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, 2022 and 2021

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, 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for the world's retirees, the PRA offers various retirement products with required visa deposits (VDs) that can be withdrawn when the retiree leaves/withdraws from the program or in case of end-of-term obligations.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 VDs with private banks. Accredited marketers provide enrolment services to applicants.

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

With the passage of Tourism Act of 2009, also known as Republic Act (RA) No. 9593 on May 12, 2009, the supervision of the 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, 2022:

Position / Designation	Name
1. General Manager and CEO	Bienvenido K. Chy
2. Deputy General Manager	Ma. Milagros R. Lisaca
3. Chairperson, Board of Trustees	Ma. Ezperanza Christina Garcia Frasco Secretary, DOT
4. Member, Board of Trustees	Felipe M. Medalla Governor, Bangko Sentral ng Pilipinas
5. Member, Board of Trustees	Norman G. Tansingco Commissioner, BI
6. Member, Board of Trustees	Verna Emeralda C. Buensuceso Assistant Secretary, DOT

As of December 31, 2022 the PRA had a total of 162 manpower complement consisting of 84 regular employees and 78 job orders.

FINANCIAL HIGHLIGHTS (In Philippine Peso)

I. Comparative Financial Position

	2022	2021	Increase (Decrease)
Assets	24,149,466,306	21,747,486,690	2,401,979,616
Liabilities	21,874,500,853	19,743,859,920	2,130,640,933
Equity	2,274,965,453	2,003,626,770	271,338,683

II. Comparative Comprehensive Income

	2022	2021	Increase/ (Decrease)
Income	2,622,721,484	1,810,519,476	812,202,008
Personnel services	93,024,771	73,769,315	19,255,456
Maintenance and other operating expenses	100,395,254	69,334,238	31,061,016
Financial expenses	19,468	3,188,652	(3,169,184)
Direct costs	51,597,759	16,613,302	34,984,457
Unrealized loss on foreign exchange	1,754,312,282	1,048,487,221	705,825,061
Non-cash expenses	36,469,571	160,679,211	(124,209,640)
Total expenses	2,035,819,105	1,372,071,939	663,747,166
Profit before tax	586,902,379	438,447,537	148,454,842
Income tax expense	131,117,000	90,831,558	40,285,442
Net income	455,785,379	347,615,979	108,169,400
Other comprehensive income/(loss) for the period	-	-	-
Comprehensive income	**455,785,379**	**347,615,979**	**108,169,400**

III. Comparison of 2022 Budget and Actual Amounts

	Approved COB	Actual	Variance
Personnel services	128,334,000	87,529,294	40,804,706
Maintenance and other operating expenses	265,238,880	181,916,851	83,322,029
Capital outlays	17,103,120	3,324,650	13,778,470
Total	**410,676,000**	**272,770,795**	**137,905,205**

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, 2022 and 2021 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 an adverse opinion on the fairness of presentation of the financial statements in view of the following:

1. The fair presentation of the balance of the Trust Liabilities (TL) – Visa Deposits (VDs) and Interest Payable (IP) accounts totaling P19,851.579 million could not be ascertained due to the unaccounted discrepancy of P225.760 million, compared to the balances of its contra assets accounts totaling P19,625.819 million, contrary to Paragraph 15 of the Philippine Accounting Standard (PAS) 1.

2. The TL – Interest on VDs account with balance of P239.576 million was understated by P35.293 million with the corresponding overstatement of the Interest Income for the same amount in view of the interest earned by the Retirees' VDs deposited/invested to the DBP that was partly shared with the PRA despite the absence of specific terms of sharing under Section 2 of Rule VIII of the Implementing Rules and Regulations of EO No. 1037, contrary to Paragraph 15 of PAS 1.

3. The balances of the Deferred Tax Asset (DTA) and the Deferred Tax Liability (DTL) accounts totaling P1,584.492 million and P1,322.609 million were overstated by P58.672 million and P45.270 million, respectively, due to: (a) non-adjustment of the prior years' misapplication of corporate income tax rate of 30 percent instead of 25 percent which overstated also the Retained Earnings (RE) account by P13.402 million; and (b) non-recognition in the books of realized gain (loss) on foreign exchange for withdrawn/paid VDs of retirees with cancelled PRA membership; contrary to Paragraphs 47 and 51 of the PAS 12 and Paragraphs QC12 and QC15 of the Conceptual Framework for Financial Reporting (CFFR).

4. The Receivable – Accounts Receivable (AR) account with carrying amount of P66.083 million had a net understatement of P5.389 million due to: (a) erroneous recording of accruals on Annual PRA Fee (APF) and non-revaluation of several accruals on the change in foreign exchange (FOREX) rates which also understated the Gain on FOREX and Unrealized Loss on FOREX by P4.938 million and P0.810 milllion, respectively, and overstated the Service Income (SI) – APF by P28.758 million; and (b) non-accrual of Management Fee (MF) income for several months in CY 2022 which understated the SI – MFs account by P30.019 million; contrary to Paragraphs QC12 and QC15 of the CFFR and Paragraph 27 of PAS 1.

5. Prior period adjustment amounting to P49.094 million was erroneously credited to Impairment Loss (IL) account instead of the RE account which was inconsistent with Paragraphs 8, 42 and 34 of PAS 8 resulting in the understatement of both accounts by P49.094 million. Likewise, the correctness of the valuation of the Receivable - AR account with a carrying amount of P66.084 million could not be ascertained due to inconsistency with the requirements of Philippine Financial Reporting Standard (PFRS) 9 in measuring the Expected Credit Losses (ECL) on the agency's receivables, and in the disclosure of relevant information in the financial statements, contrary to Paragraph 15 of PAS 1.

6. The fair presentation of the balance of the Cash and Cash Equivalent account totaling P314.976 million as of December 31, 2022 could not be established due

to the net variance of P59.980 million between the balances per books and confirmed bank balances consisting of various book reconciling items (BRI) and errors which remained unadjusted as of year-end, contrary to Paragraph 15 of the PAS 1.

7. The Comparative Financial Statements for CYs 2022 and 2021 were not restated due to the absence of details or breakdown of prior period adjustments reflected under the RE account totaling P16.756 million, contrary to Paragraphs 42 and 49 of PAS 8.

8. The reliability of the balances of three asset and three liability accounts having total balances of P20,980.290 million and P21,237.132 million, respectively, as at December 31, 2022 could not be ascertained in the absence of Subsidiary Ledgers (SL) to support their General Ledger balances, contrary to Paragraph QC26 of the CFFR which hindered the Audit Team to perform other alternative procedures to verify the correctness of the balances of these accounts.

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

1.1. Direct the Financial Management Division (FMD) to:

a. Expedite and exert all efforts to reconcile the balances of the TL – VD and IP with their contra accounts, Other Non-Current Assets – Restricted Funds (RF)-VDs, IP-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 possible, assign personnel who are knowledgeable on the accounts to facilitate the monitoring and reconciliation of the said discrepancies; and

b. Formulate written acounting policies that would provide proper guidance to the FMD personnel in the recording of transactions relating to the receipt, interest earned, and withdrawal of the VDs to ensure accuracy, uniformity, and consistency on the keeping of the PRA's accounts to come up with reliable and correct financial reports;

1.2. We further recommended that Management direct the FMD, in collaboration with the Resident Retiree Servicing Department, and with the assistance of the Information and Communication Technology Division, to create SLs for the accounts of each Retiree-Member to facilitate the monitoring of their balances as of any given time as well as the reconciliation of the balances of the TL accounts and its contra-accounts;

2.1. Direct the concerned FMD personnel to:

a. Make the necessary adjustments to reinstitute the interest income of the retirees from their VDs and to correct the understatement of the TL - Interest on VD account by P35.293 million and overstatement of Interest Income account by the same amount; and

b. Ensure complete disclosure of the interest earned by the VDs of the Retirees to promote transparency and accountability of the agency to its stakeholders;

3.1. Direct the FMD personnel to:

a. Effect the necessary adjustments to correct the overstatement of the DTA, the DTL and the RE accounts in the amounts of P58.672 million; P45.270 million; and P13.402 million, respectively, to fairly present the said accounts in the financial statements as of December 31, 2022;

b. Maintain SL for each of the DTA and the DTL accounts where related transactions are recorded in details to support their balances for easy verification and monitoring, while all necessary information on deferred taxes shall be disclosed in compliance with disclosure requirements to ensure complete information is available to the users of the financial statements;

c. Moving forward, prepare the adjustments necessary to reflect any realized gain or loss on Forex for transactions about refund of VDs to retirees with cancelled membership instead of considering only the year-end revaluation to come up with accurate balances of the unrealized gain or loss on Forex account; and

d. Prepare a written policy containing the guidelines on the recognition/recording of the PRA's transactions that would serve as reference and guide of the FMD personnel in the performance of their functions to avoid or lessen errors in the preparation of the agency's financial statements;

4.1. Direct the FMD personnel to:

a. Effect the necessary adjustments to correct the net understatement of Receivable – AR account in the amount of P5.389 million and SI - MF account by P30.019 million while overstatement of SI – APF, Unrealized Gain on Forex, and Unrealized Loss on Forex accounts by P28.758 million; P4.938 million; and P0.810 million, respectively, to fairly present the affected accounts in the year-end financial statements;

b. Formulate written policy on the recording of transactions such as accruals of income, changes in foreign currency, and other related transactions that would serve as guide and reference of the FMD personnel to avoid errors as well as to promote consistency. Likewise, exercise extra care in the recording of transactions; and

c. Consistently compute and recognize in the books the accruals of MFs for the accredited and de-accredited banks to ensure the accuracy and completeness of the reported income/receivable on MFs in the books;

5.1 Direct the FMD to:

a. Effect the necessary adjustments to correct the understatement of both the IL and RE accounts in the amount of P49.094 million, and moving forward, ensure that all prior period errors are adjusted in the books retrospectively in compliance with Paragraph 42 of PAS 8 to come up with correct year-end balances;

b. Conduct an immediate reassessment of the established ECL that is notably above what is usual by considering all relevant factors as required in PFRS 9 to come up with a more realistic, truthful, and reflective basis for its measurement at the reporting date;

c. Expedite the formulation of a written accounting policy specifically on measuring the ECL on receivables which shall serve as basis for the adoption of the requirements of PFRS 9, and submit the said policy to the PRA General Manager and Board of Trustees, for approval; and

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

5.2 We also recommended that Management enhance the collection process of its outstanding receivables in view of the estimate or projection of the FMD on the ECL related to it. Be proactive in the collection efforts by sending Billing Statements regularly to the retiree members/client banks for them to be notified of their obligations to the PRA, assigning/designating specific personnel to manage and handle the collection of receivables, and employing additional collection strategies to improve the agency's collection efficiency;

6.1 Direct the concerned FMD personnel to expedite the reconciliation of the bank accounts by assigning additional personnel to focus on the validation of collections through direct deposits and the correct preparation of the Bank Reconciliation Statements on a monthly basis and thereafter, submit to COA. Likewise, verify thoroughly the BRIs and immediately effect the necessary adjustments to fairly present the balance of the Cash and Cash Equivalents account in the financial statements;

6.2 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 the clients to immediately notify/inform the FMD aside from the Resident Retiree Servicing Department personnel for any direct deposits made; and

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

7.1 Direct the FMD to:

a. Immediately identify all the related adjustments totaling P16.756 million, and thereafter, restate the financial statements to the earliest period presented by restating the opening balances of assets, liabilities and equity for the earliest prior period presented;

b. Submit to COA the breakdown thereof for verification purposes; and

c. Ensure that at the recording stage, all prior period adjustments are identified as to the particular year they refer to, by assigning one FMD personnel to handle such in order to expedite the restatement process of financial statements at year-end; and

8.1 Direct the FMD and other concerned Divisions to immediately prepare and maintain SLs for the six significant accounts such as the AR, RF, DTA, AP, TL and DTL to support their balances presented in the GL and in the Financial Statements, in conformity with Paragraph QC26 of the CFFR.

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

9. Regular expenses of the agency such as postage/courier fees, and fuel/oil totaling P0.736 million and P1.439 million, respectively, were charged to the Petty Cash Fund (PCF) of the agency, contrary to Section 4.3.2 of COA Circular No. 97-002, which resulted in unnecessary establishment of PCF for that purpose, additional time allotted for processing of documents, and exclusion of said expenses from the regular procurement required under Section 7.2 RA No. 9184.

9.1 We recommended that Management:

a. Discontinue the procurement of fuel, courier services, and the like through PCF as these are part of the regular expenses of the agency, in compliance with Section 4.3.2 of COA Circular No. 97-002 and to lessen the exposure of risk since cash is susceptible to misappropriation/theft;

b. Strictly comply with the requirements of RA No. 9184 by undertaking the procurement of fuel/lubricant/oil, courier services, and the like through public bidding or alternative methods of procurement, whichever is applicable as prescribed to ensure efficient and cost-effective management of fuel purchases/consumption and courier services; and

c. Moving forward, include in the agency's Annual Procurement Plan the procurement of fuel and service provider for courier services including the method of procurement and other pertinent information in order to be consistent with the agency's approved corporate operating budget for the year and in compliance with Section 7.2 of RA No. 9184.

