2021	2020
Realized gains on forex	15,029,570	11,299,234
Unrealized gains on forex	1,159,971,994	787,000,801
	1,175,001,564	**798,300,035**

24.4 Other Non-operating Income

Other Non-operating income account pertains to Miscellaneous Income amounting to P649,000 and P244,871 in CYs 2021 and 2020, respectively.

25. DIRECT COST

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

	2021	2020
Marketers' fee	10,690,387	23,438,968
Bureau of Immigration (BI) fee	4,654,470	13,783,352
Medical examination fee	-	864,000
Visa stickers and IDs and membership kits	1,268,445	2,653,608
	16,613,302	**40,739,928**

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 137 and 166 accredited marketers in CYs 2021 and 2020, respectively, that were able to enroll a total of 546 principal retiree-applicants in CY 2021 and 944 principal retiree-applicants in CY 2020.
The 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. This has been discontinued in 2021 and applicants were required to shoulder the cost of medical examination.

26. PERSONNEL SERVICES

This account consists of the following:

	2021	2020
Salaries and wages	47,146,037	47,384,066
Other compensation	16,324,596	15,590,428
Benefits contribution	6,198,310	6,174,505
Other benefits	4,100,372	5,743,440
	73,769,315	**74,892,439**

26.1 Other Compensation

	2021	2020
Year-end bonus	3,985,943	4,051,070
Mid-year bonus	3,979,921	3,977,615
Personnel economic relief allowance	1,978,371	1,978,275
Overtime pay	1,399,406	766,803
Representation allowance	1,169,500	1,182,00
Transportation allowance	1,044,955	1,006,235
Longevity pay	826,000	862,000
Clothing/uniform allowance	498,000	510,000
Cash gift	421,000	450,430
Productivity incentive allowance	401,000	416,000
Other bonuses and allowances	-	237,000
Hazard pay	620,500	153,000
	16,324,596	**15,590,428**

26.2 Benefits Contribution

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

	2021	2020
Retirement and life insurance premium	5,406,300	5,378,037
PhilHealth contribution	598,310	598,668
Pag-IBIG fund contribution	96,850	98,900
Employees compensation insurance premium	96,850	98,900
	6,198,310	**6,174,505**

26.3 Other Benefits

Other benefits account pertains to earned leave benefits of regular employees including terminal leaves paid to retired/resigned employees.

27. MAINTENANCE AND OTHER OPERATING EXPENSES

This account consists of the following:

	2021	2020
Professional services	6,271,413	4,572,411
Repairs and maintenance	3,853,025	9,358,053
Traveling expenses	3,305	432,893
Communication expenses	5,716,612	5,597,446
Supplies and materials	2,942,450	2,684,672
Utility expenses	752,535	908,831
Training and scholarship expenses	138,854	373,772
Taxes, insurance premiums and other fees	277,620	853,263
General services	23,277,982	21,134,261
Confidential, intelligence and extraordinary expenses	32,660	1,600
Other maintenance and operating expenses	26,067,782	25,454,473
	69,334,238	**71,371,675**

27.1 Professional Services

	2021	2020
Auditing services	2,593,741	3,159,091
Consultancy services	2,655,582	324,320
Legal services	1,022,090	1,089,000
	6,271,413	**4,572,411**

27.2 Repairs and Maintenance

	2021	2020
Machinery and equipment	3,145,602	7,186,256
Buildings and other structures	209,543	1,833,486
Furniture and fixtures	472,580	90,777
Transportation equipment	25,300	247,534
Leasehold improvement	-	-
	3,853,025	**9,358,053**

27.3 Traveling Expenses

	2021	2020
Traveling expenses – local	3,305	432,893
Traveling expenses – foreign	-	-
	3,305	**432,893**

Local marketing traveling expenses include P0 and P77,404 for CYs 2021 and 2020, respectively.

27.4 Communication expenses

	2021	2020
Internet subscription expenses	4,096,900	4,340,998
Telephone expenses	920,171	879,370
Postage and courier services	695,141	350,678
Cable, satellite, telegraph and radio expenses	4,400	26,400
	5,716,612	**5,597,446**

27.5 Supplies and Materials

	2021	2020
Office supplies expenses	1,809,350	1,793,237
Fuel, oil and lubricants expenses	919,645	516,464
Accountable forms expenses	30,974	59,092
Drugs and medicines expenses	182,196	193,379
Semi-Expendable Machinery and Equipment Expense	-	122,500
Other supplies and materials expenses	285	-
	2,942,450	**2,684,672**

27.6 Utility Expenses

Utility expenses represent those incurred by the PRA for electric consumption during CYs 2021 and 2020 totaling to P752,535 and P908,831, respectively.

27.7 Training and Scholarship Expenses

Training and scholarship expenses pertain to various seminars and conferences attended by employees amounting to P138,854 and P373,772 for CYs 2021 and 2020, respectively.

27.8 Taxes, Insurance Premiums and Other Fees

	2021	2020
Fidelity bond premiums	104,175	189,548
Taxes, duties and licenses	30,886	526,578
Insurance expenses	142,559	137,137
	277,620	**853,263**

27.9 General Services

	2021	2020
Security services	417,407	324,984
Other general services	22,860,575	20,809,277
	23,277,982	**21,134,261**

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 PRA in CYs 2021 and 2020 amounting to P32,660 and P1,600, respectively.

27.11 Other Maintenance and Operating Expenses

	2021	2020
Advertising, promotional and marketing expenses	14,211,728	16,353,216
Rent/lease expenses	655,791	2,034,709
Representation expenses	2,101,588	1,931,338
Membership dues and contributions to organizations	4,998,072	4,977,568
Major events and convention expenses	480,000	-
Transportation and delivery expenses	141,821	86,968
Printing and publication expenses	77,693	17,280
Subscription expenses	3,089,099	15,269
Other maintenance and operating expenses	311,990	38,125
	26,067,782	**25,454,473**

28. NON-CASH EXPENSES

	2021	2020
Depreciation		
Machinery and equipment	4,606,552	4,892,066
Building and other structures	3,998,688	4,216,798
Furniture and fixtures	101,222	172,702
Transportation equipment	827,357	878,378
Right of use (ROU)	20,257,509	17,937,023
	29,791,328	**28,096,967**
Amortization-intangible assets	743,580	766,050
Impairment loss-loans and receivables	130,144,304	3,485,950
Loss on sale of PPE	-	-
	160,679,212	**32,348,967**

29. FINANCIAL EXPENSES

This account consists of:

	2021	2020
Bank charges	6,920	9,325
Interest expense for leasing arrangements	3,181,732	957,289
	3,188,652	**966,614**

Finance costs for the reporting periods consist of the following:

	2021	2020
Interest expense for borrowings at amortized cost	-	-
Interest expense for leasing arrangements	3,181,732	957,289
	3,181,732	**957,289**

30. LOSS ON FOREIGN EXCHANGE (FOREX)

This account consists of:

	2021	2020
Realized loss on forex	3,194,987	70,367,382
Unrealized loss on forex	1,045,292,234	967,048,080
	1,048,487,221	**1,037,415,462**

Unrealized loss on forex amounting to P1.045 billion and P967.048 million as at December 31, 2021 and 2020, resulted in the translation of monetary assets and liabilities denominated in US Dollars using the year-end closing rates of P50.999:US$1 and P48.023: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 BIR the income tax as required under the Corporate Income Tax Law, and monthly all taxes withheld by the PRA from its suppliers/stakeholders in compliance with the existing Revenue Regulations on the taxes withheld on Government Money Payments.

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 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:

	2021	2020
Income tax expense – current	71,826,639	89,897,068
Income tax expense – deferred	19,004,919	(60,154,977)
Total	**90,831,558**	**29,742,091**

The details of statutory reconciliation are provided below:

	2021	2020
Income tax at statutory rate	109,611,884	73,380,691
Permanent differences:		
Interest income subject to final tax	(18,780,326)	(43,638,600)
Income tax expense	**90,831,558**	**29,742,091**

31.3 Deferred Tax Assets

This account consists of the following:

	2021	2020
Unrealized loss on FOREX	983,999,111	722,676,053
Unearned income	91,690,701	111,644,321
Allowance for impairment	44,711,307	15,092,666
Total	**1,120,401,119**	**849,413,040**

31.4 Deferred Tax Liabilities

This account consists of:

	2021	2020
Unrealized gain on forex	908,074,293	618,081,295
Total	**908,074,293**	**618,081,295**

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 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:

	2021	2020
Salaries and wages	8,399,971	7,973,948
Other compensation	2,713,595	2,649,012
Other personnel benefits	32,660	1,600
	11,146,226	**10,624,560**

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 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 PPE (see *Note 3.9*).

Leases for satellite offices are generally of low-value or short term for a maximum period of 12 months. The 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. The 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 PPE 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	100,199,115	-	40,061,505	-

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	95,325,922
Adjustments	4,873,193
As at January 1, As adjusted	**100,199,115**
New lease liabilities	-
Interest expense	4,139,021
Payments	(38,559,972)
As at December 31, 2020	**P65,778,164**

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

	2021	2020
Depreciation expense of leased assets, building and other structures	20,257,509	17,937,023
Interest expense on finance lease liability	3,181,732	957,289
Total amount recognized in Statement of Comprehensive income	**23,439,241**	**18,894,312**

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, 2021, 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:

	2021	2020
Rent payable within:		
One (1) year	20,994,328	19,295,971
More than one (1) year up to five (5) years	43,834,771	63,906,066
Beyond five (5) years	-	-
Total	**64,829,099**	**83,202,037**

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:

	2021	2020
Short-term lease	543,986	534,144
Leases of low value assets	119,574	69,708
Variable lease payments	-	-
Total	**663,560**	**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, 2021 and 2020 are as follows:

	2021	2020
Creditable (Expanded)	3,340,948	5,028,626
Compensation and benefits	6,269,135	8,089,895
Creditable (VAT)	2,141,606	2,830,378
Total	**11,751,689**	**15,948,899**

b. Other Taxes & Licenses:

	2021	2020
Local		
Community tax	10,500	10,500
National		
BIR annual registration (Exempted)	-	-

35. LEGAL CASES

The PRA has a peding 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, 2021, parties entered into compromise agreements except for one 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 Trust Liabilities – Visa Deposits and Interest Payable accounts having a total balance of P17.975 billion were not ascertained due to the unaccounted net discrepancy of P191.300 million in absolute amount, compared to the balances of its contra assets accounts totaling P17.784 billion, contrary to Paragraph 15 of the International Accounting Standard 1.

1.1 Paragraph 15 of the International Accounting Standard (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*

1.2 Relative to the Smile Retirement Program of the PRA, a qualified foreigner retiree may avail of a Special Resident Retiree Visa (SRRV) and shall be accorded with benefits and incentives such as grants of certain tax exemptions, balikbayan privileges, among others. As a policy, the retiree must open and maintain a dollar time deposit (TD) through inward remittance with the Development Bank of the Philippines (DBP) or with a bank duly accredited by PRA and this shall be treated as Visa Deposit (VD).

1.3 All VDs maintained at the DBP and placed in TD are recorded in the PRA's books under the Other Non-Current Asset (ONCA) Restricted Fund (RF)-VD-Receiving account and Trust Liability-VDs account is set up. Should the retiree decide to withdraw the VD from the DBP, his/her TD shall be terminated/pre-terminated while the PRA issues the retiree's withdrawal clearance to the said bank. Prior to withdrawal, the corresponding amount is transferred from the ONCA RF-VD-Receiving account to ONCA-RF–VD-Disbursing account so that upon termination of the retiree's membership and cancellation of the SRRV, the VD is released by the DBP to the retiree chargeable to the latter.

1.4 Moreover, the interests earned by the placed TDs of the retirees are taken up in the books under accounts RF-Interest on VDs, Investments in TDs-Foreign Currency (FC) - Restricted, Interests Receivable-VD-Retiree Share, and Cash in Bank-FC, Savings Account (SA) DBP. Similar with the VDs, these are also held in trust by the PRA thus their counter liability account is the TL-Interest Payable (IP) on VDs account.

1.5 Sound accounting practice dictates that the balances of trust liabilities accounts and their contra accounts must be equal at all times. Examination of Accounting records covering the aforementioned accounts disclosed that the year end balance of the the TL-VDs and TL-IPs differ by P274.453 million and (P83.153) million, respectively or a total net amount of P191.300 million compared with the total balances of its contra-asset accounts, presented as follows:

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

Particulars	Visa Deposits	Interest	Total
Trust Liabilities			
Trust Liabilities – Visa Deposits	17,754,604,976		17,754,604,976
Trust Liabilities-Interest on Visa Deposits		220,835,907	220,835,907
Total Trust Liabilities	**17,754,604,976**	**220,835,907**	**17,975,440,883**
Less: Contra-Asset Accounts			
ONCA - Restricted Fund-Visa Deposits-Receiving	17,320,468,453		17,320,468,453
ONCA - Restricted Fund-Visa Deposits-Disbursing	159,683,837		159,683,837
ONCA - Restricted Fund - Interest on Visa Deposits		24,136,578	24,136,578
Investments in TD - FC		206,025,083	206,025,083
ONCA - Interests Receivable-Visa Deposit - Retiree Share		1,936,819	1,936,819
Cash in Bank-Foreign Currency, SA DBP		71,890,158	71,890,158
Total Contra-asset accounts	**17,480,152,290**	**303,988,638**	**17,784,140,928**
Discrepancy (net)	**274,452,686**	**(83,152,731)**	**191,299,955**

1.6 This observation has been raised by the Audit Team in previous years' audit, yet these discrepancies had continued and remained relatively high. The Financial Management Division (FMD) explained that they could not give/identify the cause/s of the discrepancies due to the volume of VD transactions.

1.7 As to the TL-IP account, several adjustments were made by the FMD during the year to implement the prior year's audit recommendations which include the manner of recording the retiree's share on interest from the VDs placed with the DBP as this was one of the causes of the discrepancy. The FMD explained that new accounts and accounting instructions were established to deal with the change in the bookkeeping procedures for proper recording and monitoring of the interests. Nonetheless, a discrepancy of (P83.153) million between the TL-IP account and its contra-account account still existed.

1.8 In view of the foregoing, the correctness and reliability of the TL – VD, and TL-IP accounts having balances of P17.755 billion and P220.836 million, respectively, cannot be ascertained, thus, affecting the fair presentation of the balances of the accounts in the financial statements as at December 31, 2021, contrary to Paragraph 15 of the IAS 1.

1.9 **We recommended that the Management direct the concerned personnel of FMD to expedite and exert all efforts to reconcile the balances of the Trust Liabilities – VD and IP with their contra accounts, ONCA-RFs-VDs, Interest Receivable-VDs, Investment in TDs-Foreign Currency-RF and Cash in Bank-Foreign Currency-SA accounts considering the substantial amount of discrepancies noted. If necessary, assign additional personnel who will be tasked exclusively for the monitoring and reconciliation of the said discrepancies.**

1.10 The Management commented that they acknowledge the audit observation and will fast track the reconciliation of the accounts.

1.11 As a rejoinder, the Management's full implementation of the recommendations shall be monitored by the Audit Team in the CY 2022 audit.

2. The Deferred Tax Asset, Deferred Tax Liability, and Retained Earnings accounts were overstated by P52.752 million; P39.350 million; and P27.909 million respectively, while the Income Tax Expense account was understated by P13.402 million, due to the misapplication of the corporate income tax rate of 30 per cent instead of tax rate of 25 per cent, contrary to Paragraphs 47 and 51 of the International Accounting Standard (IAS) 12. Likewise, various transactions pertaining to deferred tax cannot be verified due to non-maintenance of subsidiary ledgers, contrary to Qualitative Characteristic 26 of the Conceptual Framework of General Purpose Financial Reporting. Moreover, the significant accounting policies and relevant information about the deferred tax were not disclosed in the financial statements, contrary to Paragraphs 79 to 81 of the IAS 12.

Misapplication of corporate income tax rate of 30 per cent in the computation of adjustments instead of new tax rate of 25 per cent per Section 6 of Republic Act No. 11534

2.1 Paragraph 47 of IAS 12 provides for the measurements of the Deferred Tax Asset (DTA) and Deferred Tax Liability (DTL) accounts, as follows:

> *Deferred tax assets and liabilities shall be measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.*

2.2 Paragraph 51 of the same standard further provides that, "*The measurement of deferred tax liabilities and deferred tax assets shall reflect the tax consequences that would follow from the manner in which the entity expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.*"

2.3 In CY 2019 up to June 30, 2020, the prescribed corporate tax rates was 30 per cent. Effective July 1, 2020, the rate was reduced to 25 per cent per Bureau of Internal Revenue (BIR) Revenue Regulations No. 5-2021 dated April 8, 2021. This is pursuant to the enactment of Republic Act (RA) No. 11534, otherwise known as the Corporate Recovery and Tax Incentives for Enterprises Act (CREATE). Section 6 thereof provides that:

> *Section 6. Section 27 of the National Internal Revenue Code of 1997, as amended, is hereby further amended to read as follows:*
>
> *Sec. 27.* Rates of Income Tax on Domestic Corporations. –

(A) In General. – *Except as otherwise provided in this Code, an income tax rate of twenty-five percent (25%) effective July 1, 2020, is hereby imposed upon the taxable income derived during each taxable year from all sources within and without the Philippines by every corporation xxx.*

2.4 For CYs 2019 to 2021, the temporary difference arising from the computed excess of taxable income over the accounting income and the corresponding Income tax expenses (income) – deferred tax (liability) are shown in Table 2.

Table 2 – Summary of Temporary Differences for CYs 2019 to 2021

CY	Accounting Income	Taxable Income	Excess of Tax over Book	Applied Tax Rate	Temporary Difference
2019	P414,643,089.93	P539,052,116.49	P124,409,026.56	30%	P37,322,707.97
2020	P99,155,732.72	P299,672,322.39	P200,516,589.67	30%	P60,154,976.90
2021	P363,326,233.19	P287,306,555.62	(P76,019,677.60)	25%	(P19,004,919.39)

2.5 Meanwhile, in PRA, the components of the DTA are Allowance for Impairment Loss (AFIL) on Receivables, Unearned Income, and Unrealized Loss while for DTL, the Unrealized Gain on Foreign Exchange. The DTA and DTL accounts were adjusted at year-end only, instead of per transaction of each component account. The net difference between the DTA and DTL accounts was adjusted to the income tax payable account at year-end.

2.6 As mentioned in paragraph 2.3, the tax rate effective July 1, 2020 was 25 per cent. Audit disclosed that the said rate was not applied in the setup of the DTA and DTL accounts from July to December 2020, and the 30 per cent rate was still used. Moreover, in CY 2021, the tax rate used in the realization of CYs 2019 and 2020 DTA and DTL components was 25 per cent instead of the 30 per cent previously used on their setup.

2.7 There was no adjustment made in the current year to correct the misapplied tax rate for the period July to December 2020 and CY 2021, thus, the difference of five per cent on the DTA and DTL accounts previously recognized in CYs 2019 - 2020 remained unadjusted which resulted in their overstatement by P52.752 million and P39.350 million, respectively, as of December 31, 2021.

Table 3 - Details of Misstatements on DTA and DTL due to Misapplication of Tax Rates

DTA (DTL) Composition	Net Movements - 2021		Cumulative Difference
	Per FS (30%)	Should be (30% / 25%)	
Allowance for Impairment	P29,618,640.61	P32,140.322.21	(P2,222,111.63)
Unrealized Loss on FOREX	261,323,058.70	261,323,058.70	*48,352,403.99
Unearned Income	(19,953,620.17)	(7,967,573.47)	6,621,340.10
Total DTA	**P270,988,079.14**	**P285,495,807.44**	**P52,751,632.46**
Unrealized Gain on FOREX	(P289,992,998.53)	(P289,992,998.53)	*P39,350,040.04
Total DTL	**(P289,992,998.53)**	**(P289,992,998.53)**	**P39,350,040.04**

* *Pertains to the difference in CY 2020 net movements using the 30% and 25% tax rate*

2.8 The overstatement on the DTA and DTL accounts in CYs 2020 and 2021, in effect, overstated the Retained Earnings account and understated the Income Tax Expense (ITE) - current account by P27.909 million and P13.402 million, respectively, details are shown in Table 4.

Table 4 - Effect of Misapplication of Tax Rates to DTA, DTL, ITE and Retained Earnings

CY	DTA	DTL	ITE/Retained Earnings
2020	P67,259,360.75	P39,350,040.04	(P27,909,320.71)
2021	52,751,632.46	39,350,040.04	(13,401,592.42)
Total			**(P41,310,913.13)**

2.9 The FMD should have anticipated such tax rate change as this has significant impact on the income tax preparation and to other related accounts in the financial statements. Moreover, adjustments could have been made as early as the first quarter of CY 2021 or in the preceding reporting date to correct the previous recognition of CY 2020 DTA and DTL.

2.10 In view of the misapplication of the tax rate, the DTA, DTL and Retained Earnings accounts were overstated by P52.752 million; P39.350 million; and P27.909 million, respectively, while the Income tax expense account was understated by P13.402 million, thereby, affecting the fair presentation of the said accounts in the financial statements as of December 31, 2021.

Non-maintenance of subsidiary ledgers for the transactions pertaining to DTA and DTL accounts, contrary to Qualitative Characteristics 26 of the Conceptual Framework for General Purpose Financial Reporting

2.11 Meanwhile, it was also noted that the PRA's practice of merely using the net movements (year-end balance) of the accounts in the computation of the DTA and DTL adjustments was due to non-maintenance by the FMD of the required subsidiary ledgers (SL), contrary to Qualitative Characteristic (QC) 26 of Conceptual Framework of General Purpose Financial Reporting (ICFGPFR) which provides that:

> *Verifiability is the quality of information that helps assure users that information in GPFRs faithfully represents the economic and other phenomena that it purports to represent. Supportability is sometimes used to describe this quality when applied in respect of explanatory information and prospective financial and non-financial quantitative information disclosed in GPFRs—that is, the quality of information that helps assure users that explanatory or prospective financial and nonfinancial quantitative information faithfully represents the economic and other phenomena that it purports to represent. Xxx*

2.12 All related transactions were merely lumped in one amount to arrive at the net movement instead of recording each transaction in the SL to show the details of said movement, thus the tax rate appropriate for each transaction cannot be applied. The use of inappropriate tax rate of 30 per cent could have been avoided had the FMD maintained the required SL. The Audit Team was not able to validate the transactions as there were many related transactions affecting the subject accounts. To facilitate analysis and to ensure that amounts reported in the financial statements are supported and verifiable, it is imperative that the FMD maintains the required SL.

Relevant information relating to Deferred Tax Assets, Deferred Tax Liabilities and Income Tax Expense were not fully disclosed in the Notes to Financial Statements, contrary to Paragraphs 79 – 81 of the International Accounting Standards 12

2.13 IAS 12 provides the following provisions as part of the disclosure requirements on the DTA, DTL and income taxes, quoted hereunder:

> *79 The major components of tax expense (income) shall be disclosed separately.*
>
> *80 Components of tax expense (income) may include:*
> *xxx*
> *(d) the amount of deferred tax expense (income) relating to changes in tax rates or the imposition of new taxes; xxx*
>
> *81 The following shall also be disclosed separately:*
> xxx
> (*c) an explanation of the relationship between tax expense (income) and accounting profit in either or both of the following forms:*
> *(i) a numerical reconciliation between tax expense (income) and the product of accounting profit multiplied by the applicable tax rate(s), disclosing also the basis on which the applicable tax rate(s) is (are) computed;*
> *xxx*
> *(d) an explanation of changes in the applicable tax rate(s) compared to the previous accounting period;*
>
> *(e) the amount (and expiry date, if any) of deductible temporary differences, unused tax losses, and unused tax credits for which no deferred tax asset is recognized in the statement of financial position;*
> *xxx*
> *(g) in respect of each type of temporary difference, xxx:*
>
> *(i) the amount of the deferred tax assets and liabilities recognized in the statement of financial position for each period presented;*
>
> *(ii) the amount of the deferred tax income or expense recognized in profit or loss, if this is not apparent from the changes in the amounts recognized in the statement of financial position; xxx.*

2.14 In the course of audit, it was noted that relevant information pertaining to the DTA, DTL and ITE accounts were either not disclosed or inadequately disclosed in the Notes to Financial Statements (NTFS), which is not in accordance with the above standard. As verified, there were no disclosures as to the recognition of income tax expense during the period and no explanation was provided on the cause/s of the increase or decrease of the DTA and DTL accounts notwithstanding the significant change in amounts.

2.15 It was further verified that the corporate tax rate used was not even disclosed in the NTFS including its basis of application. The details of the ITE – Current that would provide information on how taxable income and ITE – Current were arrived at, were not likewise reflected in the NTFS. In addition, the effect of the change in the tax rate caused by the CREATE law between the previous and current accounting periods, or any amount of adjustment made by the PRA to that effect was not disclosed in the NTFS.

2.16 Further, the non-disclosure in the NTFS of the required financial information about the deferred taxes and income tax expenses limits the information available to the users of the Financial Statements which preclude them from obtaining relevant information as well as proper assessment of the effect of deferred taxes on PRA's financial position, financial performance, and/or cash flows. The financial statements of the PRA should not be deemed as compliant with International Financial Reporting Standards (IFRS), unless all the requirements of IFRSs were complied with.