10. The necessity of the foreign travel expenses incurred for ocular inspection totaling P424,122 cannot be established due to purposes that could have been achieved through alternative measures without entailing additional costs, which was not consistent with Section 2 of Presidential Decree (PD) No. 1445 and Section 4.1 of COA Circular No. 2012-003 dated October 29, 2012.

10.1 We recommended that Management:

a. Devise means of monitoring and verifying the compliance of the supplier with the deliverables or obligations required of him other than ocular inspection such as a Certificate of Completion/Compliance duly supported by reliable reports, videos, pictures with the actual dates and time when taken, and, other reliable ways, taking advantage of the available technology advancements, to avoid the incurrence of unnecessary costs/expenditures which are disallowable in audit;

b. Formulate written policies pertaining to the agency's advertising strategies, the best ways of measuring the compliance of the supplier/advertiser with the agreed deliverables including possible alternative activities for practicality and economic purposes, the reliable documents/reports to be submitted, and the right people to handle; and

c. Exercise the diligence of a good father of a family in the utilization of the funds of government in conformity with Section 2 of PD No. 1445 in order to avoid unnecessary expenses as defined in Section 4.1 of COA Circular No. 2012-003.

SUMMARY OF UNSETTLED AUDIT SUSPENSIONS, DISALLOWANCES AND CHARGES

The unsettled audit disallowances and suspensions as of December 31, 2022 amounted to P2.272 million and P175,132 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 41 audit recommendations embodied in the prior year's Annual Audit Report, 23 were fully implemented while 18 were not implemented.

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

INDEPENDENT AUDITOR'S REPORT

THE BOARD OF TRUSTEES
Philippine Retirement Authority
29th Floor, BDO Towers Valero
8741 Paseo de Roxas, Makati City

Report on the Audit of the Financial Statements

Adverse Opinion

We have audited the financial statements of the **Philippine Retirement Authority (PRA**), which comprise the statements of financial position as at December 31, 2022 and 2021, 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, because of the significance and pervasiveness of effects of the matters discussed in the *Bases for Adverse Opinion* section of our report, the accompanying financial statement do not present fairly, in all material respects, the financial position of the PRA as at December 31, 2022 and 2021, and its comprehensive income and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards (PFRSs).

Bases for Adverse Opinion

The fair presentation of the balance of the Trust Liabilities – Visa Deposits and Interest Payable accounts totaling P19,851.579 million could not be ascertained due to the unaccounted discrepancy of P225.760 million, compared to the balances of its contra assets accounts totaling P19,625.819 million, contrary to Paragraph 15 of the Philippine Accounting Standard (PAS) 1.

The Trust Liability – Interest on Visa Deposits (VDs) account with balance of P239.576 million was understated by P35.293 million with the corresponding overstatement of the Interest Income for the same amount in view of the interest earned by the Retirees' VDs deposited/invested to the Development Bank of the Philippines that was partly shared with the PRA despite the absence of specific terms of sharing under Section 2 of Rule VIII of the Implementing Rules and Regulations of Executive Order No. 1037, contrary to Paragraph 15 of PAS 1.

Also, the balances of the Deferred Tax Asset and the Deferred Tax Liability accounts totaling P1,584.492 million and P1,322.609 million were overstated by P58.672 million and P45.270 million, respectively, due to: (a) non-adjustment of the prior years' misapplication of corporate income tax rate of 30 percent instead of 25 percent which overstated also the Retained Earnings (RE) account by P13.402 million; and (b) non-recognition in the books of realized gain (loss) on foreign exchange for withdrawn/paid VDs of retirees with cancelled PRA membership; contrary to Paragraphs 47 and 51 of PAS 12 and Paragraphs QC12 and QC15 of the Conceptual Framework for Financial Reporting (CFFR).

Likewise, the Receivable – Accounts Receivable account with carrying amount of P66.083 million had a net understatement of P5.389 million due to: (a) erroneous recording of accruals on Annual PRA Fee and non-revaluation of several accruals on the change in foreign exchange rates which also understated the Gain on Foreign Exchange (FOREX) and Unrealized Loss on FOREX by P4.938 million and P0.810 milllion, respectively, and overstated the Service Income - Annual PRA Fees by P P28.758 million; and (b) non-accrual of Management Fee (MF) income for several months in CY 2022 which understated the Service Income – MFs account by P30.019 million; contrary to Paragraphs QC12 and QC15 of the CFFR and Paragraph 27 of PAS 1.

Moreover, prior period adjustment amounting to P49.094 million was erroneously credited to Impairment Loss account instead of the RE account which was inconsistent with Paragraphs 8, 42 and 34 of PAS 8 resulting in the understatement of both accounts by P49.094 million. Likewise, the correctness of the valuation of the Receivable - Accounts Receivable account with a carrying amount of P66.084 million could not be ascertained due to inconsistency with the requirements of PFRS 9 in measuring the Expected Credit Losses on the agency's receivables, and in the disclosure of relevant information in the financial statements, contrary to Paragraph 15 of PAS 1.

Further, the fair presentation of the balance of the Cash and Cash Equivalent account totaling P314.976 million as of December 31, 2022 could not be established due to the net variance of P59.980 million between the balances per books and confirmed bank balances consisting of various book reconciling items and errors which remained unadjusted as of year-end, contrary to Paragraph 15 of PAS 1.

Furthermore, the Comparative Financial Statements for CYs 2022 and 2021 were not restated due to the absence of details or breakdown of prior period adjustments reflected under the RE account totaling P16.756 million, contrary to Paragraphs 42 and 49 of PAS 8.

Lastly, the reliability of the balances of three asset and three liability accounts having total balances of P20,980.290 million and P21,237.132 million, respectively, as at December 31, 2022 could not be ascertained in the absence of Subsidiary Ledgers to support their General Ledger balances, contrary to Paragraph QC26 of the CFFR which hindered the Audit Team to perform other alternative procedures to verify the correctness of the balances of these accounts.

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.

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 the PRA or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the 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, 2022, 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
Supervising Auditor
Audit Group D – PRA/VFP/BSoP
Corporate Government Audit Sector – Cluster 6

May 23, 2023

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, 2022 and 2021, 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, Adm. and Finance Services Department
March 30, 2023
Date Signed

ATTY. BIENVENIDO K. CHY
General Manager and CEO
March 30, 2023
Date Signed

MA. ESPERANZA CHRISTINA GARCIA FRASCO
Secretary – Department of Tourism
Chairman of the Board of Trustees

March 30, 2023
Date Signed

DEPARTMENT OF TOURISM PHILIPPINES
ABQ449

PHILIPPINE RETIREMENT AUTHORITY
29/F BDO Towers Valero, (formerly Citibank Tower)
Paseo de Roxas, Makati City 1209 Metro Manila, Philippines
Tel. No.: +632.8848.1412 - 16 Fax No.: +632.8848.1421
Email: inquiry@pra.gov.ph Website: www.pra.gov.ph
PhilippineRetirementVisa

IT'S MORE FUN IN THE PHILIPPINES
CERTIFICATION INTERNATIONAL SOCOTEC ISO 9001

PHILIPPINE RETIREMENT AUTHORITY
STATEMENTS OF FINANCIAL POSITION
As at December 31, 2022 and 2021
(In Philippine Peso)

	Note	2022	2021
ASSETS			
Current Assets			
Cash and cash equivalents	5	314,975,884	349,597,290
Investment in time deposits	6	2,695,506,752	2,513,411,952
Receivables - net	7	105,530,902	108,325,667
Inventories	8	3,658,098	3,913,224
Other current assets	9	23,477,907	26,322,175
Total Current Assets		**3,143,149,543**	**3,001,570,308**
Non-Current Assets			
Investment in stocks	10	3,500,000	3,500,000
Other receivables	11	7,095,488	7,540,541
Property, plant and equipment	12	72,742,930	103,221,409
Intangible assets	13	3,235,965	1,579,545
Deferred tax assets	31.3	1,584,492,850	1,120,401,119
Other non-current assets	14	19,335,249,530	17,509,673,768
Total Non-Current Assets		**21,006,316,763**	**18,745,916,382**
Total Assets		**24,149,466,306**	**21,747,486,690**
LIABILITIES			
Current Liabilities			
Financial liabilities	15	59,937,612	44,988,390
Inter-agency payables	16	175,069,742	115,373,786
Other payables	18	491,095	250,457,337
Total Current Liabilities		**235,498,449**	**410,819,513**
Non-Current Liabilities			
Trust liabilities	17	19,858,191,209	17,982,092,828
Deferred credits/unearned income	19	401,093,793	366,762,803
Provisions	20	13,864,326	10,332,319
Deferred tax liabilities	31.4	1,322,609,359	908,074,293
Lease Payable	21	43,243,717	65,778,164
Total Non-Current Liabilities		**21,639,002,404**	**19,333,040,407**
Total Liabilities		**21,874,500,853**	**19,743,859,920**
EQUITY			
Government equity	22	63,217,089	63,217,089
Retained earnings	23	2,208,848,364	1,937,509,681
Other comprehensive income	10	2,900,000	2,900,000
Total Equity		**2,274,965,453**	**2,003,626,770**
Total Liabilities and Equity		**24,149,466,306**	**21,747,486,690**

The notes on pages 10 to 58 form part of these statements.

PHILIPPINE RETIREMENT AUTHORITY
STATEMENTS OF COMPREHENSIVE INCOME
For the years ended December 31, 2022 and 2021
(In Philippine Peso)

	Note	2022	2021
Income			
Service income	24.1	646,341,046	559,745,008
Business income	24.2	62,460,348	75,123,904
Gains on forex	24.3	1,913,214,370	1,175,001,564
Other non-operating income	24.4	705,720	649,000
Total Income		**2,622,721,484**	**1,810,519,476**
Expenses			
Personnel services	26	93,024,771	73,769,315
Maintenance and other operating expenses	27	100,395,254	69,334,238
Financial expenses	29	19,468	3,188,652
Direct costs	25	51,597,759	16,613,302
Loss on foreign exchange	30	1,754,312,282	1,048,487,221
Non-cash expenses	28	36,469,571	160,679,211
Total Expenses		**2,035,819,105**	**1,372,071,939**
Profit before tax		586,902,379	438,447,537
Income tax expense	31.2	131,117,000	90,831,558
Profit after tax		455,785,379	347,615,979
Net assistance/subsidy(financial assistance/subsidy/contribution)		-	-
Net income		455,785,379	347,615,979
Other comprehensive income(loss) for the period	10	-	-
Total Comprehensive Income		**455,785,379**	**347,615,979**

The notes on pages 10 to 58 form part of these statements.

PHILIPPINE RETIREMENT AUTHORITY
STATEMENTS OF CHANGES IN EQUITY
For the years ended December 31, 2022 and 2021
(In Philippine Peso)

	Note	Retained Earnings	Other Comprehensive Income	Government Equity	Total
		23	10	22	
BALANCE AT JANUARY 1, 2021		**1,989,893,702**	**2,900,000**	**63,217,089**	**2,056,010,791**
CHANGES IN EQUITY FOR 2020					
Add/(deduct):					
Comprehensive income		347,615,979	-	-	347,615,979
Dividends	23	(400,000,000)	-	-	(400,000,000)
Other adjustments		-	-	-	-
BALANCE AT DECEMBER 31, 2021		**1,937,509,681**	**2,900,000**	**63,217,089**	**2,003,626,770**
CHANGES IN EQUITY FOR 2021					
Add/(deduct):					
Comprehensive income		455,785,379	-	-	455,785,379
Dividends	23	(167,690,588)	-	-	(167,690,588)
Other adjustments		(16,756,108)	-	-	(16,756,108)
BALANCE AT DECEMBER 31, 2022		**2,208,848,364**	**2,900,000**	**63,217,089**	**2,274,965,453**

The notes on pages 10 to 58 form part of these statements.