2.17 **We recommended that Management instruct the concerned personnel of the FMD to:**

a. Effect the necessary adjustments to correct the overstatement of the DTA, DTL and Retained Earnings accounts in the amounts of P52.752 million; P39.350 million; and P27.909 million, respectively, and the understatement of the ITE account by P13.402 million to fairly present the said accounts in the financial statements as of December 31, 2021;

b. Maintain SL for the DTA and DTL accounts that would serve as supporting document for verification and monitoring purposes to ensure accurate information as well as facilitate the preparation of detailed schedules for DTA and DTL and income tax returns;

c. Keep abreast with the new rules and regulations to strictly and timely comply with the taxation requirements prescribed by the Government or the BIR, in particular; and

d. Disclose all the necessary information about the deferred taxes and income taxes in compliance with the disclosure requirements under Paragraphs 80-81 of IAS 12 to ensure that complete information shall be available to the users of the Financial Statements.

2.18 The Management commented that they acknowledge the audit observation on the deferred taxes and the FMD shall make the necessary adjustments to the DTA and DTL accounts including the disclosures in the NTFS.

2.19 As a rejoinder, the Audit Team shall monitor the full implementation of the audit recommendations in the CY 2022 audit. Also, the Journal Entry Voucher (JEV) to correct the erroneous recording should be immediately submitted to the Audit Team.

3. The fair presentation of the balance of the Cash in Bank account amounting to P349.227 million, presented under Cash and Cash Equivalent account in the financial statements as at December 31, 2021, was not be established due to net variance of P95.741 million between the balances per books and confirmed bank balances consisting of various errors and book reconciling items, which remained unadjusted as of year-end contrary to Paragraph 15 of the International Accounting Standard 1.

3.1 Paragraph 15 of the 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.*

3.2 The balances of the Cash-in-Bank (CIB) recorded under the Cash and Cash Equivalent account as at December 31, 2021, amounted to P349.227 million.

3.3 Comparison of the balances per books and the balances confirmed by the PRA's depository banks for its five CIB accounts as of December 31, 2021 showed a net variance of P95.741 million, details of which are presented in Table 5.

Table 5 - Cash in Bank Accounts – Balances Per Books vs. Confirmed Bank Balances As of December 31, 2021

Account Code	Account Title	Balance per Books	Balance Per Bank Confirmation	Difference
1010202000	CIB - CA - A	P 279,518,679.48	P 294,061,247.18	(P14,542,567.70)
1010202001	CIB - CA – B	1,744,491.02	3,789,394.60	(2,044,903.58)
1010202002	CIB - CA - C	376,673.01	376,673.01	-
1010303000	CIB - SA - D	(8,864,372.32)	66,937,016.74	(75,801,389.06)
1010303001	CIB – FC - SA -E	4,561,405.64	5,440,625.34	(879,219.70)
1010303002	CIB - FC – SA -F	71,890,156.92	74,362,892.40	(2,472,735.48)
Total		**P 349,227,033.75**	**P444,967,849.27**	**P(95,740,815.52)**

3.4 Verification of the Bank Reconciliation Statements (BRSs) of the said accounts revealed that the variance of P95.741 million pertained to book and bank reconciling items with a net amount of P88.831 million and P6.910 million, respectively. The summary of the book reconciling items (BRIs) is shown in Table 6.

Table 6 – Summary of Book Reconciling Items

BRIs	CY 2021	CY 2020	CY 2015 - 2019	CY 2009-2019	Total
Unrecorded Credits/ Deposits	P59,495,385.01	P17,695,749.87	P14,113,243.70	-	**P91,304,378.58**
Unrecorded Debits/ Withdrawals	(91,672.93)	(604,400.44)	-	(2,334,713.30)	**(3,030,786.67)**
Error in Cash Collections	(613,233.01)	(649,635.36)	(1,370,103.53)	-	**(2,632,971.90)**
Errors from previous BRS/For further verification	(2,417,879.49)	86,442.55	5,521,991.34	-	**3,190,554.40**
Total					**P88,831,174.40**

3.5 Verification of the above BRIs disclosed the following:

a) Unrecorded deposits of P91.304 million

These pertain to the payment of fees directly deposited by the clients/retirees to the PRA's depository accounts. These deposits have not been recorded in the books of PRA because the clients/retirees who made the deposits have not informed the FMD nor furnished them a copy of the deposit slips and/or equivalent documents. Thus, the FMD does not know to whom these payments are to be credited. PRA had been requesting the concerned banks for a copy of the credit memos pertaining to these deposits, but the same has yet to be provided. This has become a perennial problem of the PRA since the partial adoption of the online payment/digital banking scheme, which have become the preferred payment scheme of its clients, especially during the pandemic. The FMD explained that the volume of transactions and the lack of personnel handling the accounts hinders the timely verification and recording of the same.

b) Unrecorded debit/withdrawals of P3.031 million

These primarily cover the payments of interests earned by the retirees on pre-terminated Certificate of TDs maintained in LBP and DBP. The lack of supporting documents e.g debit memos, precluded the recording of these transactions/amounts.

c) Error in cash collection of P2.633 million and other BRIs of P3.191 million

The P2.633 million was caused by the double issuance of official receipt to various clients in the amount of P1.512 million and the difference pertains to erroneous recordings. The other BRIs of P3.191 million are reconciling items in prior years, which have been carried forward due to the difficulty in retrieving or locating the documents/records pertaining thereto.

3.6 On the other hand, the bank reconciling items of P6.910 million consist of outstanding checks of P12.086 million; uncleared checks deposits of P7.579 million; erroneous credits/debits to the account of P2.232 million; and delayed postings of P170,271.55. Some of the OCs were issued in CYs 2019 and 2020. Management claimed that the concerned banks were notified already for appropriate action on the mispostings and delayed posting of transactions that remained unadjusted as of December 31, 2021.

3.7 These observations had been noted and raised in the previous year's audit reports and Management claimed that efforts are being made in this regard. However, as of December 31, 2021, the discrepancies and/or variances remained unsettled and the amounts are even increasing.

3.8 In view of these deficiencies, the correctness and reliability of the CIB account cannot be ascertained. Consequently, the presentation of the balance of the Cash and Cash Equivalent account in the financial statements as of December 31, 2021, is not in conformity with Paragraph 15 of IAS 1 – Presentation of Financial Statements.

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

a. Expedite the reconciliation of accounts. Consider assigning additional personnel to focus on the validation of collections through bank deposits in response to the increasing RIs pertaining thereto;

b. Verify thoroughly the BRIs for each of the affected bank accounts and thereafter, immediately effect the necessary adjusting entries to fairly present the balance of the Cash and Cash Equivalents account in the financial statements;

c. Scrutinize the validated deposit slip being submitted by the client or his authorized representative and verify it carefully with the client's records of payment to avoid double issuance of OR; and

d. Ensure proper preparation of BRS to avoid confusion, further errors, and/or misleading information.

3.10 **We further recommended that Management strengthen the information dissemination among its clients on the proper procedures/guidelines about the online/direct payment to facilitate the recording of deposits/collection. If possible, require its clients to immediately notify/inform the FMD aside from the RRSD personnel for any direct deposits made.**

3.11 **We also recommended that the Management continuously make representation to the concerned officials of the LBP and the DBP - Head Office to facilitate the correction of errors in the accounts of the PRA as well as the provision/submission of pertinent documents by the LBP/DBP branches such as Debit Memos, Credit Memos, etc. so that the necessary adjustments could be effected in the PRA's books and in the concerned banks' records.**

3.12 The Management commented that:

a. They will enhance their information dissemination to clients for the proper procedures on online payments and direct deposits to the Authorized Government Depository Banks, the LBP and DBP.

b. The full implementation of the LinkBiz portal, an online payment facility of the LBP being used for collections in Philippine Peso, will be in CY 2022. As to collections in the dollars, the agency is continuously looking for better online solutions considering that bulk of the annual PRA fees are in dollars. This makes it very difficult to identify direct deposits even with a copy of a validated deposit slip since the passbook has limited information.

c. The FMD will regularly and religiously prepare monthly reconciliation statements as well as retrieve source documents to book properly the noted RIs in the BRSs. Also, the hiring of two additional personnel, specifically Accountant III and IV, will help in the reconciliation.

d. Moreover, the FMD instituted controls to avoid the double issuance of ORs through a monitoring log of verifications and issuance of corresponding ORs in a shared excel file in Google Drive. Those outstanding double issuance will be resolved and accounted for and adjusted immediately.

e. Furthermore, the agency will continue to make representations with the two banks on matters needing their assistance such as sending to the PRA the credit/debit memos on time and clarification as to seemingly unauthorized debits or disbursements from the accounts. Lastly, the Phase II of the PRA Website Development project includes an online payment facility as well.

3.13 As a rejoinder, the Audit Team acknowledged the plan of action presented by the Management to address the recurring issue on the CIB account. The full implementation of the recommendations will be monitored by the Audit Team in CY 2022 audit.

4. The faithful representation in the financial statements of the Accounts Receivable account with carrying amount of P60.993 million as of December 31, 2021 was not ascertained due to non-compliance of the provision for allowance for impairment with Paragraph 5.5 of the International Financial Reporting Standard 9 and inadequate disclosures of relevant information, contrary to Paragraph 15 of the International Accounting Standard 1. Moreover, due to the erroneous manner of computation with respect to aging of receivable method, the Impairment Loss and Allowance for Impairment accounts were both overstated in the amount of P44.172 million, which is inconsistent with the Qualitative Characteristic 12 of the Conceptual Framework of General Purpose Financial Reporting.

4.1 The Accounts Receivable (AR) of the PRA has an outstanding balance of P235.309 million as of December 31, 2021 while the corresponding Allowance for Impairment (AFI) amounted to P174.316 million, thus, having net realizable value or carrying amount of P60.993 million, as shown in Table 7.

Table 7 – Details of the Accounts Receivable and Allowance for Impairment

AR Account	Outstanding Amount (a)	Allowance for Impairment (b)	% of AFI over AR (b/a)	Carrying Amount
Annual PRA Fee	P 120,511,105.26	P 72,754,954.63	60%	P 47,756,150.63
Management Fee	61,697,174.99	51,459,749.38	83%	10,237,425.61
Visitorial Fee	50,347,559.60	47,512,435.27	94%	2,835,124.33
Harmonization Fee	2,753,378.94	2,588,730.74	94%	164,648.20
TOTAL	**P 235,309,218.79**	**P 174,315,870.02**	**74%**	**P 60,993,348.17**

4.2 Significantly, 74 per cent of the outstanding balance has been provided with AFI and as noted, the AFI has increased by 75 per cent in CY 2021 from the amount of P44.171 million in CY 2020. Examination of Accounting records showed that the total impairment loss (ILs) recognized in CY 2021 amounting to P130.144 million explains the substantial rise on the AFI account.

4.3 As disclosed in its NTFS, the PRA applies or uses the Expected Credit Losses (ECL) model to its financial assets measured at amortized cost such as the AR.

Non-compliance of the provision for allowance for impairment with Paragraph 5.5 of the IFRS 9 and inadequate disclosures of relevant information, contrary to Paragraph 15 of the IAS 1

4.4 Verification of records revealed that the recognized ILs of P130.144 million was based on the computed ECL using the loss rates presented in Table 8. These rates were multiplied by the outstanding AR balances of each age group to arrive at the ILs for the year.

Table 8 – Details of the established Expected Credit Losses

AR Accounts	Outstanding Balance	Allowance for Impairment	Impairment Loss in CY 2021	Less than 90 days	91-365 days	Over 1 year	Over 2 until 3 years	Over 3 years
Annual PRA Fee (APF	P120,511,105.26	P72,754,954.63	66,142,237.26	51.57%	79.90%	82.81%	85.00%	100.00%
Management Fee (MF)	61,697,174.99	51,459,749.38	51,459,749.38	83.19%	87.61%	90.00%	90.00%	100.00%
Visitorial Fee (VF)	50,347,559.60	47,512,435.27	10,510,392.42	62.55%	71.35%	80.15%	85.00%	100.00%
Harmonization Fee (HF)	2,753,378.94	2,588,730.74	2,031,924.63	75.05%	86.64%	89.29%	90.00%	100.00%
	235,309,218.79	**174,315,870.02**	**130,144,303.69**	*68.09%	*81.38%			

**average loss rate*

4.5 As reflected in the above table, the loss rates vary per age group for each type of receivable except for the group of over three years where the uniform loss rate of 100 per cent is applied to all. Except for AR-Management Fees (MFs) the loss rate was established based on collectability vis-a-vis non-collectability rates of each type of receivable wherein they had used the historical events as to the collectability of the CY 2019 AR in the succeeding three years. For AR-MF, the loss rate was determined based on the outstanding AR in CY 2021 using the actual collectability rate of 10 per cent for age group of less than 90 days.

4.6 The loss rates for outstanding AR – 90 days and below, averaged to 68.09 per cent while 81 per cent for 91 days to one year, which are extremely high given the length/duration of time, current conditions, existing agreements, and other factors.

4.7 Analysis disclosed that P58 million of the P61.697 million AR-MF are receivable 90 days and below, and were accrued/recognized at year end, hence has zero days outstanding. Yet, as shown in the Table 8, it was provided with 83 per cent loss rate. Moreover, P32.116 million of the P58 million was already collected in January and February 2022 implying that the loss rate used was not realistic/factual.

4.8 The Audit Team recognizes the efforts of the FMD to comply with the requirements of the IFRS 9, particularly on the measurement/recognition of impairment of financial assets, as this was one of the audit recommendations in the previous year's audit findings. However, the manner of establishing and/or measuring the ECL of the AR did not entirely consider and reflect the factors provided in Paragraph 5.5.17 of the aforesaid Accounting Standard, quoted as follows:

An entity shall measure expected credit lossess 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 or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

4.9 The ECL measurement as applicable to the PRA's AR should have taken into account the past, current and forecast of future information. While it generally involves judgment and estimates, the PRA could have incorporated forward-looking information into calculated historical rates and that its formulation should have identified and contemplated factors such as the probability of default; recovery rate; agency's collection efficiency viewed as collection efforts performed and yet to be performed by the Management; current conditions such as the existence of an agreement, new accruals; and other relevant factors in addition to the historical data on collection, to reflect a more factual and/or realistic ECL of the agency's AR.

4.10 It is emphasized that the Management's collection efforts play a vital role in the collection and recovery rate, notwithstanding the current conditions that the agency may have. Additionally, how can an agency collect its receivables when substantial efforts to recover the same are not being carried out.

4.11 Further, the established ECL has to be articulated through a written policy, reviewed and approved by the authorized Officers of the agency as basis for its adoption and disclosure to the financial statements. As verified, the loss rates and other considerations relative to the ECL were not disclosed in the NTFS for CY 2021, which is inconsistent with the full-disclosure principle.

4.12 In view of the foregoing deficiencies, the faithful representation in the financial statement of the AR having a net carrying amount of P60.993 million as of December 31, 2021 could not be ascertained.

The Impairment Loss and Allowance for Impairment accounts were overstated by P44.172 million due to erroneous computation with respect to aging of receivables method

4.13 QC 12 of the Conceptual Framework of CFGPFR provides that:

> *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.*

4.14 Using the figures in Table 8, the IL for CY 2021 amounted to P130.144 million, of which P78.685 million pertains to Annual PRA Fee (APF)/Visitorial Fee (VF)/Harmonization Fee (HF). This amount was overstated by P44.172 million due to erroneous computation of IL, contrary to QC 12 of the CFGPFR, details of which are as follows:

Computed Loss based on ECL (APF/VF/HF) (Should be – Dec. 31, 2021 balance)	P78,684,554.31
Less: AFI – Beginning Balances and adjustments (AFP/VF/HF)	P44,171,566.33
Correct amount of Impairment loss in CY 2021	P34,512,987.98
Recorded Impairment Loss per FMD records	P78,684,554.31
Overstatement	P44,171,566.33

4.15 As noted, the FMD entirely added the P78.685 million to the beginning balance of the AFI. However, in computing for the IL with respect to the aging of receivables, the total amount derived after the application of the loss rates (ECL) is treated as the required year-end balance of the AFI account. Thus, the beginning balance (credit) of the account has to be deducted including adjustments, if warranted, from the required year-end balance to arrive at the amount of IL for the year.

4.16 The ECL applied to the PRA's AR outstanding balances at year-end had already covered those receivables with provisions in the previous year/s, therefore, such have to be excluded in the computation of the current year's impairment. As a result, the IL and AFI accounts were both overstated in the amount of P44.172 million, that eventually understated the carrying amount of the AR by the same amount as of December 31, 2021.

4.17 We recommended that Management direct the concerned personnel of the FMD to:

a. Adhere strictly to the requirements of IFRS 9 particularly on the impairment of financial assets to ensure that the carrying amount of the AR account is fairly presented in financial statements;

b. Conduct immediate reassessment on the established ECL in view of the noted deficiencies, through considering all relevant factors as required by IFRS 9 to come up with a more realistic, truthful, and reflective basis for its measurement at the reporting date; and

c. Ensure full disclosure of all relevant information pertaining to the ECL formulation and measurement in compliance with Paragraph 15 of IAS 1.

4.18 The Management commented that:

a. The FMD will make the necessary adjustments to the accounts as well as the necessary disclosures in the NTFS.

b. There will be continuing improvement on the use of the ECL as the credit policy of the PRA is established with more information that becomes available.

4.19 As a rejoinder, considering that the Management did not make any amendment on the established ECL in CY 2021 that was the basis for the recorded IL despite non-compliance with the IFRS 9, **we further recommended that the FMD effect the necessary adjustment to correct the overstatement of the IL and AFI accounts by P44.172 million caused by the erroneous manner of computation.** Meanwhile, the Management's full implementation of the recommendations shall be monitored by the Audit Team in the CY 2022 audit.

5. The faithful representation in the financial statements of the balance of the Other Non-Current Assets – Restricted Funds (RF) account in the amount of P17.504 billion as at December 31, 2021 was not ascertained due to the: (a) net variance of P15.258 million between the balances per books and the confirmed bank balances of the Other Non-Current Assets-RF-Visa Deposits accounts caused by various book reconciling items which remained unreconciled and unadjusted as of year-end; and (b) error on the preparation of Bank Reconciliation Statements and non-maintenance of Subsidiary Ledgers for the accounts of the Retiree-Members, contrary to Paragraph 15 of International Accounting Standard 1.

5.1 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.*

5.2 Audit of the Other Non-Current Asset (ONCA) – Restricted Funds (RFs) account with a balance of P17.504 billion as of December 31, 2021, consisting of ONCA–RFs-VDs Receiving and Disbursing of P17.480 billion and ONCA-RFs – Interest on VDs of P24.137 million, disclosed various deficiencies as discussed hereunder.

Net Variance of P15.258 million between the balances per books and the confirmed bank balances of the ONCA-RF-VDs accounts due to various book reconciling items that remained unadjusted as of year-end

5.3 Comparison of the ONCA - RF – VD account balance as of December 31, 2021 with the results of bank confirmation and validation of bank statements showed a net variance of P15.258 million, details are shown in Table 9.

Table 9 - Balances per Books vs. per Bank of ONCA-RFs-VDs
As of December 31, 2021

	Balance per Books	Balance per Bank	Variance
ONCA - RF – VD Receiving account			
Amount (In US Dollar)	339,593,420.49	342,094,396.86	(2,500,976.37)
Amount (In Peso)	17,320,468,453.35	17,446,472,145.46	(126,003,692.11)
ONCA - RF – VD Disbursing account			
Amount (In US Dollar)	3,161,384.31	*959,595.38	2,201,788.93
Amount (In Peso)	159,683,836.65	48,938,404.78	110,745,431.87
Total Amount (In US Dollar)	**342,754,804.80**	**343,053,992.24**	**(299,187.44)**
Total Amount (In Peso)	**P17,480,152,290.00**	**P17,495,410,550.25**	**(P15,258,260.25)**

5.4 Verification of the BRSs for ONCA-RF–VD Receiving account revealed that the variance of P126.004 million were caused by the various BRIs covering the long outstanding items from CYs 2012 to 2019, and various items in CYs 2020 and 2021, as detailed in Table 10.

Table 10 – Summary of Book Reconciling Items under ONCA-RFs-VDs-Receiving
As of December 31, 2021

Book Reconciling Items	2012 to 2019	2017	2020	2021	Total
Unaccounted "Book vs Bank Transaction"	1,265,511.43	-	-		1,265,511.43
Erroneous debits	-	-	191.06	-	191.06
Unrecorded Debits	-	-	(20,030.00)	-	(20,030.00)
Erroneous Credits	-	-	(155,130.00)	(1,905,973.72)	(2,061,103.72)
Unrecorded Credits	-	43,780.16	3,252,627.44	20,000.00	3,316,407.60
Total (dollar amount)	**1,265,511.43**	**43,780.16**	**3,077,658.50**	**(1,885,973.72)**	**2,500,976.37**
Total-Peso-12/31/2021	**64,539,817.42**	**2,232,744.38**	**156,957,505.84**	**(96,182,773.75)**	**127,547,293.89**
Error in the preparation of BRS – difference between balance per books and unadjusted bal					(1,543,601.78)
Total					**P126,003,692.11**

5.5 The Unaccounted Book vs Bank Transactions pertained to various discrepancies which could not be accounted due to lack of supporting documents and were combined as a single reconciling item in the BRS. The erroneous credits/debits refer to transactions which are incorrectly recorded in the books resulting from incorrect use of account codes in recording interbank transfers. In addition, the unrecorded credits/debits are transactions involving new or additional deposit placements, interbank transfers to the account and interests on matured Certificate of TDs, and pretermination and/or cancellation of the time deposits which were not recorded in the books.

5.6 Moreover, a total net variance of P129.040 million was determined under ONCA-RFs–VD Disbursing account, as presented in Table 11. Examination disclosed that the variance was partly caused by various BRIs having a nature similar to those identified under the ONCA-RF-VD-Receiving account, with details presented below:

Table 11 – Summary of Book Reconciling Items under ONCA-RFs-VDs Disbursing
As of December 31, 2021

Book Reconciling Items	2018 to 2019	2020	2021	Total
Unaccounted "Book vs Bank Transaction"	(3,042,151.57)	-	-	(3,042,151.57)
Erroneous debits	157,733.92	-	-	157,733.92
Unrecorded Debits	(69,101.03)	(242171.22)	(78956.68)	(390,228.93)
Erroneous Credit	-	(237,203.94)	(20,000.00)	(257,203.94)
Unrecorded Credits	755,701.24	245,909.56	-	1,001,610.80
Total (dollar amount)	**(2,197,817.44)**	**(233,465.60)**	**(98,956.68)**	**(2,530,239.72)**
Total at Peso equivalent as of December 31, 2021	**(112,086,491.62)**	**(11,906,512.13)**	**(5,046,691.72)**	**(129,039,695.48)**

5.7 The BRIs in Table 11 remained unadjusted as of December 31, 2021.

5.8 Likewise, the Audit Team noted various bank reconciling items of P16.750 million in the prepared BRS which consist mainly of the unrecorded withdrawals and erroneous withdrawals/deposits. Unrecorded withdrawals pertain to VDs of retirees already recorded in the books as disbursements but not yet debited by the bank as of December 31, 2021. Erroneous withdrawals and deposits refer to misposting of transactions to another PRA account and errors in the updating of the passbook. As noted, the bank reconciling items for CY 2021 has increased by P2.096 million compared to P14.654 million in CY 2020. The FMD claimed that these items were already coordinated with the bank and still waiting for the latter's appropriate actions.

Errors such as the unadjusted book balance used in the preparation of the bank reconciliation did not tally with the actual year-end balances per book while subsidiary ledgers for the accounts of the retiree-members were not yet maintained

5.9 Meanwhile, the Audit Team also observed error in the preparation of the BRS whereby the unadjusted balance per books used in the reconciliation differed from the actual balance per books – ONCA-VD-RF Receiving account in the amount of P1.544 million, which affect the reliability of the prepared BRSs.

5.10 As to the maintenance of SL by the FMD for each Retiree-member, the Audit Team had verified otherwise. The data migration from manual accounting records to the visa deposit monitoring system called Retiree Bank Management Information System of the PRA is still ongoing. It is emphasized that the maintenance of SL facilitates the reconciliation and monitoring of accounts considering the voluminous transactions, hence, it is necessary.

5.11 In view of the noted net variance of P15.258 million coupled with the errors in the preparation of the BRS and non-maintenance of SL for each retiree, the correctness and reliability of the ONCA-VD-RF account with year-end balance of P17.504 billion cannot be established which affected the fair presentation of the balance of this account in the financial statements as at December 31, 2021, contrary to Paragraph 15 of the IAS 1.

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

a. Fast track the reconciliation of the ONCA-RF-VD Receiving and Disbursing accounts and if necessary, assign additional personnel who shall be tasked for the retrieval of documents, monitoring, and reconciliation of 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 BRIs as well as in the bank reconciliation to avoid errors that will affect the reliability of the prepared BRSs; and

c. 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.

5.13 The Management commented that:

a. They agree with the audit recommendations and the reconciliation of these accounts will be fast tracked.

b. The FMD has started in 2021 the creation of retirees' folders for financial records to support the SL of the retirees. This will be supported with the planned acquisition of an off-the-shelf Accounting Information System software compliant with the requirements of the COA for financial accounting and reporting and the BIR for taxes.

c. The FMD has adjusted per JEV No. 202201209 dated January 31, 2022 the error noted in the prepared BRS unadjusted balance of P1.544 million that were due to errors in posting JEV Nos. 202102182 and 202103168 to the General Journal in 2021.

5.14 As a rejoinder, in view that the adjustment was taken up in CY 2022 to correct the misstatements in CY 2021, **we further recommended that the CY 2022 financial statements be restated.** Also, the JEV covering the adjustments should be immediately recorded and submitted to the COA.

6. The Withholding Tax at Source account included in the Other Current Assets account and Income Tax Payable account with year-end balances of P24.883 million and P102.226 million, respectively, were both overstated by P11.530 million due to the non-recording of transactions pertaining to recognition and utilization of the creditable tax withheld, contrary to COA Circular No. 2020-002 dated January 28, 2020.