PHILIPPINE RETIREMENT AUTHORITY
STATEMENTS OF CASH FLOWS
For the years ended December 31, 2022 and 2021
(In Philippine Peso)

	Note	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash inflows			
Collection of income/revenue		246,219,283	236,827,461
Collection of receivables		446,028,201	265,494,022
Trust receipts		9,529,901	6,131,960
Other receipts		1,094,726	696,214
Total cash inflows		**702,872,111**	**509,149,657**
Adjustments		-	1,230,196
Adjusted cash inflows		**702,872,111**	**510,379,853**
Cash outflows			
Payment of expenses		120,046,722	99,090,091
Purchase of inventories		4,184,961	1,435,076
Grant of cash advances		859,784	1,340,627
Prepayments		277,465	430,054
Refund of deposits		73,635	78,911
Payments of accounts payable		24,238,282	25,962,730
Remittance of personnel benefit contributions		22,823,613	30,581,700
Other disbursements		8,713,624	9,884,729
Total cash outflows		**181,218,087**	**168,803,918**
Adjustments		9,108,083	9,860,151
Adjusted cash outflows		**190,326,169**	**178,664,069**
Net cash provided by (used in) operating activities		**512,545,941**	**331,715,784**
CASH FLOWS FROM INVESTING ACTIVITIES			
Cash inflows			
Receipt of interest earned		48,963,676	23,367,721
Proceeds from matured investments		17,909,051	76,665,868
Total cash inflows		**66,872,726**	**100,033,589**
Adjustments		-	-
Adjusted cash inflows		**66,872,726**	**100,033,589**
Cash outflows			
Purchase of property, plant and equipment		2,400,000	2,632,950
Purchase of investments		182,094,799	166,980,012
Total cash outflows		**184,494,799**	**169,612,962**
Net cash provided by (used in) investing activities		**(117,622,073)**	**(69,579,373)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash outflows			
Interest Expenses (Right of Use)		1,933	3,181,732
Repayment of borrowings and leasing liabilities (Right of Use)		18,634,750	18,261,195
Payment of cash dividends		417,690,588	150,000,000
Total cash outflows		**436,327,271**	**171,442,927**
Net cash provided by (used in) financing activities		**(436,327,271)**	**(171,442,927)**
Net increase (decrease) in cash and cash equivalents		**(41,403,403)**	**90,693,484**
Effects of exchange rate changes on cash and cash equivalents		6,781,997	8,347,032
CASH AND CASH EQUIVALENTS, JANUARY 1	5	**349,597,290**	**250,556,774**
CASH AND CASH EQUIVALENTS, DECEMBER 31	5	**314,975,884**	**349,597,290**

The notes on pages 10 to 58 form part of these statements.

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

1. GENERAL INFORMATION

The financial statements of **PHILIPPINE RETIREMENT AUTHORITY** (PRA) were authorized for issue on March 30, 2023 as shown in the Statement of Managements Responsibility for Financial Statements signed by Sec. Ma. Esperanza Christina Garcia Frasco – Department of Tourism (DOT) Secretary/Chairman of the Board of Trustees.

The 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 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 (forex) 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 the PRA was transferred from the Department of Trade and Industry to the DOT.

As of December 31, 2022, the 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 162 workforce consisting of 84 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 (FRSC) 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 2022 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, 2022:

- 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 9, *Financial Instruments*, Fees in the '10 percent' test for derecognition of financial liabilities – The amendment clarifies which fees an entity includes when it applies the '10 percent' 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.

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

b. New Standards effective in 2022 that are not relevant or not applicable to the PRA

- 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 the PFRSs.

- Amendments to PFRS 3, *Business Combinations, Reference to the Conceptual Framework* – The amendment updates PFRS 3 so that it refers to the 2018 Conceptual Framework instead of the 1989 Framework; add to PFRS 3 a requirement that, for transactions and other events within the scope of PAS

37 or International Financial Reporting Interpretations Committee (IFRIC) 21, an acquirer applies PAS 37 or IFRIC 21 (instead of the Conceptual Framework) to identify the liabilities it has assumed in a business combination; and add to PFRS 3 an explicit statement that an acquirer does not recognise contingent assets acquired in a business combination.

- 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.

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, 2022 and have not been applied in preparing the financial statements are summarized below:

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 PAS 1 and PFRS Practice Statement 2, *Disclosure Initiative – Accounting Policies* – The amendments aim to help entities provide accounting policy disclosures that are more useful by: (i) replacing the requirement for entities to disclose their ‘significant’ accounting policies with a requirement to disclose their ‘material’ accounting policies; and (ii) adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures.

- Amendments to PAS 8*, Definition of Accounting Estimates* – The amendments introduced a definition of accounting estimates are, “monetary amounts in financial statements that are subject to measurement uncertainty” and to clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors.

- Amendments to PAS 12*, Income Taxes, Deferred Tax related to Assets and Liabilities from a Single Transaction* – The main change is an exemption from the initial recognition exemption provided in PAS 12. Accordingly, the initial recognition exemption does not apply to transactions in which equal amounts of deductible and taxable temporary differences arise on initial recognition.

Effective for annual periods beginning on or after January 1, 2025:

- Amendments to PFRS 17, *Insurance Contracts* – On December 15, 2021, the FRSC amended the mandatory effective date of PFRS 17 from January 1, 2023 to January 1, 2025. This is consistent with Circular Letter No. 202062 issued by the Insurance Commission which deferred the implementation of International Financial Reporting Standards (IFRS) 17 by two (2) years after its effective date as decided by the International Accounting Standards Board.

  The main changes resulting from Amendments to PFRS 17 are:

  - Deferral of the date of initial application of PFRS 17 by two years to annual periods beginning on or after January 1, 2025 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, 2025.
  - 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.

- Amendment to PFRS 17, *Initial Application of PFRS 17 and PFRS 9 – Comparative Information* – The amendment adds a transition option that permits an entity to apply an optional classification overlay in the comparative period(s) presented on initial application of PFRS 17. The overlay allows all financial assets, including those held in respect of activities not connected to contracts within the scope of PFRS 17, to be classified, on an instrument-by-instrument basis, in the comparative period(s) in a way that aligns with how the entity expects those assets to be classified on initial application of PFRS 9. The overlay can be applied by entities that have already applied PFRS 9 or will apply it when they apply PFRS 17.

Under prevailing circumstances, the adoption of the foregoing amendments to Standards is expected to have little to 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.

- Amendments to PFRS 4, *Applying PFRS 9 Financial Instruments with PFRS 4 Insurance Contracts* - The amendments respond to industry concerns about the impact of differing effective dates. The amendments to PFRS 4 provide two optional solutions to reduce the impact of the differing effective dates of PFRSs 9 and 17. The two optional solutions are the temporary exemption from PFRS 19 and the overlay approach. Under the temporary approach, rather than having to implement PFRS 19, some companies are permitted to continue to apply PFRS 30, Financial Instruments. The overlay approach to presentation alleviates temporary accounting mismatches and volatility. For designated financial assets, a company is permitted to reclassify between profit or loss and other comprehensive income (OCI), the difference between the amounts recognized in profit or loss under PFRS 9 and those that would have been reported under PAS 39.

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 the 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, 2022 and 2021, 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 the FVTPL under the fair value option, the financial assets shall be measured at the 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 the FVOCI in case the above conditions are not met.

Financial assets at the 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 the FVOCI are recognized directly in profit or loss. When the financial asset is derecognized, the cumulative gains or losses previously recognized in the OCI are reclassified from equity to profit or loss as a reclassification adjustment.

Dividends from equity instruments held at the 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 the 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, 2022 and 2021, 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	**2022**	**2021**
Less than 90 days	41,482,475	63,958,558
91-365 days	120,416,692	103,194,897
Over one year	22,334,957	18,890,345
Over three years	62,254,611	49,265,418
Total	**246,488,736**	**235,309,218**

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. The US Dollar investments are revalued and recorded using the US Dollar rates conversion at the end of the year of P55.755 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 the 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 the ECLs that result from possible default events within the 12 months after the reporting date; or

- *Lifetime ECLs*. These are the 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.

The 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 the 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 the ECLs is the maximum contractual period over which the PRA is exposed to credit risk.

Measurement of the ECLs

The 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). The 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 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 the OCI is recognized in profit or loss. A cumulative gain or loss that had been in the 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 the 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 the FVTPL or other financial liabilities.

Financial liabilities at the 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 the 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 FVTPL.

Financial liabilities at the 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 No. 2022-004, tangible assets with acquisition cost of P50,000 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 percent of the acquisition cost.

The PRA uses the life span of the 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.

The PRA derecognizes items of the 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 No. 2022-004, tangible assets with acquisition cost P50,000.00 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 BDO Towers Valero 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 25 percent regular corporate income tax rate or two percent 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 the OCI or directly in equity, in which case, the current and deferred tax are also recognized in the 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.

Derecognition of Non-financial assets

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

3.9 Leases

The PRA as a lessee

The PRA assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

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

Lease that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration are assessed by 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 statement of financial position. 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 the 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 the 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 percent (1/2%) to 1.5 percent (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 the 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 starting 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 the 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 percent (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 the 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:

Services	**PRA**	**BI**
Cancellation (plus BI fee)	US$10.00	₱500 *
Visa downgrade	US$10.00	₱4,020*
Re-stamping (plus BI fee)	US$10.00	₱1,010*
Accreditation – New Marketer	US$300.00	
Accreditation – Renewal – Marketer	US$150.00	
ID Issuance – Marketer (for each additional representative in excess of two	₱300.00	
Courier fee (retiree is in the Philippines)	₱150.00 **	
Courier fee (retiree is abroad)	US$20.00 **	
Membership certification	US$10.00	
Others service fees	US$10.00	

**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 Forex 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 Current Year (CY) 2022 and monetary items as at December 31, 2022 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. 2022-004, tangible assets with acquisition cost of P50,000 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 Authority 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	2022	2021
Financial Assets:			
Cash and cash equivalents	5	314,975,884	349,597,290
Investment in time deposits	6	2,695,506,752	2,513,411,952
Receivables, net	7	105,530,902	108,325,667
Investment in stocks	10	3,500,000	3,500,000
Other receivables	11	7,095,488	7,540,541
Restricted fund	14	19,355,249,530	17,509,673,768
		22,481,858,556	**20,492,049,218**

	Note	2022	2021
Financial Liabilities:			
Financial liabilities-current	15	59,937,613	44,988,390
Inter-agency payables	16	175,069,742	115,373,786
Trust liabilities	17	19,858,191,209	17,982,092,828
Lease payables	21	43,243,717	65,778,164
Other payables	18	491,095	250,457,337
		20,136,933,376	**18,458,690,505**

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, 2022 and 2021, without considering the effects of credit risk mitigation techniques.

	Note	2022	2021
Financial Assets:			
Cash and cash equivalents	5	314,975,884	349,597,290
Investment in time deposits	6	2,695,506,752	2,513,411,952
Receivables – gross	7	246,902,652	235,309,219
Investment in stocks	10	3,500,000	3,500,000
Other receivables – gross	11	11,624,845	12,069,899
		3,272,510,133	3,113,888,360

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 PRA 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 the 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, forex 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 the following:

	2022	**2021**
Cash on hand	1,437,764	370,256
Cash in bank-local currency	99,355,081	281,639,844
Cash in bank-foreign currency	214,183,039	67,587,190
	314,975,884	**349,597,290**

Cash on hand is composed of various accounts mainly: (a) Cash collecting officer – local currency which amounted to P908,821 and P228,561 for the years ended December 31, 2022 and 2021, respectively; (b) Cash collecting officer – foreign currency which amounted to $1,270.00 and $2,120.00 as of December 31, 2022 and 2021 respectively, and translated into peso amounts using the corresponding year-end closing rates of P55.755:$1 and P50.999:$1 to arrive at the year-end balances of P70,809 and P108,118;

and (c) Petty cash fund amounting to P441,408 and P13,278, as of December 31, 2022 and 2021, respectively; and (d) Change funds of P0 and P5,000 as of December 31, 2022 and 2021, respectively for local currency and $500 in foreign currency translated at P55.755:$1 and P50.999:$1 to arrive at the year-end balances of P27,878 and P15,300 for CYs 2022 and 2021, 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 $3,841,503.70 and $1,325,265.01 for the years ended December 31, 2022 and 2021, respectively, and translated into peso amounts using the corresponding year-end closing rates of P55.755:$1 and P50.999:$1.

Regular deposits accounts with the LBP and the DBP earn interest at rates ranging from 0.015 percent to 0.205 percent and 0.150 percent to 0.250 percent in 2022 and 2021, respectively.

6. INVESTMENTS IN TIME DEPOSITS

This account consists the following:

	2022	**2021**
Foreign currency time deposits	1,645,506,752	2,390,482,286
Investment in HY deposits	1,050,000,000	122,929,666
	2,695,506,752	**2,513,411,952**

Investment in time deposits refers only to current investments or those investments that have maturities beyond 90 days but within the next 12 months.

Current foreign currency time deposits with the LBP and the DBP amounted to US$29,513,169.26 and US$ 46,873,120.77 as of December 31, 2022 and 2021 and were converted to peso at year-end using the closing rates of P55.755:US$1 and P50.999:US$1, respectively.

Investments in HY deposits with the LBP yield interest rates of one percent in CY 2022 and 1.125 percent to 1.5 percent in CY 2021. Current Investments in US$ time deposits with the LBP and the DBP yield interest rates of 0.15 percent to two percent in CY 2022 and 0.195 percent to two percent in CY 2021.

Included in the foreign currency time deposits is the Investments in time deposits – Restricted account amounting to US$18,832.40 and US$4,039,786.73 as of December 31, 2022 and 2021, 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.