6.1 Section 2.1 of COA Circular No. 2020-002 through the RCA prescribes the guidelines as to the use of appropriate account/s in the recording of various transactions of a government corporation. The Asset and Liability Sections of the RCA provide the following:

Withholding Tax at Source (WTS) account is debited to recognize the amount of creditable withholding tax deducted by an entity from payment and settlements of transactions or other services. Subsequently, such account is credited upon application of the excess previous tax payments against income taxes payable to the BIR, and/or adjustments.

Income Tax Payable account is credited to recognize the amount of income tax due to the BIR and debited upon payment to the BIR and for any adjustments made to the account.

6.2 In filing the Income Tax Returns (ITRs), the PRA uses its Creditable Tax Withheld (CTW) as tax credit to reduce its income tax due to arrive at the income tax payable. The FMD debits the Withholding Tax at Source (WTS) account when it recognizes withheld taxes and credits the Revenue - MF account. Subsequently, it credits the WTS account when it applies the CTW as tax credits in the quarterly ITRs. If properly used during the quarter or period to which it is applied for, the balance of the WTS account at year-end would equal to the CTW for the 4th quarter of the current year. As of December 31, 2021, the WTS account has a balance of P24.883 million whereas the remaining CTWs for the 4th quarter as verified from the CY 2021 Annual ITR amounted only to P2.832 million.

6.3 For CY 2021, the Audit Team noted that CTWs totaling P9.723 million per BIR Form 2307 covering 1st to 3rd quarters were recorded in the books as debit to the WTS account. As verified in the filed Quarterly ITRs, the same amount of CTWs was applied/used as tax credit or deductions from the quarterly tax due. Perusal from the General Journal and other Accounting records, however, disclosed that the application of said CTWs was not recorded in the books, which resulted in the overstatement of the WTS account by the same amount.

6.4 Similar observation was noted in CY 2020 wherein the CTWs for the 3rd quarter amounting to P4.638 million were recognized under the WTS account. Subsequently, these were utilized as tax credit in the same period per Annual ITR, however, it was verified from the books that no corresponding entry was taken up to record its utilization, thereby overstating the WTS account by P4.638 million.

6.5 As to CY 2019 and below, the Audit Team was not able to validate due to volume of transactions, however, considering that CTWs are normally used by the PRA as tax credits during the applicable period/year, the unapplied CTWs in the previous years as reflected in the WTS account might have been utilized already. In addition, the application of the CTWs has a prescription period so that it can no longer be used when expired.

6.6 The concerned FMD personnel claimed that they did not record in the books the application or utilization of the CTWs as reduction from the income tax due since no actual disbursements were made.

6.7 Furthermore, it was also verified that CTWs of P2.832 million for the 4th Quarter collections from MFs were not recorded in the books due to improper recognition of the collections of MFs. This resulted in the understatement of the WTS account by P2.832 million.

6.8 The practice of non-recording in the books of the utilization of CTWs during filing of ITRs as well as the non-recognition of CTWs resulted in the overstatement (net) of the WTS and Income Tax Payable accounts by P11.530 million, thereby affecting the fair presentation of the balances of the said accounts in the financial statements as of December 31, 2021.

6.9 **We recommended and Management agreed to instruct the concerned personnel of FMD to:**

a. Effect the necessary adjusting entries to correct the overstatement of the WTS and Income Tax Payable accounts by P11.530 million to

fairly present the balances of these accounts in the financial statements as of December 31, 2021;

b. **Conduct reconciliation between the unapplied CTWs as reflected in the WTS account and applied CTWs per ITR covering the previous years to determine whether all the necessary adjustments pertaining thereto were recorded in the books; and**

c. **Exercise prudence in the recording of tax transactions to avoid errors and misleading information.**

7. **The Service Income – Annual PRA Fee and Retained Earnings accounts were understated in the amounts of P12.215 million and P1.905 million, respectively, while the Service Income – Management Fee account was overstated by P10.310 million due to the following which affected the fair presentation of the balances of these accounts in the financial statements as at December 31, 2021:**

(a) **Erroneous recognition of collections of Service Income - Management Fees for CY 2020 from various PRA servicing banks as income for CY 2021 totaling P10.310 million, contrary to Paragraph 4.25 (a) of the Conceptual Framework of General Purpose Financial Reporting;**

(b) **Non-recognition of income/accruals on Management Fee from servicing banks maintaining Visa Deposits of Retiree-Members, contrary to Paragraph 27 of the International Accounting Standard 1; and**

(c) **Erroneous recording in the books of prior year adjustment contrary to Paragraph 42 of the International Accounting Standard 8.**

7.1 The Service Income (SI) account of the PRA having balance of P559.745 million for CY 2021 consists of various fees such as APF, MFs, VF, Visa application Fee, among others. The bulk of income of the PRA are sourced from the APF or those fees being paid by each member-retiree and the MFs being collected from the various servicing banks of the PRA.

7.2 Audit of the SI account disclosed various deficiencies as discussed hereunder.

Erroneous recognition of collections from Service Income - Management Fees for CY 2020 as income for CY 2021, contrary to Paragraph 4.25 (a) of the Conceptual Framework of General Purpose Financial Reporting

7.3 Paragraph 4.25 (a) of the CFGPFR provides the definition and recognition of income as "*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.*"

7.4 The MFs are fees collected by the PRA from private banks where the retiree-members maintain their VDs computed at the agreed rate of 1.5 per cent per annum of the outstanding monthly balance of VD.

7.5 For CY 2021, the PRA reported a total SI – MF in the amount of P182.369 million which consists of income collected during the year and accruals at year-end. Review of the CY 2021 Schedule of Collections - MF for each bank showed that total collections of P114.083 million were reflected in the books as SI – MF in CY 2021. However, verification revealed that P10.310 million thereof pertains to MF for CY 2020, which is not in conformity with the revenue recognition principle as provided above. Details are shown in Table 12.

Table 12 – Summary of MFs for CY 2020 erroneously recognized as SI – MF in CY 2021

*OR No.	OR Date	Name of Bank	Period Covered	Total Amount
Various	January 26, 2021	Bank of China	March to December 2020	P10,233,767.95
Various	March 08/12/26, 2021	Bank of Commerce	May 2020 to August 2020 / December 2020	32,851.83
Various	January 26, 2021	**CBC	December 2020	35,488.36
5818532H	May 19, 2021	***SB - Paseo	December 2020	8,246.36
Total				**P10,310,354.50**

*Official Receipt - OR ** China Banking Corporation – CBC ***Security Bank - SB

7.6 The erroneous recognition of previous year's MF as income for CY 2021 has overstated the SI – MF account by P10.310 million.

Non-recognition of income/accruals on Management Fee from servicing banks maintaining VDs of Retiree-Members, contrary to Paragraph 27 of the IAS 1

7.7 Paragraph 27 of the IAS 1 provides that "*An entity shall prepare its financial statements, except for cash flow statement information, using the accrual basis.*"

7.8 As of December 31, 2021, the total VDs of the PRA's Retiree-Members amounted to P11.650 billion which are currently deposited in the various banks accredited by the PRA pursuant to the provisions of Executive Order No. 1037. The PRA was able to accredit 22 private banks since it started however, 16 were de-accredited already for several reasons while six are currently accredited based on the FMD's Report on Outstanding Deposits from Current and Previously Accredited banks as of December 31, 2021.

7.9 Examination of Accounting records showed that accruals of MF from 15 accredited and de-accredited servicing banks were made on December 31, 2021 totaling P57.667 million. It was also noted that accruals of MF were made from 10 de-accredited servicing banks for the total amount of P16.383 million. This was in response to the Audit Team's recommendation in the previous year audit observation with regard to the failure of the PRA to recognize MFs for the outstanding VDs being maintained by various de-accredited servicing banks considering that PRA has valid claims from them.

7.10 However, it was verified that the FMD made accruals of MF from certain de-accredited banks for some months only in CY 2021 instead of the entire year while no accruals were recognized for MFs due from other banks, details are shown in Table 13 including the estimated amount of MF that may be due from the de-accredited banks totaling P1.652 million.

Table 13 – Summary of De-accredited Banks Without Accruals

Name of Banks	Outstanding VDs – 12/31/ 2021		Period Without Accrual	Management Feee (1.50%)		Estimated Amount of MF
	US Dollar	Peso		US Dollar	Peso	
Asia United Bank	$ 618,228.98	P738,911.28	January – Nov. 2021	$8,500.65	P10,160.03	P 443,684.60
East west Bank	320,266.91	1,802,467.52	Jan. - August 2021	3,202.67	18,024.68	181,357.60
Robinsons Bank		812,412.83	January to Aug. 2021	-	8,124.13	8,124.13
Security Bank	78,511.06	738,911.28	Oct. & Dec. 2021	196.28	-	10,009.96
						P643,176.25
No accruals for CY 2021						
RCBC Savings Bank (RCBCSB)	22,065.89	22,065.89	January -December	330.99	-	16,880.07
Metropolitan Bank (MB)	1,237,457.23	3,044,835.04	January -December	18,561.86	45,672.53	992,308.74
Other de-accredited servicing bank - EIB		*33,939,493	January -December			
TOTAL	**$2,276,530.07**	**P41,099,096.84**		**$ 30,792.44**	**P81,981.36**	**P1,652,365.11**

*As of December 31, 2020

7.11 As shown in Table 13, no accruals were recognized for the entire year for MB and RCBCSB which are both de-accredited servicing banks but still maintaining substantial amount of VDs. PRA claimed that they are still in the process of verifying whether the amounts of VDs as reflected in its records are still intact in the said banks.

7.12 Similarly, no accrual for the de-accredited servicing Bank Export and Industry Bank due to its closure in CY 2012 as informed by the FMD personnel. The closure of said bank was not also disclosed in the NTFS despite the fact that it maintains VDs of P33.939 million for 28 retiree-members prior to closure.

7.13 The non-recognition of income/accruals on Management Fee for valid claims from servicing banks maintaining VDs of Retiree-Members were contrary to Paragraph 27 of the International Accounting Standard 1

Erroneous recording in the books of prior year adjustment contrary to Paragraph 42 of the IAS 8

7.14 Paragraph 42 of the IAS 8 provides the accounting treatment for prior period errors, quoted hereunder:

> *An entity shall correct material prior period errors restrospectively in the first set of financial statements authorised for issue after their discovery by:*

(a)restating the comparative amounts for the prior period(s) presented in which the error occured; or
(b)if the error occured before the earliest prior period presented, restating the opening balances of assets, liabilities and equity for the earliest prior period presented.

7.15 It was noted that one of the adjustments made per JEV No. 202101204 dated January 29, 2021 incorrectly debited the amount of P12.215 million to the Retained Earnings account instead of the SI-APF account. In effect, the Retained Earnings account was overstated by P12.215 million while the SI – APF account was understated by the same amount as of December 31, 2021.

7.16 The noted discrepancies and errors resulted in the misstatements of the affected accounts as presented in Table 14.

Table 14 – Summary of Misstatements on Affected Accounts

Particulars	Retained Earnings	SI – MF	SI – APF
Erroneous recognition of collections from SI-MF for CY 2020 as income for CY 2021	P10,310,354.50	P(10,310,354.50)	-
Erroneous recording in the books of prior year adjustment	(P12,214,906.24)	-	P12,214,906.24
Total Under(Over)	**P1,904,551.74**	**(P10,310,354.50)**	**P12,214,906.24**

7.17 As can be gleaned from Table 14, the SI– APF and Retained Earnings accounts were understated in the amounts of P12.215 million and P1.905 million, respectively, while the SI-MF account was overstated by P10.310 million.

7.18 **In view of the foregoing, we recommended that Management direct the FMD to:**

a. Effect the necessary adjustments to correct the overstatement of the SI-MF account by P10.310 million and understatement of the Service Income – Annual PRA Fee and Retained Earnings accounts in the amount of P12.215 million and P1.905 million, respectively, to fairly present these accounts in the financial statements as of December 31, 2021;

b. Consistently recognize accruals MF from various accredited and de-accredited banks. Fast track the verification of the actual amount of outstanding VDs being maintained by the MB and RCBCSB, and other remaining de-accredited servicing bank/s so that recognition of accruals as well as demand of payments of MFs can be carried out immediately;

c. Submit copy of case filed and/or reports/documents indicating the status of the VDs maintained by the closed Export and Industry Bank and disclose such circumstance/s in the NTFS;

d. Consider determining the unpaid MFs from de-accredited servicing banks with outstanding VDs from the time of de-accreditation, and

thereafter, accrue and collect the same from the said banks since the PRA has valid claims from them not only in CY 2021 but likewise in the prior years; and

e. Review and analyze carefully the financial transactions of the PRA prior to recording to ensure accurate and reliable financial information in the financial statements.

7.19 The Management commented that:

a. The FMD will make the necessary adjustments to the accounts as well as the necessary disclosures in the NTFS. As to the accruals of MFs from other de-accredited banks, billing statements and confirmations requests have been sent to the concerned Offices but these were returned. However, the FMD is exerting extra efforts to establish these accounts and identify the authorized officers from the banks for endorsement to the Legal Unit for legal actions, if necessary.

b. As regards the Export and Industry Bank, the FMD, in coordination with the Servicing Division will account for the affected VD and make the necessary disclosures in the NTFS.

7.20 As a rejoinder, the Audit Team shall monitor the full implementation of the audit recommendations in the CY 2022 audit.

8. The existence and reliability of the Property, Plant and Equipment (PPE) account with total cost of P239.248 million and carrying amount of P103.221 million as of December 31, 2021 was not be established due to (a) discrepancy of P33.616 million between the books and the Inventory Report/Report of Physical Count of PPE for several PPE accounts; and (b) non-submission of inventory report for other PPE items totaling to P4.516 million and non-derecognition of unserviceable properties of P114,800 from the books as of December 31, 2021.

Moreover, the Management failed to notify/invite COA to witness the physical inventory-taking of PPE as required on COA Circular Nos. 80-004 and 2020-006 which precluded the Audit Team from ascertaining whether said activity was properly carried out.

8.1 Section 58 of Presidential Decree (PD) No. 1445 provides that the examination and audit of assets shall be performed with a view to ascertaining their existence, ownership, valuation and encumbrances as well as the propriety of items composing the respective asset accounts, determining their agreement with records; proving the accuracy of such records; and evaluating the adequacy of controls over the accounts.

8.2 Review of the agency's books and records showed that the PPE account was valued at cost in the amount of P239.248 million as of December 31, 2021 while the corresponding accumulated depreciation amounted to P136.027 million, thus, having carrying amount of P103.221 million, details shown in Table 15.

Table 15 – Summary of PPE Items of the PRA as of December 31, 2021

PPE Account	Acquisition Cost	Accumulated Depreciation	Carrying Amount
Buildings and other Structures			
Office Building	P55,389,982.38	(41,613,781.03)	P13,776,201.35
Other structures	75,000.00	(45,489.40)	29,510.60
Leased Assets Improvements – Building	12,882,903.14	(5,157,644.02)	7,725,259.12
Right of Use – Office Building	100,199,114.78	(40,061,505.38)	60,137,609.40
	P168,547,000.30	**(86,878,419.83)**	**81,668,580.47**
Machineries and Equipment			
Office Equipment	2,631,454.45	(2,306,972.21)	324,482.24
Information and Communications Technology Equipment (ICTE)	39,328,627.53	(25,843,095.89)	13,485,531.64
Other Machinery & Equipment	956,783.03	(669,600.92)	287,182.11
Other PPEs	2,435,841.57	(2,094,822.88)	341,018.69
Disaster Response & Rescue Equipment	927,978.42	(167,036.16)	760,942.26
	46,280,685.00	**(31,081,528.06)**	**P15,199,156.94**
Motor Vehicles	18,529,724.00	(13,367,323.44)	5,162,400.56
Furniture & Fixtures	5,890,683.22	(4,699,412.31)	1,191,270.91
TOTAL	**P239,248,092.52**	**(136,026,683.64)**	**103,221,408.88**

Discrepancy of P33.616 million between the books and the Inventory Report/Report of Physical Count of PPE for several PPE accounts

8.3 Comparison between the balances reflected in the submitted inventory reports and the corresponding balances per books as of December 31, 2021 showed a net discrepancy of P33.616 million, as presented in Table 16.

Table 16 – Balances per Books vs. Per Inventory Report

Account	Per Books	Per Inventory Report	Discrepancy
ICTE	P 39,328,627.53	P 10,683,733.72	P 28,644,893.81
Other PPEs	2,435,841.57	439,098.10	1,996,743.47
Motor Vehicles	18,529,724.00	17,286,524.00	1,243,200.00
Furniture and Fixtures	5,890,683.22	4,159,503.48	1,731,179.74
Total	**P 66,184,876.32**	**P 32,568,859.30**	**P 33,616,017.02**

8.4 Verification of records and inquiry with the concerned personnel of the FMD disclosed that P14.041 million of the total discrepancy of P33.616 million was attributable to the following PPE items:

a. Various ICTE items recorded in the books such as desktops, laptops, printer, among others with acquisition dates for the period CYs 2003 to 2016 for the total amount of P10.757 million have been disposed.

b. The vehicle assigned to the PRA Clark Office was not included in the Inventory Report of PRA due to late submission of the Inventory Reports of former. The vehicle costs to P1.243 million thus, covers the difference between record per books and per report on the physical count of PPE (RPCPPE) in the Motor Vehicles account.

c. Telephone System Apparatus and various cellular phones procured in CYs 1999 – 2009 with total amount of P2.041 million that were purchased by the PRA and distributed to its personnel were not included in the Inventory Report.

8.5 No explanation was given by Management for the remaining discrepancy of P19.394 million. This audit observation has been raised in prior years audit but the management has yet to address the issue.

Non-submission of inventory report for other PPE items of P4.516 million of the agency and non-derecognition of unserviceable properties of P114,800 from the books

8.6 Meanwhile, it was noted that there was no inventory report submitted by PRA for other PPE items such as Office Equipment, Other Machinery and Equipment and disaster response and rescue equipment totaling P4.516 million.

8.7 Moreover, review of accounting records disclosed that several PPE items with total acquisition cost of P114,800 were still part of the PPE account as of December 31, 2021 despite being unserviceable or having no future economic benefits for the agency. These items pertain to various furniture and fixtures and other PPEs which were found defective and subject to disposal as evidenced by the accomplished Waste Material Reports of PRA for CY 2021 contrary to Paragraph 7 of IAS 16 that provides that "*the cost of an item of PPE shall be recognized as an asset if and only if it is probable that the future economic benefits associated with the item will flow to the entity and the cost of the item can be measured reliably".* Paragraph 67 of the same further provides that, "*The carrying amount of an item of property, plant and equipment shall be derecognized on disposal; or when no future economic benefits are expected from its use of disposal*."

8.8 Verification revealed that there was no corresponding Inventory and Inspection Report of Unserviceable Property (IIRUP) prepared for these items, hence,were not derecognized from the books. Part A of Appendix 74 of the Government Accounting Manual (GAM) Volume II provides that "*IIRUP is a report prepared by the Supply and/or Property Unit as basis to record the dropping from the books of the unserviceable properties carried in the PPE accounts*."

8.9 Given that the unserviceable properties no longer meet the criteria of an asset as provided under Paragraph 7 of IAS 16, its non-derecognition from the books resulted in the overstatement of the PPE account. Moreover, COA Circular No. 2020-02 dated January 28, 2020, provides that to recognize the loss in the future economic benefits or service potential of a PPE item, the IL – PPE account shall be used.

Other Observations

8.10 Audit disclosed that the physical inventory-taking of the ICTE totaling P39.329 million was not performed by the IC. As noted, the maintenance of ICT infrastructure, and the updating of records of inventory and ICT equipment were directed to the Information and Communication Technology Division (ICTD). Likewise, part of their tasks is the preparation of Report of Physical Count of PPE which denotes that physical inventory taking of the ICTE is also included in their functions. It is emphasized though, that both tasks should be assigned to the IC as stated in COA Circular Nos. 80-004 and 2020-006 being part of the internal control of the agency to safeguard its physical assets.

8.11 The transfer of function to ICTD resulted in, among others, preparation of two different and separate inventory reports by the PRA wherein the inventory reports submitted by the IC were duly signed by the head of the Inventory Committee of the agency while the one from ICTD was merely a report generated from the system and not validated by the IC.

8.12 On the other hand, the inventory reports submitted by the IC and the ICTD to the COA to report the physical count of PPE are not in conformity with the required format, hence, do not contain the important data as required, contrary to Appendix 73 of the Government Accounting Manual (GAM) (Annex A). To properly report the results of the conduct of physical inventory-taking, it is necessary that the IC adopts the prescribed format.

8.13 Moreover, the Management failed to notify/invite COA to witness the physical inventory-taking of PPE which precluded the Audit Team from verifying whether said activity was properly carried out, contrary to the provisions of COA Circular Nos. 80-004 and 2020-006.

8.14 It was further noted that the required approved Physical Inventory Plan (PIP) that was supposed to be submitted to the COA at least 10 days prior to the scheduled inventory taking was not prepared by the Inventory Committee (IC), contrary to Section 5.6 of COA Circular No. 2020-06 which provides that the IC, in coordination with the Property Division, is tasked to "*Prepare a Physical Inventory Plan (PIP) containing at least the specific assignments/duties of the members, the cut-off date and a schedule specifying the date and locations of the inventory taking activities from start up to the targeted completion of the physical inventory.*" As a result, responsibilities such as specific duties/assignments of each member, updating of property records, among others, were not complied with.

8.15 **We recommended that Management:**

a. Require the coordination between the FMD and the Administration Division-Property Unit to analyze, investigate and reconcile the variances between the books and the inventory count and thereafter, establish accountability for any lost/missing items;

b. Require the Inventory Committee to make an inventory recount to all unaccounted PPEs to verify their existence, investigate the reasons for any asset/s that cannot be located, and thereafter prepare the RPCPPE;

c. **Direct the FMD to record in the books the PPEs with verified existence, effect the necessary corrections of assets cost, and reclassify items based on the reconciliation with Property Office;**

d. **Strictly comply with the requirements as to the presence of a COA Representative to witness the conduct of physical inventory-taking, in compliance with Item I of Section 5 of COA Circular No. 80-124 and Section 5.4 of COA Circular No. 2020-006;**

e. **Instruct the Property Unit to determine/identify all unserviceable properties of the PRA and thereafter, accomplish the required IIRUP that would serve as basis of the FMD in the derecognition of the same from the agency's books;**

f. **Strictly comply with the requirements on the preparation/approval of the PIP including submission thereof to COA in compliance with Section V (1) of COA Circular No. 80-124, Section 5.4 and other provisions of COA Circular No. 2020-006;**

g. **Direct the IC to conduct regularly the physical inventory-taking for all PPE items of the agency including the ICTE items and prepare a consolidated report of the Physical Count for PPE for submission to the COA. Likewise, study as to who shall be responsible for the reconciliation of ICTE property records with the FMD considering that the task on preparation and maintenance thereof was delegated to the ICT Property Custodian; and**

h. **Use the prescribed form of RPCPPE in compliance with Appendix 73 of GAM Volume II to ensure that all the information necessary for the reconciliation of PPE items in the accounting and property records are provided therein. To facilitate the preparation of said report, instruct the IC to use the Inventory Count Form prescribed under Annex A of COA Circular No. 2020-006 dated January 31, 2020.**

8.16 The Management commented that:

a. The FMD in coordination with the Administration Support Division (ASD) and the Inventory Committee shall conduct a one-time cleansing of the PPEs as prescribed in the COA Circular No. 2020-006 dated January 31, 2020 in CY 2022.

b. The Inventory Committee shall conduct regular physical inventory-taking in coordination with a COA representative and as required in COA Circular No. 80-124, and submit the RPCPPE in the form prescribed by Appendix 73 of the GAM Volume II.

c. Furthermore, the approved inventory of unserviceable properties as a result of the regular physical inventory count and inspection shall be submitted to the FMD for derecognition from the books of accounts.

8.17 As rejoinders, the Audit Team shall monitor the Management's full implementation of the audit recommendations in the CY 2022 audit. Likewise, considering the substantial amount of the ICTE, the Audit Team reiterated the need for the Management to address the issue on the ICTD being the property custodian of the ICT items and at the same time, responsible for the physical inventory-taking, maintenance of the PLC, preparer of the RPCPPE, and as to who shall reconcile the ICTE with the FMD.

9. The Leave Benefits Payable and Terminal Leave Benefit accounts were overstated by P172,429 due to the erroneous recording of transactions pertaining to payment of terminal leave benefits, contrary to Qualitative Characteristic 12 of the Conceptual Framework of General-Purpose Financial Reporting. Meanwhile, the recording of transactions relative to earned leave credits and payment of monetization and terminal leave benefits is not in accordance with COA Circular No. 2020-002 dated January 28, 2020.

9.1 QC 12 of the CFGPFR provides that:

> *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.*

9.2 The Leave Benefits Payable account is credited to recognize accrual of money value of the earned leave credits of government personnel while it is debited for the monetization of earned leave and payment of terminal leave benefits, and/or adjustments.

9.3 Analysis of the Leave Benefits Payable account disclosed that the balance of P10.332 million as of December 31, 2021 was overstated by P172,429. This was due to erroneous recording of terminal leave payment in the amount of P58,255.02 instead of the correct amount of P230,684.33. The accounting personnel inadvertently mistook the other employee's terminal leave pay as the former employee's last pay.