7. RECEIVABLES

This account consists the following:

	2022	2021
Accounts receivable	66,497,834	60,993,349
Interest receivable	39,033,068	47,332,318
	105,530,902	**108,325,667**

7.1 Accounts receivable consist

	2022	2021
VF	67,998,836	50,347,560
Allowance for impairment-VF	(58,459,209)	(47,512,435)
VF – net	9,539,627	2,835,125
MF	28,666,426	61,697,175
Allowance for impairment-MF	(2,642,890)	(51,459,749)
MF – net	26,023,536	10,237,426
HF	10,753,754	2,753,379
Allowance for impairment-HF	(9,905,512)	(2,588,731)
HF – net	848,242	164,648
APF	139,069,720	120,511,105
Allowance for impairment-APF	(109,397,207)	(72,754,955)
APF – net	29,672,513	47,756,150
Other receivable	413,916	-
	66,497,834	**60,993,349**

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 percent 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 percent 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 SRD scheme wherein the VD 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 the PRA accredited banks equivalent to one and half (1.5) percent 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 percent 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 the following:

	2022	**2021**
Information material inventory	1,974,854	1,974,854
Accountable forms, plates and stickers	1,097,396	1,358,745
Office supplies inventory	253,769	188,459
Medical, dental and laboratory supplies inventory	46,983	70,696
Drugs and medicine inventory	43,200	10,146
Other supplies and materials inventory	241,896	310,324
	3,658,098	**3,913,224**

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 the following:

	2022	2021
Creditable withholding tax at source	21,530,711	24,883,456
Advances	29,007	141,557
Prepaid insurance	194,468	124,118
Other prepayments	1,723,721	1,173,044
	23,477,907	**26,322,175**

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 P3.500 million at December 31, 2022 and 2021.

11. OTHER RECEIVABLES

This account consists the following:

	2022	2021
COA disallowances	5,247,634	5,692,687
Due from officers and employees	1,335,719	1,335,719
Marketers accreditation	677,331	677,331
Other receivables	4,364,161	4,364,161
	11,624,845	**12,069,898**
Allowance for impairment	(4,529,357)	(4,529,357)
	7,095,488	**7,540,541**

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 PDIC.

12. PROPERTY, PLANT AND EQUIPMENT

The details of the account are shown below:

	Building and other structures	Machineries and equipment	Motor vehicles	Furniture and fixtures	Total
Cost:					
Balance, January 1, 2022	168,547,001	46,280,685	18,529,724	5,890,683	239,248,093
Additions	-	-	-	-	
(Disposals/adjustments)	-	(4,236,173)	-	-	(4,236,173)
Balance, December 31, 2022	168,547,001	42,044,512	18,529,724	5,890,683	235,011,920
Accumulated depreciation:					
Balance, January 1, 2022	86,878,421	31,081,527	13,367,324	4,699,412	136,026,684
Additions	24,039,827	4,057,643	827,357	582,167	29,506,994
(Disposals/adjustments)	-	(3,264,688)	-	-	(3,264,688)
Balance, December 31, 2022	110,918,248	31,874,482	14,194,681	5,281,579	162,268,990
Net book value, Dec. 31, 2022	**57,628,753**	**10,170,030**	**4,335,043**	**609,104**	**72,742,930**

Building and other structures account pertains to the condominium unit at the BDO Tower Valero, 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:

	2022	2021
Office building	100,199,115	100,199,115
Accumulated depreciation	(60,319,014)	(40,061,506)
Net book value	**39,880,101**	**60,137,609**

13. INTANGIBLE ASSETS

The details of the account are as follows:

	Computer software	Website	Development in Progress	Total
Cost:				
Balance, January 1, 2022	2,796,000	1,335,000	-	4,131,000
Additions	-	-	-	-
(Disposals/adjustments)	-	-	2,400,000	2,400,000
Balance, December 31, 2022	**2,796,000**	**1,335,000**	**2,400,000**	**6,531,000**
Accumulated depreciation:				
Balance, January 1, 2022	1,770,480	780,975	-	2,551,455
Additions	503,280	240,300	-	743,580
(Disposals/adjustments)	-	-	-	-
Balance, December 31, 2022	**2,273,760**	**1,021,275**	**-**	**3,295,035**
Net book value, Dec. 31, 2022	**522,240**	**313,725**	**2,400,000**	**3,235,965**
Net book value, Dec. 31, 2021	**1,025,520**	**554,025**	**-**	**1,579,545**

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 the following:

	2022	2021
Restricted funds	19,329,713,680	17,504,288,868
Guaranty deposits	5,535,850	5,384,900
	19,335,249,530	**17,509,673,768**

	2022		2021	
	Amount (in USD)	**Amount (In Peso)**	**Amount (In USD)**	**Amount (In Peso)**
RF-VD-Receiving	343,377,022	19,144,985,853	339,623,688	17,320,468,453
RF-VD-Disbursing	2,880,302	160,591,249	3,131,117	159,683,837
RF-Interest on VD	432,904	24,136,578	473,275	24,136,578
Total Restricted Fund	**346,690,228**	**19,329,713,680**	**343,228,080**	**17,504,288,868**

RF-VD-Receiving account pertains to VD remittances to the 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 the DBP Saving Account 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 the following:

	2022	2021
Accounts payable	56,331,840	42,349,435
Due to officers and employees	3,605,772	2,638,955
	59,937,612	**44,988,390**

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 the following:

	2022	2021
Due to BIR	167,556,688	109,427,180
Due to GSIS	4,038,947	2,813,953
Due to Pag-IBIG fund	193,543	188,933
Due to PhilHealth	255,616	168,987
Due to NGAs (BI)	1,670,571	2,101,737
Due to LBP	1,354,377	672,996
	175,069,742	**115,373,786**

Due to Bureau of Internal Revenue (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, Philippine Health Insurance Corporation (PhilHealth), and Pagtutulungan sa Kinabukasan: Ikaw, Bangko, Industriya at Gobyerno (Pag-IBIG) accounts are payroll items for membership contributions and loan payments by the PRA regular employees.

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

17. TRUST LIABILITIES

This account consists the following:

	2022	2021
Visa deposits of retiree-members	19,612,003,137	17,754,604,976
Interest on visa deposits	239,576,352	220,835,907
Customers' deposit payable	7,030,947	6,348,428
Guaranty/security deposits payable	(419,227)	303,517
	19,858,191,209	**17,982,092,828**

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$ 351,753,262 and

US$348,136,335 for the years ended December 31, 2022 and 2021, respectively, and was translated into peso amounts using the corresponding year-end closing rates of P55.755:US$1 and P50.999: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$4,296,948.29 and US$4,330,201 as of December 31, 2022 and 2021, respectively, was translated to peso amounts using the corresponding year-end closing rates of P55.755:US$1 and P50.999:US$1.

18. OTHER PAYABLES

This account consists the following:

	2022	2021
Dividends payable	-	250,000,000
Other payables	491,095	457,337
	491,095	**250,457,337**

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

19. DEFERRED CREDITS/UNEARNED INCOME

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

	2022	2021
Annual PRA fee	386,988,432	354,599,582
Visitorial fee	10,083,469	8,256,932
Registration/ID fee	2,895,915	2,894,869
Harmonization fee	1,062,867	948,310
Accreditation fee	63,110	63,110
	401,093,793	**366,762,803**

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 P13.864 million and P10.332 million as of December 31, 2022 and 2021, 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	2022	2021
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		56,955,398	34,420,951
Outstanding Balance		**43,243,717**	**65,778,164**

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 2022.

23. RETAINED EARNINGS

	2022	2021
Retained Earnings, January 1	1,937,509,681	1,989,893,702
Dividend paid during the year	(167,690,588)	(400,000,000)
Net income for the year	455,785,379	347,615,979
Other adjustments, net	(16,756,108)	-
Retained earnings, December 31	**2,208,848,364**	**1,937,509,681**

24. INCOME

This account consists the following:

	2022	2021
Service income	646,341,046	559,745,008
Business income	62,460,348	75,123,904
Gains on forex	1,913,214,370	1,175,001,564
Other non-operating income	705,720	649,000
	2,622,721,484	**1,810,519,476**

24.1 Service Income

This account consists the following:

	2022	2021
Annual PRA fee	282,415,960	292,253,339
Visa application fee	144,829,182	52,165,856
Management fee	149,140,108	182,369,072
Visitorial fee	30,776,718	23,059,511
Registration/ID fee	5,555,737	5,332,337
Processing & other fees	23,289,732	2,636,949
Harmonization fee	10,333,609	1,927,944
	646,341,046	**559,745,008**

The 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.

The 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 the 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*).

The VF represents the annual fee due from retirees who have converted their requisite VD into active investments, at the rates ranging from 0.5 percent to 1.5 percent 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 the following:

	2022	2021
Interest income	62,434,378	75,121,304
Other business income	25,970	2,600
	62,460,348	**75,123,904**

24.3 Gains on Forex

This account consists the following:

	2022	2021
Realized gains on forex	255,074,109	15,029,570
Unrealized gains on forex	1,658,140,261	1,159,971,994
	1,913,214,370	**1,175,001,564**

24.4 Other Non-operating Income

Other Non-operating income account pertains to Miscellaneous Income amounting to P705,720 and P649,000 in CYs 2022 and 2021, respectively.

25. DIRECT COST

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

	2022	2021
Marketers' fee	34,964,089	10,690,387
Bureau of Immigration (BI) fee	14,792,240	4,654,470
Medical examination fee	-	-
Visa stickers and IDs and membership kits	1,841,430	1,268,445
	51,597,759	**16,613,302**

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 168 and 137 accredited marketers in CYs 2022 and 2021, respectively, that were able to enrol a total of 1,900 principal retiree-applicants in CY 2022 and 546 principal retiree-applicants in 2021.

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 the PRA. This has been discontinued since 2021 and applicants were required to shoulder the cost of medical examination.

26. PERSONNEL SERVICES

This account consists the following:

	2022	2021
Salaries and wages	57,484,845	47,146,037
Other compensation	18,918,449	16,324,596
Benefits contribution	7,975,590	6,198,310
Other benefits	8,645,887	4,100,372
	93,024,771	**73,769,315**

26.1 Other Compensation

	2022	2021
Year-end bonus	5,453,565	3,985,943
Mid-year bonus	4,711,445	3,979,921
Personnel economic relief allowance	2,000,732	1,978,371
Service recognition incentive	1,644,000	796,000
Overtime pay	1,552,637	1,399,406
Representation allowance	1,163,875	1,169,500
Transportation allowance	1,012,530	1,044,955
Clothing/uniform allowance	504,000	498,000
Cash gift	414,000	421,000
Productivity incentive allowance	411,500	401,000
Longevity pay	44,665	30,000
Hazard pay	5,500	620,500
Other bonuses and allowances	-	-
	18,918,449	**16,324,596**

26.2 Benefits Contribution

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

	2022	2021
Retirement and life insurance premium	6,753,819	5,406,300
PhilHealth contribution	1,025,871	598,310
Pag-IBIG fund contribution	97,950	96,850
Employees compensation insurance premium	97,950	96,850
	7,975,590	**6,198,310**

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 the following:

	2022	2021
Professional services	10,722,654	6,271,413
Repairs and maintenance	5,865,919	3,853,025
Traveling expenses	3,478,879	3,305
Communication expenses	5,536,236	5,716,612
Supplies and materials	5,641,487	2,942,450
Utility expenses	1,243,293	752,535
Training and scholarship expenses	829,866	138,854
Taxes, insurance premiums and other fees	305,524	277,620
General services	21,763,958	23,277,982
Confidential, intelligence and extraordinary expenses	93,258	32,660
Other maintenance and operating expenses	44,914,180	26,067,782
	100,395,254	**69,334,238**

27.1 Professional Services

	2022	2021
Auditing services	5,197,340	2,593,741
Consultancy services	4,271,100	2,655,582
Legal services	1,254,214	1,022,090
	10,722,654	**6,271,413**

27.2 Repairs and Maintenance

	2022	2021
Machinery and equipment	5,075,759	3,145,602
Buildings and other structures	254,774	209,543
Furniture and fixtures	55,800	472,580
Transportation equipment	479,586	25,300
Leasehold improvement	-	-
	5,865,919	**3,853,025**

27.3 Traveling Expenses

	2022	2021
Traveling expenses – local	1,172,258	3,305
Traveling expenses – foreign	2,306,621	-
	3,478,879	**3,305**

27.4 Communication expenses

	2022	2021
Internet subscription expenses	3,769,382	4,096,900
Telephone expenses	1,031,167	920,171
Postage and courier services	735,687	695,141
Cable, satellite, telegraph and radio expenses	-	4,400
	5,536,236	**5,716,612**

27.5 Supplies and Materials

	2022	2021
Office supplies expenses	2,232,754	1,809,350
Fuel, oil and lubricants expenses	1,439,544	919,645
Accountable forms expenses	64,368	30,974
Drugs and medicines expenses	131,135	182,196
Semi-expendable machinery and equipment expense	1,773,686	.-
Other supplies and materials expenses	-	285
	5,641,487	**2,942,450**

27.6 Utility Expenses

Utility expenses represent those incurred by the PRA for electric consumption during CYs 2022 and 2021 totaling to P1,243,293 and P752,535, respectively.

27.7 Training and Scholarship Expenses

Training and scholarship expenses pertain to various seminars and conferences attended by employees amounting to P829,866 and P138,854 for CYs 2022 and 2021, respectively.

27.8 Taxes, Insurance Premiums and Other Fees

	2022	2021
Fidelity bond premiums	256,336	104,175
Taxes, duties and licenses	37,802	30,886
Insurance expenses	11,386	142,559
	305,524	**277,620**

27.9 General Services

	2022	2021
Security services	538,931	417,407
Other general services	21,225,027	22,860,575
	21,763,958	**23,277,982**

Other general services pertain to the salaries and wages including overtime pay of temporary workers under "job order" contracts.

27.10 Confidential, Intelligence and Extraordinary Expenses

Confidential, intelligence and extraordinary expenses consist of extraordinary and miscellaneous expenses incurred by the PRA in CYs 2022 and 2021 amounting to P93,258 and P32,660, respectively.

27.11 Other Maintenance and Operating Expenses

	2022	2021
Advertising, promotional and marketing expenses	28,932,709	14,211,728
Rent/lease expenses	896,238	655,791
Representation expenses	4,179,361	2,101,588
Membership dues and contributions to organizations	4,934,214	4,998,072
Major events and convention expenses	5,228,579	480,000
Transportation and delivery expenses	389,744	141,821
Printing and publication expenses	13,000	77,693
Subscription expenses	43,720	3,089,099
Other maintenance and operating expenses	296,615	311,990
	44,914,180	**26,067,782**

28. NON-CASH EXPENSES

	2022	2021
Depreciation		
Machinery and equipment	4,268,947	4,606,552
Building and other structures	4,047,516	3,998,688
Furniture and fixtures	105,665	101,222
Transportation equipment	827,357	827,357
Right of use (ROU)	20,257,509	20,257,509
	29,506,994	**29,791,327**
Amortization-intangible assets	743,580	743,580
Impairment loss-loans and receivables	6,218,997	130,144,304
	36,469,571	**160,679,211**

29. FINANCIAL EXPENSES

This account consists the following:

	2022	2021
Bank charges	17,535	6,920
Interest expense for leasing arrangements	1,933	3,181,732
	19,468	**3,188,652**

Finance costs for the reporting periods consist the following:

	2022	2021
Interest expense for leasing arrangements	1,933	3,181,732
	1,933	**3,181,732**

30. LOSS ON FOREX

This account consists the following:

	2022	2021
Realized loss on forex	2,624,712	3,194,987
Unrealized loss on forex	1,751,687,570	1,045,292,234
	1,754,312,282	**1,048,487,221**

Unrealized loss on forex amounting to P1.752 billion and P1.045 billion as at December 31, 2022 and 2021, resulted in the translation of monetary assets and liabilities denominated in US Dollars using the year-end closing rates of P55.755:US$1 and P50.999: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 percent 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%) percent of the gross payment thereof…".

31.2 Income Tax Expense

This account consists of provisions for income taxes for:

	2022	2021
Income tax expense – current	180,673,666	71,826,639
Income tax expense – deferred	(49,556,666)	19,004,919
Total	**131,117,000**	**90,831,558**

31.3 Deferred Tax Assets

This account consists the following:

	2022	2021
Unrealized loss on FOREX	1,421,921,004	983,999,111
Unearned income	120,227,068	91,690,701
Allowance for impairment	42,344,778	44,711,307
Total	**1,584,492,850**	**1,120,401,119**

31.4 Deferred Tax Liabilities

This account consists the following:

	2022	2021
Unrealized gain on forex	1,322,609,359	908,074,293
Total	**1,322,609,359**	**908,074,293**

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:

	2022	2021
Salaries and wages	9,646,793	8,399,971
Other compensation	4,631,608	2,713,595
Other personnel benefits	36,000	32,660
	14,314,401	**11,146,226**

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 the 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 Statement of Financial Position:

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	-	60,319,014	-

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	100,199,155
Adjustments	-
As at January 1,	**100,199,115**
New lease liabilities	-
Interest expense	3,183,665
Payments	(40,060,052)
As at December 31, 2022	**P43,243,717**

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

	2022	2021
Depreciation expense of leased assets, building and other structures	20,257,509	20,257,509
Interest expense on finance lease liability	1,933	3,181,732
Total amount recognized in Statement of Comprehensive income	**20,259,442**	**23,439,241**

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, 2022, 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:

	2022	2021
Rent payable within:		
One year	22,692,685	20,994,328
More than one year up to five years	23,763,476	43,834,771
Beyond five years	-	-
Total	**46,456,161**	**64,829,099**

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:

	2022	2021
Short-term lease	553,828	543,986
Leases of low value assets	169,440	119,574
Variable lease payments	-	-
Total	**723,268**	**663,560**

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, 2022 and 2021 are as follows:

	2022	2021
Creditable (Expanded)	3,184,198	3,340,948
Compensation and benefits	7,294,400	6,269,135
Creditable (VAT)	3,877,999	2,141,606
Total	**14,356,597**	**11,751,689**

b. Other Taxes & Licenses:

	2022	2021
Local		
Community tax	37,802	10,500
National		
BIR annual registration (Exempted)	-	-

35. LEGAL CASES

The PRA has a pending case which is Civil Case No. R-MKT-17-01543-CV vs. former employees for the cause of action to Recover Sum of Money. As of December 31, 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 fair presentation of the balance of the Trust Liabilities – Visa Deposits and Interest Payable accounts totaling P19,851.579 million could not be ascertained due to the unaccounted discrepancy of P225.760 million, compared to the balances of its contra assets accounts totaling P19,625.819 million, contrary to Paragraph 15 of the Philippine Accounting Standard 1.

1.1 Paragraph 15 of the Philippine Accounting Standard (PAS) 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 Visa deposits (VDs) are funds held in trust by the PRA on behalf of its retirees/members, which are deposited in the Development Bank of the Philippines (DBP) and placed to Time Deposits (TDs). The receipt of VDs by the PRA from the newly-enrolled retiree/members is recorded in the books by a credit to the Trust Liabilities (TL) accounts while debit to the Other Non-Current Assets (ONCA) - Restricted Fund (RF)-Receiving account.

1.3 The RF accounts are primarily divided into two Other Non-Current accounts in the books, namely: a) ONCA-RF-VD-Receiving account representing the TDs, and b) ONCA-RF-VD-Disbursing account which pertains to the unreleased VDs of members who withdrew from the PRA program and their TDs are to be terminated or pre-terminated as these will be transferred to their personal bank accounts.

1.4 The interests earned from the TDs were accounted under the RF-Interest on VDs; Investments in TDs-Foreign Currency (FC) – Restricted; Interests Receivable (IR)-VD-Retiree Share; and Cash in Bank-FC, Savings Account (SA)-DBP accounts. The corresponding reciprocal account TL - Interest on VDs consisting of Interest Payable (IP)-Retiree Share is maintained.

1.5 Audit of the subject accounts disclosed that the year-end balances of the TL-VDs and TL-IPs differ by P306.426 million and P80.666 million, respectively or a total net amount of P225.760 million when compared with the total balances of its contra-accounts, contrary to the above-mentioned provision. Sound accounting practice likewise dictates that the balances of TL accounts and their contra accounts must be equal at all times. Shown in Table 1 are the details of the discrepancy of P225.760 million.

Table 1 – Summary of Discrepancy of Trust Liabilities and its Contra-Asset accounts for CY 2022

Particulars	Visa Deposits	Interest	Total
Trust Liabilities			
Trust Liabilities – Visa Deposits	P19,612,003,137	-	P19,612,003,137
Trust Liabilities-Interest on Visa Deposits	-	239,576,352	239,576,352
Total Trust Liabilities	**19,612,003,137**	**239,576,352**	**19,851,579,489**
Less: Contra-Asset Accounts			
ONCA - Restricted Fund-Visa Deposits-Receiving	19,144,985,853	-	19,144,985,853
ONCA - Restricted Fund-Visa Deposits-Disbursing	160,591,249	-	160,591,249
ONCA - Restricted Fund - Interest on Visa Deposits	-	24,136,578	24,136,578
Investments in TD – FC	-	262,061,294	262,061,294
ONCA - Interests Receivable-Visa Deposit - Retiree Share	-	2,162,310	2,162,310
Cash in Bank-Foreign Currency, SA DBP	-	31,881,855	31,881,855
Total Contra-asset accounts	**P19,305,577,102**	**320,242,037**	**19,625,819,139**
Discrepancy (net)	**P 306,426,035**	**(80,665,685)**	**P 225,760,350**

1.6 The discrepancies between the said accounts have been existing in the past few years and were already brought to the attention of the Management through an audit observation memorandum (AOM) but failed to address it. The total amount of the discrepancy in Calendar Year (CY) 2022 even increased compared to the previous years and the Financial Management Division (FMD) could not provide the specific causes on it. In fact, it was noted that the discrepancy between the TL-VDs account with its contra-accounts in CY 2022 alone amounted to P31.973 million denoting that discrepancies in CY 2021 were carried forward to the current year, hence, net discrepancy amounted to P306.426 million.

1.7 The FMD explained that reconciliation of the accounts is still ongoing and some procedures were added to facilitate their current recording process, monitoring, and reconciliation of retirees' accounts. However, review of the adjustments recorded in CY 2022 disclosed that there was only one correcting entry/adjustment made by the FMD relating to the previous years' errors. This was the error stated in the COA AOM issued by the Team during the CY 2021 audit. No other adjustments to reverse or correct the previous year's balances were noted.

1.8 However, due to the non-maintenance of the subsidiary ledger (SL) required for the account of each member, the reconciliation may take time. This has been the perennial problem of the FMD. Though it was informed that they have devised monitoring of CY 2022 transactions of VDs with the DBP, such cannot be a substitute for the required SL to address the issues on unreconciled accounts. It is emphasized that the maintenance of SL aside from the general ledger (GL) facilitates the reconciliation and monitoring of balances of the TL and ONCA-RF accounts.

1.9 Moreover, the errors noticed in the recording of transactions are often caused by incorrect accounting entries involving erroneous amounts, accounts used, and computations. As noted, there is no existing written accounting policy that would serve as guide to the FMD personnel in the recording of transactions in the books. The written accounting policies are necessary as these provide proper guidance and ensure uniformity and consistency on the keeping of the PRA's accounts.

1.10 In view of the substantial discrepancy totaling P225.760 million, the correctness and reliability of the TL-VDs and TL-IP accounts having total balance of P19,851.579 million could not be ascertained, thus, affecting the fair presentation of the balances of the said accounts in the financial statements as at December 31, 2022.

1.11 **We recommended and Management agreed to direct the FMD to:**

a. **Expedite and exert all efforts to reconcile the balances of the TL - VD and IP with their contra accounts, ONCA-RFs-VDs, IR-VDs, Investment in TDs-FC and Cash in Bank-FC-SA accounts considering the substantial amount of discrepancies noted. If possible, assign personnel who are knowledgeable on the accounts to facilitate the monitoring and reconciliation of the said discrepancies; and**

b. **Formulate written accounting policies that would provide proper guidance to the FMD personnel in the recording of transactions relating to the receipt, interest earned, and withdrawal of VDs to ensure accuracy, uniformity, and consistency on the keeping of the PRA's accounts to come up with reliable and correct financial reports.**

1.12 **We further recommended that Management direct the FMD, in collaboration with the Resident Retiree Servicing Department, and with the assistance of the Information and Communication Technology Division, to create SLs for the accounts of each Retiree-Member to facilitate the monitoring of their balances as of any given time as well as the reconciliation of the balances of the TL accounts and its contra-accounts.**

1.13 As a rejoinder, the Audit Team acknowledged the Management's commitment to effect the adjustments, and implement the other recommendations. The full implementation of all the recommendations will be monitored in CY 2023 audit.

2. The Trust Liability – Interest on Visa Deposits (VDs) account with balance of P239.576 million was understated by P35.293 million with the corresponding overstatement of the Interest Income for the same amount in view of the interest earned by the Retirees' VDs deposited/invested to the Development Bank of the Philippines that was partly shared with the PRA despite the absence of specific terms of sharing under Section 2 of Rule VIII of the Implementing Rules and Regulations of Executive Order No. 1037, contrary to Paragraph 15 of PAS 1.

2.1 Paragraph 15 of the Philippine Accounting Standard (PAS) 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. The application of IFRSs with additional disclosure when necessary, is *presumed to result in financial statements that achieve a fair presentation.*

2.2 Section 2 of Rule VIII of the Implementing Rules and Regulation (IRR) of Executive Order (EO) No. 1037 provides the rules on interest earnings for the VDs of the retirees, quoted as follows:

Section 2. The interest earning of the retiree's US Dollar deposit or account with the bank shall be converted into and paid to the retiree in Philippine Currency.