9.4 Furthermore, review of recorded transactions such as accrual, monetization and terminal leave benefits pay showed that the TLB account is debited for the accrual of the money value of the entire earned leave credits of the employees during the year and is credited for the reversal of the accrual/s made in the previous year. Also, when TLB are being claimed and/or monetized, the TLB account is debited instead of the leave benefits payable account and CIB or Due to Officers/Employees accounts are credited. The practice of the FMD in the recording of monetization, TLB pay and accrual of earned benefits is not in accordance with the prescribed manner and had caused difficulty and confusion during the verification process.

9.5 As prescribed under the RCA for Government Corporations per COA Circular No. 2020-002 dated January 28, 2020, the "*TLB account is debited to recognize the value of the accumulated leave credits of government officials and employees. This account is credited at year end to close to the revenue/income and expense summary account, and/or effect adjustments."* Meanwhile*, the "LBP account is credited to recognize accrual of money value of the earned leave credits of government personnel while debited for monetization of earned leave and payment of terminal leave benefits, and/or adjustments."*

9.6 Based on the foregoing, it clearly shows that the monetization transactions and payment TLB are to be debited to/deducted from the Leave Benefits Payable account instead of debiting the TLB account. Similarly, only the earned leave credits of the employee/s during the year have to be recognized under TLB and Leave Benefits Payable accounts and not the entire earned Leave Credits as incorrectly practiced by the FMD.

9.7 **We recommended that Management instruct the FMD to:**

a. Effect the necessary adjustment to correct the overstatement of the Leave Benefits Payable and Terminal Benefits accounts in the amount of P172,429 to reflect the correct balances of these accounts in the financial statements as of December 31, 2021; and

b. Adopt the proper recording of payment of monetization and TLB as well as the accrual of the earned leave credits of the employees during the year in compliance with the RCA for Government Corporations per COA Circular No. 2020-002 dated January 28, 2020 and to avoid confusion and/or misleading information.

9.8 The Management commented that the FMD in coordination with ASD/Payroll will fully implement the accrual basis of accounting for leave benefits and at the same time, adjust for the noted overstatement of the Leave Benefits Payable and TLB accounts in the amount of P172,429.

9.9 As a rejoinder, the Audit Team acknowledged the plan of action presented by the Management. Their full implementation of the recommendations shall be monitored by the Audit Team in the CY 2022 audit.

B. NON-FINANCIAL

10. The monetization of leave credits in the total amount of P2.241 million was not in accordance with Sections 22 and 23 of the Omnibus Rules on Leave under Civil Service Commission Memorandum Circular Nos. 41, s. 1998 and 16, s. 2002 due to granting/allowing the monetization of earned Sick Leave credits, and Vacation Leave credits of less than 15 days.

10.1 Section 22 of Rule XVI of the Omnibus Rules on Leave per Civil Service Commission (CSC) Memorandum Circular (MC) No. 41, s. 1998 provides the rules on monetization of leave credits, quoted hereunder:

> *Monetization of leave credits – Officials and employees in the career and non-career service whether permanent, temporary, casual, or coterminous, who have accumulated fifteen (15) days of vacation leave credits shall be allowed to monetize a minimum of ten (10) days: Provided, that at least five (5) days is retained after monetization and provided further that a maximum of thirty (30) days may be monetized in a given year.*

10.2 Review of pertinent records shows that the PRA had allowed/approved the monetization of leave credits by its personnel in the total amount of P3.332 million. As noted, most of the PRA employees opted to monetize their earned leave credits more than the minimum requirement of 10 days.

10.3 Verification of supporting documents including the employees' leave cards disclosed that monetization of earned leave credits by 20 employees in the total amount of P0.551 million was granted/approved despite having accumulated Vacation Leave (VL) credits of less than five days and remaining balance of their accumulated leave credits after monetization is below five days. It was further verified that the number of their monetized VL credits was below the minimum requirement of 10 days.

10.4 The Administrative Division processed the requests for monetization of earned leave credits (LCs) by these personnel despite non-compliance with the required number of days to be retained after monetization. Such practice of the PRA is not in accordance with the leave laws, rules, and regulations of government personnel as provided in the afore-quoted provision.

10.5 It was further noted that the PRA allowed the monetization of the earned Sick Leave (SL) credits of its employees with total monetary value of P1.690 million, contrary to the above-mentioned provision that only the VL credits can be monetized. It was verified in the leave cards of each personnel that the monetization of such is regularly made together with their earned VL credits. The number of monetized SL credits is either equal to, less than, or more than the number of VL credits being monetized depending upon which type of leave has higher number of earned LCs. This is one of the reasons why several personnel were able to apply for monetization and meet the 10 day-minimum requirement.

10.6 The concerned personnel, particularly the Human Resource (HR) Division, explained that that this has already been the practice of PRA that employees monetize yearly their vacation and sick leave credits up to a maximum of 30 days.

10.7 While the above quoted provision prescribes the general rule that only the VL credits should be allowed for monetization, Section 23 of the Omnibus Rules on Leave as amended per CSC MC No. 16, s. 2002 provides the circumstance/s when SL credits may be allowed for such, quoted hereunder:

> *Section 23. Monetization of 50% or more of vacation/sick leave credits - Monetization of fifty percent (50%) or more of the accumulated leave credits may be allowed for valid and justifiable reasons such as:*
>
> *a. Health, medical and hospital needs of the employee and the immediate members of his family;*
> *b. Financial aid and assistance brought about by force majeure events such as calamities, typhoons, fire, earthquake and accidents that affect the life, limb and property of the employee and his/her immediate family;*
> *c. Educational needs of the employee and the immediate members of his/her family;*
> *d. Payment of mortgages and loans which were entered into for the benefit or which inured to the benefit of the employee and his/her immediate family;*
> *e. In cases of extreme financial needs of the employee or his/her immediate family where the present sources of income are not enough to fulfill basic needs such as food, shelter and clothing;*
> *f. Other analogous cases as may be determined by the Commission.*
>
> *The monetization of 50% or more of the accumulated leave credits shall be upon the favorable recommendation of the agency head and subject to availability of funds.*

10.8 However, the monetization of SL credits as noted during examination of the supporting documents was not based on the above quoted provision but rather the ordinary monetization as prescribed under Section 22 of the Omnibus Rules on Leave since these did not actually represent 50 per cent or more of their accumulated LCs. In addition, several personnel have sufficient VL credits to monetize but still, the other half of their monetized leave credits were charged from the SL credits. More so, the majority of the processed monetization of SL credits were not properly supported to justify the granting of such.

10.9 On the other hand, if the intention of the requests for monetization is to monetize the SL credits based on Section 23, then, these should have been supported by the necessary documents required per COA Circular No. 2012-001, as follows:

- *Approved leave application (ten days) with leave credit balance certified by the Human Resource Office*

- *Request for leave covering more than ten days duly approved by the Head of Agency*
- *For monetization of 50 per cent or more:*
    - *Clinical abstract/medical procedures to be undertaken in case of health, medical and hospital needs*
    - *Barangay Certification in case of need for financial assistance brought about by calamities, typhoons, fire, etc.*

10.10 However, it was verified during audit that the above said supporting documents applicable to the case/circumstance were not attached to the DVs submitted to COA. Likewise, some requests for monetization were not supported with explanation or justifiable reasons while others merely stated their reason in the accomplished application for leave or submitted letter.

10.11 While these accumulated LCs were already earned by the employees, the Management has to ensure that the applicable CSC and COA rules and regulations are to be complied with prior to its approval and payment. It is emphasized that the VL is granted to employees for personal reasons while the SL is granted only on account of sickness or disability on the part of the employee concerned or any member of his immediate family. CSC Resolution No. 000034 dated January 05, 2000 provides additional guide to the monetization of sick leave credits, quoted hereunder:

> "CSC Resolution No. 992064 (Re: Conjuangco, Eleuterio S) dated September 16, 1999, the Commission resolved the issue as follows:
>
> *In this regard, it is worthwhile to mention that an employee may choose when to avail vacation leave privileges, the only condition is that he is required to file in advance his application for leave. The employee may even choose not to take a vacation and preserve his vacation leave credit.*
>
> *It is otherwise, with respect to sick leaves. In this case, the employee is forced by the circumstance not to work even if he wants to. He cannot predict nor choose when he or a member of his family will become ill.*
>
> *Aptly, it is in the interest of the public servants, that sick leave credit should be used for the purpose it is intended."*
>
> *"Xxx*
>
> *Xxx, the Commission resolves to rule that sick leave credits may be monetized if an employee has no available vacation leave credits, in accordance with the general rule under Section 23 of the Omnibus Rules on Leave, that vacation leave credits must be exhausted first before sick leave credits maybe used."*

10.12 Accordingly, the approval of the monetization of the SL credits of various PRA employees in the total amount of P1.690 million was not proper.

10.13 **We recommended that Management direct the concerned personnel of the Administrative Division to:**

a. Strictly comply with the provisions of the CSC MC No. 41, s. 1998 and 16, s. 2002 on the monetization of the leave credits of the PRA employees. Likewise, discontinue the practice of allowing the monetization of SL credits of various employees including VL credits of below 15 days; and

b. In cases of monetization of 50 per cent or more of the accumulated LCs, ensure that these are allowed only for those employees with valid and justifiable reasons in compliance with Section 23 of the Omnibus Rules on Leave under CSC MC. No. 16, s. 2002. Likewise, this must have supporting documents as required under Section 5.14 of COA Circular No. 2012-001 dated June 01, 2012.

10.14 The Management commented that:

a. The requests for monetization of PRA employees were granted based on Section 23 under CSC MC No. 41, s. 1998 of the Omnibus Rules on Leave, with a minimum of 10 days but not to exceed 30 days in a year, provided at least 5.0 days VL/SL balances are left on the employee's credit. Most of the employees requested more than once a year according to their extreme and dire financial need. The PRA employees are well-informed that they have to submit the written request for monetization with justification for approval by the Head Office before they submit the approved application to the Admin-HR Division.

b. Most of the reasons of the employees who requested the monetization are to sustain their daily needs such as food, payment of loans, house repairs due to wear and tear, medical check-up and/or purchase of medicines and tuition fees for their children, which are unfeasible to provide a Barangay Certificate, when there is no typhoon or calamity or inability to secure clinical abstract if the purpose is to buy medicines or for consultation.

c. The Admin-HR Division understands that the approval of these application is due to humanitarian consideration for employees whose net salaries/income are not enough to fulfill the basic needs of the family. It also encourages employees to avoid absences to earn enough leave credits for their future financial needs. Almost all VL credits of employees were exhausted after the monetization, but it is ensured there is a leave balance on his/her credit to cover unexpected tardiness or emergency absences.

10.15 As rejoinder, the Audit Team maintains its position that the CSC rules and regulations on monetization of LCs have to be strictly complied with by the agency. As stated in Section 67 of the CSC Rules on Leave, "*Any violation of the leave laws, rules or regulations, or any misrepresentation or any deception in connection with an application for leave, shall be a ground for disciplinary action.*" On the other hand, in case the required supporting documents are not provided in the COA Circular, it is the responsibility of the Administration Division to evaluate the propriety of the submitted documents that would support the condition being cited by the personnel as reason for the claim under Section 23 of the CSC Rules on Leave.

11. **The Gender and Development (GAD) Plan and Budget of the PRA for CY 2021 was not endorsed by the Philippine Commission on Women (PCW), contrary to Section 8.2 PCW-National Economic and Development Authority (NEDA)-Department of Budget and Management (DBM) Joint Circular (JC) No. 2012-01. In addition, the PRA's GAD Accomplishment Report was not submitted to the PCW and the COA within the prescribed period, contrary to the provisions of PCW-NEDA-DBM JC No. 2012-01 and COA Circular No. 2014-001 dated March 18, 2014.**

11.1 Section 8.2 of PCW-NEDA-DBM JC No. 2012-01 provides that the required GAD Plan and Budget (GPB) of the agency be submitted, reviewed and endorsed by the PCW, quoted as follows:

> *The GFPS of the agency shall review all submitted GPBs and as needed, provide comments or recommendations for revision. Agency review of GPBs shall focus on the alignment of the GAD plan with the GAD agenda and the correctness and alignment of the entries in each column of the GPB template, e.g. if the proposed activities respond to the identified gender issue or cause of the issue, the issues are correctly identified or formulated, if there are clear indicators and targets, if the proposed budget is realistic, if the number of proposed activities are doable within the year, among others. The GFPS shall then submit the final GPBs and the corresponding GAD ARs to PCW for review and endorsement to DBM.*

11.2 Pursuant to the above-mentioned JC, the PRA has submitted the draft of CY 2021 - GPB for review to the PCW on November 11, 2020. However, it was returned twice by the PCW for revision due to lack of necessary supporting documents to validate the Harmonized Gender and Development Guidelines (HGDG) rating of the programs being attributed. The PRA was given until February 11, 2021 by the PCW to submit the enhanced GPB together with the supporting documents but failed to do so.

11.3 Inquiry with the concerned personnel revealed that the Management was not able to submit the required documents for the reason that the available documents at the custody of the agency's GAD Focal Point System (GFPS) were not adequate to substantiate the HGDG rating. As a result, the PRA's GPB was not endorsed by the PCW, contrary to Section 8.2 of PCW-NEDA-DBM JC No. 2012-01.