2.3 Review of accounting records showed the following adjustments effected in the PRA's books in CY 2022 pertaining to the interest earned by the VDs of the Retirees, to wit:

a. Interest earned on matured Time Deposits

Particulars	Debit	Credit
Cash in Bank-Foreign Currency, SA DBP Buendia	31,363,099.17	
Gain on Foreign Exchange (FOREX)-Realized		635,498.61
Interests Receivable-Visa Deposit-Retiree Share		1,931,727.93
Interests Receivable-Visa Deposit-PRA Share		13,523,432.85
Trust Liabilities-Interest on Visa Deposits		1,921,727.04
Interest Income-DBP Visa Deposits		13,350,881.74

Total amounts of the CY 2022 monthly journal entries

b. Accrual of the interest income for CY 2022

Particulars	Debit	Credit
Interests Receivable-Visa Deposit-Retiree Share	2,173,447	
Interests Receivable-Visa Deposit-PRA Share	21,942,526	
Trust Liabilities-Interest on Visa Deposits		2,173,447
Interest Income		21,942,526

2.4 Based on the above-cited adjustments, it was verified by the Audit Team that the interest earned by the placed VDs are being shared by both the PRA and the Retirees. As noted in CY 2022, the PRA deducted from the total interest earned a certain amount equivalent to 12.35 percent representing the retirees' share while the remaining portion of 87.65 percent became the PRA Share that was recorded as its interest income for the year. This was eventually credited to the PRA's Cash in Bank account when received while the retirees' share was credited to the TL – Interest on VDs account.

2.5 The sharing of the interest earned was not consistent with the above-mentioned provision as there was no mention that earned interest shall be shared between the PRA and the Retirees. Neither was there an amendment to the said provision that the PRA should get a share from the subject interest. Based on available documents, the percentage of sharing was merely approved by the head of the agency as recommended by the FMD.

2.6 According to the FMD, the PRA share is imposed because the VDs are placed as TDs in the DBP under the PRA's name and the interests thereof are credited to its savings account. Hence, the Management sets only a certain percentage to be shared with the retirees. It was also informed that the share was devised for the PRA to charge fees similar to the Management Fees being collected by the PRA from the accredited private banks holding VDs of the Retirees since it does not have any policy of charging the same to the DBP.

2.7 However, it is not appropriate for the PRA to assume its rights over the interest simply because it was credited under its name. Likewise, while the VDs were recorded as assets of the PRA, in substance, these were only entrusted to the same by the retirees for a specific purpose, hence, the recognition of the corresponding TL account in its books. As such, the VDs can be withdrawn any time by the Retirees including all the fruits accruing thereto such as earned interest upon compliance with all the cancellation requirements of their special retiree resident visa.

2.8 The proper treatment then of the earned interest is to be credited to TL – Interest on VDs account since it is technically and legally owned by the Retirees. A proper disclosure should likewise be made so that the retirees are aware of the interest accruing to their accounts for transparency and accountability purposes.

2.9 Assuming that the PRA has played significant contributions in earning the subject interests so that it wants a corresponding share as part of its compensation, the percentage of sharing has yet to be covered by an authority to shed light or clarification to the provision in the IRR of EO No. 1037 with the end view of equitable allocation for each party.

2.10 Due to the sharing of earned interest from the VDs, accordingly, the TL - Interest on VD account was understated by P35.293 million while the Interest Income account was overstated by the same amount, contrary to Paragraph 15 of PAS 1.

2.11 We recommended that Management:

a. Direct the concerned FMD personnel to make the necessary adjustments to reinstitute the interest income of the retirees from their VDs and to correct the understatement of the TL - Interest on VD account by P35.293 million and Interest Income account by the same amount; and

b. Ensure complete disclosure of the interest earned by the VDs of the Retirees to promote transparency and accountability of the agency to its stakeholders.

2.12 The Management commented that:

a. The FMD will effect the necessary adjustments on the affected accounts. As to the interest earned by the VDs of the Retirees deposited/invested to the DBP that was partly shared with the PRA despite absence of specific terms of sharing, the PRA stated that Section 3, Rule VIII-A of the Implementing Investment Guidelines dated April 24, 1989 of the Rules and

Regulations Implementing EO No. 1037, was their basis, quoted hereunder:

> *Share of the Authority in the Bank Service Fee — The Authority shall be authorized to negotiate and share with the bank the latter's service fee from the earnings of the retiree's account in such proportionate amount and under such terms and conditions as may be mutually agreed upon by both parties.*

b. The PRA likewise commented that as government entity, it considers that the money deposited by the Retiree/Members in the name of the PRA can be treated as a security deposit. Being an account holder, which diligently administers the fund as that of the diligence of a good father of a family, it has the right to have a share to the interest given by the bank. It also considered in good faith that the funds from the retirees serve as deposit while they enjoy all the privileges and benefits given to them by the Philippine government as retirees.

c. They further commented that as fund administrator, in cases where the Retiree/Members want to withdraw their VDs, the PRA return the corresponding amount which they deposited plus interest. The PRA firmly believed that as government entity, it is their duty not only to protect the government funds entrusted to them but to make it earn. Lastly, they strongly suggest the continuance to have its share from the interest of the retiree/members' deposits.

d. On the other hand, the Management informed that the Marketers will be directed to discuss with the special resident retiree visa applicant or prospective members about: (i) the interest that their VDs will earn from their deposits in the DBP and other accredited bank accounts; and (b) that such interest they will earn be included as part of the provisions of Oath of Affirmation for acknowledgement by the Member. Additionally, the same provision will be included in the policy/manual on the VDs.

2.13 Below are the rejoinders of the Audit Team.

a. While the Audit Team agrees that the PRA administers the funds (VDs) being entrusted to it as part of its responsibility, the PRA does not have sufficient basis to continue having its share from the interest of the retiree-members' VDs. The provision cited under Section 3 of Rule VIII-A of the IRR of EO No. 1037 as to the share of the PRA in the Bank Service Fee applies only to accredited banks (private banks) holding VDs of the retiree-members, thus, the PRA cannot use it as a basis for the sharing. In the first place, there was not even a percentage of sharing that exists. In the case of the DBP, there was no agreement between the PRA and the said bank except for the interest rate being applied to the VDs.

b. Assuming that the practice is somehow governed by the said provision, it expressly stated that "*the PRA has to negotiate for it in such proportionate amount and under such terms and conditions as may be mutually agreed upon by both parties.*" Yet, this was not undertaken by the PRA.

c. On the other hand, the Audit Team understands the role and efforts of the PRA in the placement and monitoring of the time deposits relating to the VDs in the DBP, so it should somehow be entitled to have a share from the interest earned. However, there must be a fair percentage of sharing between the PRA and the retirees which have to be approved by the Board that would serve as a basis, and eventually, be disclosed to the stakeholders in the spirit of equity, accountability, and transparency.

d. As to the VDs being treated as security deposits, we beg to disagree. The VD is rightfully treated as part of the TL in the financial statements, given its nature and purpose. In addition, the Revised Chart of Accounts for Government Corporations states security deposit as being used *"to recognize the incurrence of liability arising from the receipt of cash or cash equivalents to guaranty; (a) that the winning bidder shall enter into contract with the procuring entity; (b) performance by the contractor of terms of the contract; and (c) that the contractor shall correct all discovered defects and clear/settle all third party liabilities.* Hence, there is no reason that the VDs be considered as security deposit to justify the practice of sharing interests.

3. The balances of the Deferred Tax Asset and Deferred Tax Liability accounts totaling P1,584.492 million and P1,322.609 million were overstated by P58.672 million and P45.270 million, respectively, due to: (a) non-adjustment of the prior years' misapplication of corporate income tax rate of 30 percent instead of 25 percent which overstated also the Retained Earnings account by P13.402 million; and (b) non-recognition in the books of realized gain (loss) on foreign exchange for withdrawn/paid Visa Deposits of retirees with cancelled PRA membership; contrary to Paragraphs 47 and 51 of the Philippine Accounting Standard 12 and Paragraphs QC12 and QC15 of the Conceptual Framework for Financial Reporting.

3.1 The Deferred Tax Asset (DTA) and Deferred Tax Liability (DTL) accounts have year-end balances of P1,584.492 million and P1,322.609 million, respectively. Audit of the two accounts disclosed several deficiencies, presented hereunder:

Misapplication of corporate income tax rate of 30 percent instead of 25 percent resulting in the overstatement of the DTA, DTL and Retained Earnings (RE) accounts by P52.752 million; P39.350 million; and P13.402 million, respectively

3.2 Paragraph 5 of PAS 12 states that DTAs are the amounts of income taxes recoverable in future periods in respect of: (a) deductible temporary differences; (b) the carryforward of unused tax losses; and (c) the carryforward of unused tax credits while DTL pertain to the amounts of income taxes payable in future periods in respect of taxable temporary differences.

3.3 Paragraphs 47 and 51 of the PAS 12 provide the measurement of the DTA and DTL, as follows:

Paragraph 47

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.

Paragraph 51

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.

3.4 Effective July 1, 2020, a new income tax rate of 25 percent from 30 percent was promulgated for large corporations under Republic Act (RA) No. 11534 where Section 6 thereof states that: "*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, as defined in Section 22(B) of this Code and taxable under this Title as a corporation, organized in, or existing under the laws of the Philippines."

3.5 The components of the DTA account are Allowance for Impairment Loss on Receivables, Unearned Income, and Unrealized Loss on Foreign Exchange (FOREX) while the DTL account is sourced from Unrealized Gain on FOREX. Review of accounting records showed that the two accounts are adjusted once at year-end to arrive at their balances being reflected in the financial statements. The net difference between the year-end balances of the DTA and the DTL accounts is adjusted to the income tax payable account.

3.6 Audit disclosed that the year-end adjustments to the DTA and the DTL accounts were computed by simply determining the net movements of their components during the year since there were no SLs being maintained for the individual transactions affecting them. The "net movements" pertain to the difference between the beginning and ending balances of the subject accounts and that any noted difference was simply multiplied by the applicable tax rate for the year. As noted, for CYs 2019 and 2021, the concerned FMD personnel multiplied the "net movements" of the accounts by the tax rate of 30 percent and 25 percent, respectively. However, in CY 2020, the FMD used the tax rate of 30 percent for the entire year instead of the reduced tax rate of 25 percent covering July to December 2020, contrary to the above-mentioned provisions/standards.

3.7 It was also noted that when these components of the DTA and the DTL were finally realized in CYs 2020 and 2021 that would eventually decrease their balances, the tax rates of 30 percent and 25 percent, respectively, were applied, which in effect, did not match with the 30 percent tax rate used during their recognition in CYs 2019 and 2020. No adjustments were made in CY 2021 to correct the erroneous tax rate used for the period from July to December 2020.

3.8 Thus, the difference of five percent between the DTA and the DTL previously recognized in CYs 2019 - 2020 due to misapplication of tax rate remained unadjusted which resulted in the overstatement of the said accounts as of December 31, 2021, by P52.752 million and P39.350 million, respectively, presented in Table 2, and overstatement of the RE account by P13.402 million.

Table 2 - Details of Misstatements on DTA and DTL due to Misapplication of Tax Rates

DTA (DTL) Composition	Net Movements - 2021 Per FS (30%)	 Should Be (30% / 25%)	Cumulative Difference
Allowance for Impairment	P29,618,641	P32,140,322	(P2,222,112)
Unrealized Loss on FOREX	261,323,059	261,323,059.	*48,352,404
Unearned Income	(19,953,620)	(7,967,573)	6,621,340
Total DTA	**P270,988,079**	**P285,495,807**	**P52,751,632**
Unrealized Gain on FOREX	(P289,992,999)	(P289,992,999)	*P39,350,040
Total DTL	**(P289,992,999)**	**(P289,992,999)**	***P39,350,040**

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

3.9 Further, audit of the CY 2022 transactions disclosed that no adjustments for the said misstatements were effected while the related individual transactions remained unposted as no SL was prepared and maintained. Similar with the last year's recording, the net movements in CY 2022 for the DTA and DTL accounts were merely computed and adjusted thereto. Also, relevant information pertaining to the DTA and the DTL was not yet fully disclosed in the Notes to the Financial Statements as required and recommended, which was inconsistent with Paragraphs 79 - 81 of the PAS 12. No explanation was provided as to their non-compliance with the previous year's audit recommendations.

3.10 As a result, the overstatement of the DTA and the DTL accounts as of December 31, 2021, in the amounts of P52.752 million and P39.350 million, respectively, due to misapplication of tax rate were carried forward in their CY 2022 year-end balances while the RE account was overstated by P13.402 million.

Non-recognition of realized gain (loss) in the books during the refund/payment of Visa Deposit (VDs) to the retirees with canceled PRA membership in CY 2022 which overstated both the Unrealized Gain (Loss) on FOREX accounts by P23.680 million, thus, overstating the DTA and the DTL accounts by P5.920 million

3.11 Paragraph 29 of PAS 21 provides the following relative to revaluation of monetary items in foreign currency denominated, as follows:

When monetary items arise from a foreign currency transaction and there is a change in the exchange rate between the transaction date and the date of settlement, an exchange difference results. When the transaction is settled within the same accounting period as that in which it occurred, all the exchange difference is recognized in that period. However, when the transaction is settled in a subsequent accounting period, the exchange difference recognized in each period up to the date of settlement is determined by the change in exchange rates during each period.

3.12 Paragraph QC12 of the Conceptual Framework for Financial Reporting (CFFR) provides that "F*inancial 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 it purports to represent."* Paragraph QC15 of the same further provides that *"Faithful representation does not mean accurate in all respects. Free from error means there are no errors or omissions in the description of the phenomenon, and the process used to produce the reported information has been selected and applied with no errors in the process."*

3.13 The Unrealized gains (losses) on FOREX recognized are those gain (losses) arising from the revaluation at year-end of assets and liabilities denominated in foreign currencies. In the revaluation of transactions completed or settled within the accounting period, these are distinguished to come up with the amount of gains (losses) realized during the period. As discussed earlier, the computed unrealized gain or unrealized loss on FOREX is one of the components in calculating the amount of the DTA and the DTL to be recognized in the books.

3.14 For CY 2022, the PRA's financial statements show the balances of the Gain on FOREX and Loss on FOREX in the amounts of P1,913.214 million and P1,754.312 million, respectively, consisting of realized and unrealized, as follows:

Particulars	Amount	Total
Unrealized Gain on Forex	P1,658,140,261	
Realized Gain on Forex	255,074,109	**P1,913,214,370**
Unrealized Loss on Forex	1,751,687,570	
Realized Loss on Forex	2,624,712	**P1,754,312,282**

3.15 Review of the recorded realized Gain (Losses) on FOREX transactions of the PRA showed that these pertained only to deposit of visa fees, interbank transfers due to pre-termination of Certificate of TD, and refund of application and annual fees due to discontinuance of membership. It did not cover any gain or loss on FOREX realized during the actual refund of VDs to retirees who cancelled their PRA membership during or before the close of the accounting period.

3.16 In CY 2022, the VDs of 303 retirees with cancelled membership were refunded to them and were derecognized from the books by debiting the TL – VDs account and crediting the RF - VDs – Receiving account, using the RF-VD-Disbursing account to facilitate transfer/disbursement. It was noted, however, that said accounts were not adjusted first using the exchange rate (ER) on the date of refund/settlement to arrive at the realized gain or loss on FOREX at that time.

The FMD simply reduced the said accounts from the total year-end balance using the spot rate without regarding the change in the ER between that date and the date of previous translation of the VDs.

3.17 The VDs of the 303 retirees with cancelled membership totaling $6.321 million was revalued on December 31, 2022 using the ER of P50.999 for 1 USD or a total of P322.342 million. Based on the standards, the spot rate on the settlement/refund date if used would result in total disbursements of P346.022 million, or higher by P23.680 million. This amount corresponds to the supposed realized gain to the RF-VD-Receiving account and realized loss to the TL-VDs by reason of the increase in their revaluation amount upon settlement.

3.18 However, this was not reflected or adjusted in the books. Instead, the total balances of the two accounts (net of refund) were merely revalued by the FMD at year-end using the ER on that date and compared such to their respective beginning balances to come up with the unrealized gain (loss) for adjustment in the books. Thus, the realized gain (loss) on FOREX during the refund remained embedded/instituted in the computed unrealized gain (loss) on Forex during revaluation at year-end, which was not consistent with the above-cited standards. The FMD informed during inquiry that they were not aware of the effects on the non-recognition of realized gain (loss) on Forex, thereby, skipping on the said entries.

3.19 Due to said practice, the unrealized loss on FOREX and unrealized gain on FOREX accounts were overstated by P23.680 million while the realized gain and realized loss on Forex accounts were understated in the same amount. Correspondingly, the DTA and the DTL accounts were both overstated in the amount of P5.920 million since the unrealized gain or loss on Forex is one of the components of the subject accounts, presented in Table 3:

Table 3 – Effect of Non-recognition of Realized Gain or Loss on FOREX

Account	Effect	Amount	Account	Effect	Amount
Realized Loss on Forex	Understatement	P23,680,238	Realized Gain on Forex	Understatement	P23,680,238
Unrealized Loss on Forex	Overstatement	(23,680,238)	Unrealized Gain on Forex	Overstatement	(23,680,238)
Multiply by Income Tax Rate		25%	Multiply by Income Tax Rate		25%
Deferred Tax Asset	**Overstatement**	**P(5,920,059)**	**Deferred Tax Liabilities**	**Overstatement**	**P(5,920,060)**

3.20 In summary, due to the misapplication of tax rate and non-recognition of realized gain (loss) on FOREX during the settlement/refund of the VDs to the retirees with cancelled PRA membership, the DTA, the DTL, and the RE Accounts were overstated by P58.672 million (P52.752 million+P5.920 million), P45.270 million (P39.350 million+P5.920 million), and P13.402 million, respectively.

3.21 **We recommended that Management direct the FMD personnel to:**

a. Effect the necessary adjustments to correct the overstatement of the DTA, the DTL and the RE accounts in the amounts of P58.672 million; P45.270 million; and P13.402 million, respectively, to fairly present the said accounts in the financial statements as of December 31, 2022;

b. **Maintain SL for each of the DTA and the DTL accounts where related transactions are recorded in details to support their balances for easy verification and monitoring, while all necessary information on deferred taxes shall be disclosed in compliance with disclosure requirements to ensure complete information is available to the users of the financial statements;**

c. **Moving forward, prepare the adjustments necessary to reflect any realized gain or loss on FOREX for transactions about refund of VDs to retirees with cancelled membership instead of considering only the year-end revaluation to come up with accurate balances of the unrealized gain or loss on FOREX account; and**

d. **Prepare a written policy containing the guidelines on the recognition/recording of the PRA's transactions that would serve as reference and guide of the FMD personnel in the performance of their functions to avoid or lessen errors in the preparation of the agency's financial statements.**

3.22 The Management commented that:

a. The FMD is pursuing the conduct of review of the amounts and will effect all the necessary adjustments on the DTA, the DTL, the RE, and other affected accounts. The necessary adjustments will be effected in January 2023 accounting records and financial reports while disclosures and restatements will be included in the CY 2023 Notes to the Financial Statements.

b. The FMD acknowledged all COA's recommendations and is committed to make further review of the present accounting and finance procedures being used as well as to work on the improvements/change. Continues orientation and updating of procedures are being done by the FMD to the personnel handling and maintaining the DTA and the DTL accounts.

3.23 As a rejoinder, the Audit Team acknowledged the Management's commitment to effect the adjustments, and implement the other recommendations. However, the full implementation of all the recommendations will be monitored in CY 2023 audit.

4. The Receivable – Accounts Receivable account with carrying amount of P66.083 million has a net understatement of P5.389 million due to: (a) erroneous recording of accruals on Annual PRA Fee and non-revaluation of several accruals on the change in foreign exchange rates which also understated the Gain on Foreign Exchange (FOREX) and Unrealized Loss on FOREX by P4.938 million and P0.810 milllion, respectively, and overstated the Service Income - Annual PRA Fees by P28.758 million; and (b) non-accrual of Management Fee (MF) income for several months in CY 2022 which understated the Service Income – MFs account by P30.019 million; contrary to Paragraphs QC12 and QC15 of the Conceptual Framework for Financial Reporting and Paragraph 27 of Philippine Accounting Standard 1.

4.1 Audit of the Accounts Receivable (AR) and Service Income (SI) accounts of the PRA with year-end balances of P66.083 million and P646.341 million, respectively, disclosed several deficiencies, discussed hereunder.

Erroneous recording of accruals on the Annual PRA Fees (APF) and non-recognition of the change in foreign exchange rates overstated the AR-APF and SI-APF accounts while understated the Gain (Loss) on FOREX acccounts

4.2 Paragraphs QC12 and QC15 of the CFFR state that:

> *QC 12. 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 it purports to represent. To be a perfectly faithful representation, a depiction would have three characteristics. It would be complete, neutral and free from error.*
>
> *Xxx.*
>
> *QC15. Faithful representation does not mean accurate in all respects. Free from error means there are no errors or omissions in the description of the phenomenon, and the process used to produce the reported information has been selected and applied with no errors in the process.*

4.3 The APF of $360 is paid by each member covering his membership including his spouse and dependent plus $100 for every additional dependent in excess of the two. This is a requirement for the maintenance of the service resident retiree visa of each PRA member. As practice, the FMD regulary records the accruals of the APF in the books of accounts.

4.4 As of December 31, 2022, the AR-APF has a gross amount of P139.070 million and carrying amount of P29.673 million. Analysis, however, revealed that the balance of P139.070 million includes several errors, inaccuracies and miscalculations, contrary to Paragraphs QC12 and QC15 of the CFGPFR. The AR - APF in gross amount should have been P114.394 million only, or a net discrepancy of P24.676 million, details are presented in Table 4.

Table 4 – Discrepancy between AR-APF account Per Schedule and Per Audit

Accruals	US$	Exchange Rate	Per Supporting Schedule	Per Audit	Difference
CY 2021 accruals	430,000	Various	21,398,731	18,567,546	2,831,185
Additional 2021 accruals during CY 2022	562,679	52.19	29,366,205	26,547,814	2,818,391
January 2022	94,555	52.19	4,934,842	3,939,089	995,753

Accruals	US$	Exchange Rate	Per Supporting Schedule	Per Audit	Difference
February 2022	89,417	52.19	4,666,659	3,752,351	914,308
March 2022	104,925	52.19	5,476,032	4,457,155	1,018,877
April 2022	106,496	52.19	5,558,047	4,472,182	1,085,865
May 2022	117,321	52.37	6,144,077	4,657,805	1,486,272
June 2022	120,973	54.98	6,650,514	4,535,721	2,114,793
July 2022	178,469	55.13	9,838,980	7,301,641	2,537,339
August 2022	177,331	56.15	9,956,294	7,326,690	2,629,604
September 2022	166,421	58.63	9,756,427	7,084,649	2,671,778
October 2022	165,036	57.97	9,567,143	7,324,215	2,242,928
November 2022	146,878	56.56	8,307,403	7,081,047	1,226,356
December 2022	133,591	55.76	7,448,365	7,345,608	102,757
Total	**2,594,092**		**P139,069,719**	**P114,393,513**	**P24,676,206**

4.5 It was verified that the discrepancy of P24.676 million consists of the following errors, non-revaluation, and unaccounted receivables, to wit:

A. Previous accruals made in January - November 2022 to the accounts of several retirees were not adjusted despite receipt of payment/settlement. A total of P28.474 million was still reflected and reported as part of the AR-APF account but these were settled already based on the submitted Schedule of AR-APF as of December 31, 2022, as shown in Table 5.

Table 5 – Summary of Accruals in CY 2022 which remained unadjusted despite receipt of payment from clients

Accruals	Dollar Amount	Fx Rate used	Translated Amount
December 2021 and earlier	96,979.79	50.50	4,897,479
Additional 2021 accruals during CY 2022	86,524.55	52.19	4,515,716
January 2022	23,874.77	52.19	1,246,024
February 2022	22,088.41	52.19	1,152,794
March 2022	24,952.55	52.19	1,302,274
April 2022	26,255.49	52.19	1,370,274
May 2022	33,749.39	52.37	1,767,456
June 2022	39,592.11	54.98	2,176,774
July 2022	45,574.58	55.13	2,512,527
August 2022	44,018.19	56.15	2,471,621
September 2022	37,510.68	58.63	2,199,251
October 2022	31,767.67	57.97	1,841,572
November 2022	18,032.05	56.56	1,019,893
Total			**P28,473,655**

B. Double take up of accruals totaling P0.649 million, as detailed in Table 6, to the accounts of several retirees due to their names being redundant in the records maintained by the FMD caused by varying information or reference.

Table 6 – Summary of Excess Accruals in CY 2022

Accrual Date	Dollar Amount	Fx Rate used	Translated Amount
2021	2.96	52.190	154
January 2022	30.58	52.190	1,596
February 2022	27.62	52.190	1,441
March 2022	30.58	52.190	1,596
April 2022	29.59	52.190	1,544

Accrual Date	Dollar Amount	Fx Rate used	Translated Amount
May 2022	30.58	52.370	1,601
June 2022	29.59	54.980	1,627
July 2022	1,934.74	55.130	106,662
August 2022	1,904.16	56.150	106,919
September 2022	1,842.74	58.630	108,040
October 2022	1,904.16	57.970	110,384
November 2022	1,842.74	56.560	104,225
December 2022	1,843.01	55.755	102,758
Total	**11,453.05**		**P648,547**

C. Non-revaluation of several accounts in the outstanding receivables at year-end. The valuation using the spot rate during accrual period was not adjusted to the ER during the valuation at year-end resulting in the understatement of Unrealized Gain on FOREX account by P4.938 million, Unrealized loss on FOREX account by P0.810 million, and AR-APF account by P4.127 million.