11.4 The concerned personnel merely provided the Team with the first draft of GPB initially submitted to the PCW. With that, it cannot be determined whether the GAD activities identified in the draft GPB and implemented by the agency are appropriate and/or adequate to address all the identified gender issues since the PCW requirements were not complied with. It is emphasized that GAD activities that should be carried out by the agency must be based on the PCW-endorsed GPB as required.

11.5 Further, Section 10.1 of PCW-NEDA-DBM JC No. 2012-01 provides that *"xxx…The agency GFPS shall prepare the annual GAD AR based on the PCW-endorsed GPB or the GPB adjusted to the approved GAA following the form prescribed in Annex B…xxx".* Moreover, PCW MC No. 2021-06 prescribes that the submission of the GAD Accomplishment Report – CY 2021 to the PCW for Government-owned and/or-controlled corporations is until March 18, 2022.

11.6 Despite the absence of a PCW-endorsed GPB, the Audit Team reviewed the accomplishment of the PRA relative to the implementation of any GAD activities/undertaking. Audit disclosed that the PRA was not able to submit its GAD Accomplishment Report for CY 2021 to the oversight bodies such as the PCW and the COA. It was informed during inquiry that the consolidated GAD Accomplishment Report is not available considering that the reports from different responsible divisions were not yet submitted to the GFPS.

11.7 The GAD Accomplishment Report serves as a monitoring tool on the implementation of the agency's identified GAD activities and is usually used in the assessment of its actual accomplishment, hence, strict adherence is required. Meanwhile, the Audit Team was not able to validate if there were indeed GAD activities accomplished/implemented by the PRA as there was no data submitted in lieu of the GAD Accomplishment Report that could be validated.

11.8 We recommended that Management:

a. Exert extra efforts to comply with the requirements set by the PCW for the endorsement of the agency's GPB, in accordance with Section 8.2 of the PCW-NEDA-DBM JC No. 2012-01 to ensure that the GAD activities and targets stated in their GPB are directed to address equally and promptly the gender-issues identified by the agency through its GFPS; and

b. Direct the concerned Officers/Members of GFPS to strictly comply with the preparation and submission of the GAD Accomplishment Report in adherence to provisions of PCW-NEDA-DBM JC No. 2012-01.

11.9 The Management commented that:

a. The PRA GPB 2021 was prepared and submitted by ASD, RRSD, and Marketing to PCW thru Gender Mainstreaming Monitoring System on the prescribed deadline last November 2020. The PCW reviewed the GPB 2021 and had required for the submission of other documents relative to attribution such as the Concept Paper or Design Paper for each division.

b. In response to PCW, Concept Papers of Processing Division and Ads & Promo Division were submitted to the Executive Committee. As per review by Department Manager III, Admininistrative and Finance Services

Department, the Concept Papers are not “strong enough”, but divisions could still push through their programs relative to GAD. This is the reason why the concept papers were not submitted to PCW. The GFPS Members from each Division were not able to apply and implement the Attribution using the highly technical tool of HGDG.

11.10 As rejoinder, the Management’s full implementation of the recommendations shall be monitored by the Audit Team in CY 2022 audit.

COMPLIANCE WITH TAX LAWS

12. The PRA consistently withholds taxes on employees’ compensation and benefits as well as creditable Value Added Tax (VAT) and expanded taxes from suppliers and, remits the same to the BIR within required periods. The balance of account *Due to BIR* as of December 31, 2021 were remitted in CY 2022, as shown in Table 17.

Table 17 - Remittances to BIR of the Due to BIR as of December 31, 2021

	Amount	Date Remitted
Employees’ withholding tax	P 690,816.26	January 10, 2022
Withholding tax on VAT	329,048.28	January 10, 2022
Expanded withholding tax	1,349462.23	January 10, 2022
Income tax payable	8,867,903.00	April 18, 2022

COMPLIANCE WITH GSIS, HDMF AND PHILHEALTH LAWS

13. The PRA consistently complies with the requirements on the withholding from its employees’ salaries the corresponding contributions to the GSIS, Home Development Mutual Fund (HDMF) and Philippine Health Insurance Corporation (PhilHealth) and regularly remits to the respective government agencies the withheld amounts together with the PRA’s share. Contributions for December 2021 were remitted in January 2022, as presented in Tables 18, 19, and 20.

Table 18 - Remittance to GSIS

	Amount	Date Remitted
Life and retirement premium	P737,356.66	January 7, 2022
Optional insurance	35.80	January 7, 2022
Calamaty/ Emergency loan	23,562.49	January 7, 2022
Policy loan	4,500.00	January 7, 2022
ECC	8,000.00	January 7, 2022
Conso loan	168,784.96	January 7, 2022

Table 19 - Remittance to HDMF

	Amount	Date Remitted
HDMF Contributions	P23,500.00	January 13, 2022

Table 20 - Remittance to PhilHealth

	Amount	Date Remitted
PhilHealth Contributions	P96,861.81	January 18, 2022

COMPLIANCE WITH PROPERTY INSURANCE LAW

14. For CY 2021, the PRA's properties such as buildings and motor vehicles were insured with the GSIS in compliance with 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 21.

Table 21 - Insured Properties

Property	Amount Insured	Premiums Paid
Buildings/ Leasehold Improvements	P30,307,524.35	P 90,590.67
Motor Vehicles	8,347,755.57	53,239.54
Total	**P38,655,279.92**	**P 143,830.21**

SUMMARY OF SUSPENSIONS, DISALLOWANCES AND CHARGES

15. The summary of audit suspensions and disallowances in CY 2021 is shown in Table 22 and the details and status thereof are presented in Part IV, Annex A of this Report. There was no audit charge in CY 2021.

Table 22 - Audit Suspensions and Disallowances

	Beginning balance January 1, 2021	Issued	Settled	Ending balance December 31, 2021
Suspensions	P 175,132.39	P -	P -	P 175,132.39
Disallowances	2,072,334.43	232,628.00	(33,066.20)	2,271,896.23
Charges	-	-	-	-
Total	**P2,247,466.82**	**P232,628.00**	**(P33,066.20)**	**P2,447,028.62**

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

Of the 36 audit recommendations embodied in the prior year's Annual Audit Report (AAR), 23 were fully implemented, 12 were partially implemented, and one was not implemented. Details as follows:

Reference	Observations	Recommendations	Actions Taken/Comments
FINANCIAL AAR 2020 Audit Observation (AO) No. 1, page 63	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	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.	Fully Implemented. Reiterated with updates under Part II – Observation and Recommendation No. 1 of this Report. Assigned additional two personnel to handle the reconciling items.
		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	Partially Implemented. Assigned one financial analyst to handle the account.

Reference	Observations	Recommendations	Actions Taken/Comments
	of the differences noted in the said accounts.	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.	Not Implemented. Due to skeletal work schedule and lack of workforce. FMD yet to prepare board materials.
AAR 2020 AO No. 2, page 66	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)	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;	Partially Implemented. Reiterated with updates under Part II – Observation and Recommendation No. 5 of this Report. Lack of workforce in plantilla position.

Reference	Observations	Recommendations	Actions Taken/Comments
	non-maintenance of Subsidiary Ledgers (SLs) for the accounts of the Retiree-Members, contrary to Paragraph 15 of IAS 1.	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;	Fully Implemented. Reiterated with updates under Part II – Observation and Recommendation No. 5 of this Report. Assigned one Job Order staff to focus on reconciliation of accounts.
		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	Fully Implemented. Assigned one JO staff to focus on reconciliation.
		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.	Partially Implemented. Reiterated with updates under Part II – Observation and Recommendation No. 5 of this Report. Lack of space, staff, and budget for supplies

Reference	Observations	Recommendations	Actions Taken/Comments
			/materials to be incorporated in CY 2023 COB.
AAR 2020 AO No. 3, page 70	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.	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	Partially Implemented.
		b. Evaluate the other possible effects of said errors/ misstatements in the financial statements such as taxes and make the necessary corrections and adjustments.	Partially Implemented.

Reference	Observations	Recommendations	Actions Taken/Comments
AAR 2020 AO No. 4, page 74	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.	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	Fully Implemented.
		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	Fully Implemented.

Reference	Observations	Recommendations	Actions Taken/Comments
		Income – APF accounts in the amount of P5.545 million to fairly present these accounts in the financial statements as of December 31, 2020.	
AAR 2020 AO No. 5, page 77	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.	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	Fully Implemented.
		b. Direct the concerned FMD personnel to be extra careful in the recording of financial transactions to avoid errors and/or misleading information.	Fully Implemented.
AAR 2020 AO No. 6, page 79	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	We recommended that Management: a. Instruct the FMD to:	
		a.1. Expedite the reconciliation of accounts;	Fully Implemented. Reiterated with

Reference	Observations	Recommendations	Actions Taken/Comments
	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.		updates under Part II – Observation and Recommendation No. 3 of this Report.
		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;	Partially Implemented. Reiterated with updates under Part II – Observation and Recommendation No. 3 of this Report.
		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	Fully Implemented.

Reference	Observations	Recommendations	Actions Taken/Comments
		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.	Fully Implemented. Reiterated with updates under Part II – Observation and Recommendation No. 3 of this Report.
		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.	Fully Implemented.
AAR 2020 AO No. 7, page 83	The accuracy and reliability of the balance of the Inter-agency Payables - Due to BIR account in the amount	We recommended that Management instruct the FMD to:	

Reference	Observations	Recommendations	Actions Taken/Comments
	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.	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;	Partially Implemented.
		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	Partially Implemented.

Reference	Observations	Recommendations	Actions Taken/Comments
		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.	Fully Implemented.
AAR 2020 AO No. 8, Page 86	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:	We recommended that Management direct the FMD 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.	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;	Fully Implemented. Reiterated with updates under Part II – Observation and Recommendation No. 4 of this Report.
	b. Non-maintenance of Subsidiary Ledgers (SLs) for the various accounts, contrary to the requirement of Paragraph QC26	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	Fully Implemented.

Reference	Observations	Recommendations	Actions Taken/Comments
	of the Conceptual Framework for General Purpose Financial Reporting (CFGPFR); and	adequate and reasonable AFI;	
	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.	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;	Partially Implemented. Lack of workforce and office space for storage for files. Procurement of Accounting Software is in process.
		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	Fully Implemented.

Reference	Observations	Recommendations	Actions Taken/Comments
		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.	Fully Implemented.
<u>NON-FINANCIAL</u> AAR 2020 AO No. 9, page 92	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.	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;	Fully Implemented.
		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;	Fully Implemented.
		c. Formulate policies and procedures that would expedite the transfer of the remaining/outstanding balances of Resident Retirees' VDs from de-accredited to PRA	Fully Implemented.

Reference	Observations	Recommendations	Actions Taken/Comments
		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	Fully Implemented. Retirees are required to renew their IDs yearly and update their records regularly as part of the new monitoring system.
		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.	Fully Implemented.
AAR 2020 AO No. 10, page 96	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	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	 Partially Implemented. To submit an appeal within the allowed period.

Reference	Observations	Recommendations	Actions Taken/Comments
	disallowance is not yet fully settled by all the persons found liable, contrary to COA rules and regulations.	b. Enforce collection/payment of the audit disallowances covered by COE from all the persons found liable pursuant to COA rules and regulations.	Fully Implemented. Filed cases and entered into compromise agreements for three of the four former employees concern. One case is parked due to lack of jurisdiction.
AAR 2020 AO No. 11, page 99	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.	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.	Fully Implemented. As of November 30, 2021, only 19 DVs for CY 2019 and 58 DVs for CY 2020 were not yet submitted to COA.
GENDER AND DEVELOPMENT AAR 2020 AO No. 12, page 100	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).	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	 Partially Implemented. Lack of training in budget attribution/ mainstreaming.
		b. Exert all efforts to institutionalize GAD database/Sex-disaggregated data pursuant to Section	Partially Implemented. Reiterated with updates under Part

Reference	Observations	Recommendations	Actions Taken/Comments
		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.	II – Observation and Recommendation No. 12 of this Report. Some of the GFPS held a meeting with PCW GAD Specialist on the requirements for attribution of program, and to capacitate the GAD Focal Point System, an online training was held on GAD Planning and Budgeting, wherein the topic of attribution was discussed, wherein the topic of attribution was discussed. Furthermore, a seminar on the application of HGDG on Divisional Plans and Programs will be held in CY 2022.

Status of Unsettled Audit Suspensions and Disallowances
As of December 31, 2021

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	P 1,036,768.21	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.
2021(19)–001	Payee, former Chief Accountant, General Manager/CEO, Deputy General Manager, Accountant III, Acting Budget Officer III, Former Chief Accountant	Withheld salaries of person liable applied as partial payment to a final and executory ND were refunded/returned to her by PRA despite the fact that the total amount of disallowance was not yet settled.	232,628.00	For issuance of Notice of Finality of Decision and COA Order of Execution.
Total			**P 2,271,896.23**	