D. Unrecorded accruals representing the difference on the beginning balance of outstanding accounts between the submitted schedule and per books totaling P21.763 million and P21.399 million, respectively, or a difference of P364,271. The Schedule contains the accruals during the year made by the FMD.

4.6 Due to the above-cited errors and deficiencies, the balances of the SI - APF and AR-APF accounts were overstated in the amounts of P28.758 million and P24.630 million, respectively, while the Unrealized FOREX Gain and Unrealized FOREX Loss accounts were understated by P4.938 miilion; and P0.810 million, respectively, details are presented in Table 7.

Table 7 - Details of the Misstatements relative to Identified deficiencies

Particulars	Service Income-APF	AR-APF account	Unrealized Gain (Loss)
a. Erroneous accruals	P (28,473,655)	P (28,473,655)	-
b. Double take up of accruals	P(648,547)	(648,547)	-
c. Non-revaluation	-	4,937,922	P 4,937,922
	-	(810,435)	(810,435)
d. Unrecorded accruals	364,272	364,272	-
Total /Under/(Over)	**P(28,757,930)**	**P(24,630,443.41)**	**P 4,127,487**

Non-accrual of Management Fee (MF) income for the months of June 2022, and August to October 2022 which understated the AR – MF and SI – MFs accounts by P30.019 million

4.7 Paragraph 27 of PAS 1 requires that:

> *An entity shall prepare its financial statements, except for cash flow information, using the accrual basis of accounting.*

4.8 The MF pertains to the fee being paid to the PRA by the accredited banks for the management of the retirees' VDs which is equivalent to 1.5 percent per annum of their outstanding monthly balance. Currently, there are six accredited and 16 former accredited (de-accredited) banks maintaining the VDs of various retiree-members.

4.9 Review of accounting records showed P28.666 million as the outstanding AR-MFs as of December 31, 2022, which consists of accruals for the year and those previously existing/outstanding receivables, net of collections from the payment of banks. For the year, the FMD made accruals of MFs to both accredited and de-accredited banks in the total amount of P238.551 million. .

4.10 However, it was verified that there were no accruals recognized for accredited banks covering the months of June 2022, and August to October 2022, contrary to the above-cited requirement. Shown in Table 8 is the list of accredited banks without accruals in the total amount of P46.371 million.

Table 8 – Unrecorded Accruals for June, August to October, 2022

Bank Name	June	August	September	October	TOTAL
Bank A	P 9,427	P 9,281	P 3,638,932	P 10,068	P 3,667,708
Bank B	5,508,873	5,937,949	5,762,685	5,691,936	22,901,443
Bank C	2,724,467	2,555,195	2,842,644	2,857,089	10,979,395
Bank D	508,748	576,050	572,489	580,524	2,237,811
Bank E	1,608,550	1,644,890	1,665,356	1,665,356	6,584,152
TOTAL	**P10,360,065**	**P 10,723,365**	**P14,482,106**	**P 10,804,973**	**P 46,370,509**

4.11 It was further verified that for these months, the above-cited banks were able to pay P16.352 million of the P46.370 million in which the FMD debited and credited the cash and SI – MFs accounts since they failed to recognize accruals prior to receipt of collection. There were no further adjustments made, thus, the MFs in the net amount of P30.019 million remained unrecorded in the books as of December 31, 2022.

4.12 Consequently, the AR – MFs and SI – MF accounts were both understated by P30.019 million, thereby, affecting the fairness of presentation of the said accounts in the financial statements as of year-end.

4.13 In summary, due to the noted errors, the Receivable – AR account was net understated by P5.389 million while the Gain on FOREX, Unrealized Loss on FOREX and the SI – MFs accounts were understated by P4.938 million; P0.810 milllion; and P30.019 million, respectively. Additionally, the SI - APF account was overstated by P24.630 million.

Other Observation on AR – MF account

An undetermined amount of accruals for MF from 16 de-accredited servicing banks holding VDs of various members totaling $23.854 million remained unrecognized in the books for the period April 1 to December 31, 2022

4.14 In CY 2022, there are 16 de-accredited servicing banks still holding VDs of various members totaling $23.854 million. Audit disclosed that accruals of MF were made from January to March 2022, however, for the period of April to December 2022, this was made only for few months to several de-accredited banks while no accruals for the others, summarized in Table 9.

Table 9 – Details of Accuals made by PRA to de-accredited banks from April to December 2022

Servicing Bank	April	May	June	July	August	September	October	November	December
Bank F	✔	×	×	×	×	✔	✔	✔	✔
Bank G	✔	✔	×	×	×	×	✔	✔	✔
Bank H	✔	✔	×	×	×	×	✔	✔	✔
Bank I	×	×	×	×	×	×	×	×	×
Bank J	×	×	×	×	×	×	×	×	×
Bank K	×	×	×	×	×	×	×	×	×
Bank L	✔	✔	✔	×	×	×	×	✔	✔
Bank M	✔	✔	×	×	✔	✔	✔	✔	✔
Bank N	×	✔	✔	✔	✔	✔	✔	✔	✔
Bank O	×	×	×	×	✔	✔	✔	✔	✔
Bank P	×	×	×	×	×	×	×	×	×
Bank Q	×	×	×	×	×	×	×	×	×
Bank R	×	×	×	×	×	×	×	×	×
Bank S	×	×	×	×	×	×	×	×	×
Bank T	×	×	×	×	×	×	×	×	×

4.15 Likewise, there were no accruals made in CYs 2022 and 2021 for the Metrobank which has been de-accredited in the previous years. The issue on the non/inconsistent accrual of MFs for de-accredited banks was already brought to the attention of the Management in the previous years' audit through an AOM but was partially resolved.

4.16 According to the FMD, the Management has yet to communicate to some of the de-accredited banks in order to avoid the increase of receivables of the PRA as well as the corresponding taxes to be paid.

4.17 It must be emphasized that the PRA has valid claims to the said banks and that its legal right remains despite the same being de-accredited from the PRA. Section 8 of the Memorandum of Agreement (MOA) executed between the PRA and the servicing banks stated a provision as to the consequence of termination of the MOA, quoted as follows:

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

4.18 As such, each servicing bank is very much aware of its responsibilities to the PRA after de-accreditation. Thus, there is no reason why accruals of income are not consistently recognized by the PRA.

4.19 Moreover, the FMD has data/information as to the outstanding VDs for each de-accredited bank so the amount to be accrued can be possibly computed. Yet, it was noted that the FMD did not maintain any SL to support the year-end balance of AR - MF account, particularly for each bank.

4.20 It was also noticed that Billing Statements/Statement of Account (SOA) were not regularly sent to the concerned de-accredited banks even in the previous years. The SOA is a powerful tool for collection as it provides the necessary details of the servicing banks' outstanding balance, due date for payment, and reminder that their failure and inability to meet their obligations shall result to enforcement of applicable provisions in the executed MOA. In fact, any delay in the payment of MF to the PRA by the servicing banks has corresponding penalty as stated in the MOA.

4.21 Accordingly, the PRA has been deprived of additional income, in an undetermined amount, in the form of MFs from the outstanding VDs of retiree members of US$23.854 million, which could have been used in the operating expenses and/or projects of the agency, while the de-accredited servicing banks are making profits out of the VDs of the PRA's retiree members.

4.22 **We recommended and Management agreed to direct the concerned FMD personnel to:**

a. **Effect the necessary adjustments to correct the net understatement of Receivable – AR account in the amount of P5.389 million and SI-MF account by P30.019 million while overstatement of SI – APF, Unrealized Gain on Forex, and Unrealized Loss on Forex accounts by P28.758 million; P4.938 million; and P0.810 million, respectively, to fairly present the affected accounts in the year-end financial statements;**

b. **Formulate written policy on the recording of transactions such as accruals of income, changes in foreign currency, and other related transactions that would serve as guide and reference of the FMD personnel to avoid errors as well as to promote consistency. Likewise, exercise extra care in the recording of transactions;**

c. **Consistently compute and recognize in the books the accruals of MFs for the accredited and de-accredited banks to ensure the accuracy and completeness of the reported income/receivable on MFs in the books;**

d. **Prepare and maintain SL for each of the accredited and de-accredited bank showing the details of the recorded transactions during the year and the year-end balance to support the AR GL balance, and thereafter, submit to COA for review and verification purposes;**

e. **Regularly send monthly Billing Statements to all servicing (accredited and de-accredited) banks to enforce Section 8 of the MOA executed between the PRA and the servicing banks. Consider the imposition of penalty for any delay of payment; and**

f. **Seek the assistance and opinion of the Office of the Government Corporate Counsel, if needed, regarding the issues on MFs including the collection thereof from various de-accredited banks and the initiation of legal actions against delinquent servicing banks.**

4.23 As a rejoinder, the Audit Team acknowledged the Management's commitment to effect the adjustments, and to implement the other recommendations. The full implementation of all the recommendations will be monitored in CY 2023 audit. Further, provide the Audit Team copies of the reconciliation to be prepared and the Journal Entry Voucher/s (JEV) with supporting documents as proof of adjustments in the books.

5. Prior period adjustment amounting to P49.094 million was erroneously credited to Impairment Loss account instead of the Retained Earnings account which was inconsistent with Paragraphs 42 and 34 of Philippine Accounting Standard 8 resulting in the understatement of both accounts by P49.094 million. Likewise, the correctness of the valuation of the Receivable - Accounts Receivable account with a carrying amount of P66.084 million could not be ascertained due to inconsistency with the requirements of Philippine Financial Reporting Standard 9 in measuring the Expected Credit Losses on the agency's receivables, and in the disclosure of relevant information in the financial statements, contrary to Paragraph 15 of Philippine Accounting Standard 1.

5.1 PAS 8 defines Prior Period Errors as omissions from, and misstatements in, the entity's financial statements for one or more prior periods arising from a failure to use, or use of reliable information that:

(a) Was available when financial statements for those periods were authorized for issue; and
(b) Could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements.

Such errors include the effects of mathematical mistakes, mistakes in applying accounting policies, oversights or misinterpretations of facts, and fraud.

5.2 Paragraph 42 of PAS 8 provides the accounting treatment for prior period errors, as follows:

Subject to paragraph 43, an entity shall correct material prior period errors retrospectively 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 occurred; or
(b) *if the error occurred before the earliest prior period presented, restating the opening balances of assets, liabilities and equity for the earliest prior period presented.*

5.3 Records show that as of December 31, 2022, the Allowance for Impairment (AFI)-AR has a total balance of P180.405 million while the total amount of Impairment Loss (IL) amounted to P6.089 million, as presented in Table 10.

Table 10 – Summary of Net Movement of Allowance for Impairment accounts for CY 2022

Accounts	Balance, 12/31/2022	Balance, 12/31/2021	Net Movement
Allowance for Impairment-AR-Annual PRA Fees	P(109,397,207)	P(72,754,955)	P(36,642,253)
Allowance for Impairment-AR-Visitorial Fees	(58,459,209)	(47,512,435)	(10,946,774)
Allowance for Impairment-AR-Harmonization Fees	(9,905,512)	(2,588,731)	(7,316,781)
Sub-total	P(177,761,928)	P(122,856,121)	P(54,905,807)
Allowance for Impairment-AR-Management Fees	(2,642,890)	(51,459,749)	48,816,859
Total	**(180,404,818)**	**(174,315,870)**	**(6,088,948)**

5.4 As reflected in Table 10, there was a significant decrease in the balance of AFI on December 31, 2022, compared with its balance in CY 2021. Review of accounting records shows that the total ILs for the AR-APF/Visitorial Fee/Harmonization Fee amounted to P54.906 million, however, due to the adjustment made for the MF totaling P48.817 million, this was reduced to P6.089 million. Said adjustment was reflected in the books as credit to IL as the computed amount of AFI at year-end was only P2.643 million whereas its beginning balance amounted to P51.460 million.

5.5 As noted in the previous year, an AFI was erroneously provided for the large portion of the accruals on December 31, 2021, that were collected in January-February 2022. Likewise, the concerned FMD personnel informed during the inquiry that the said adjustment was effected to correct/reverse the recognized IL in CY 2021 based on their separate computation and to set up the correct AFI – MF at year-end.

5.6 Analysis also revealed that this was not due to a change in accounting estimate but rather a prior period error in the computation of the IL in CY 2021, hence, should have been charged to the RE account. Paragraph 34 of PAS 8 provides that "*An estimate may need revision if changes occur in the circumstances on which the estimate was based or as a resulf of new information or more experience.*" In this case, it was known to the concerned FMD personnel at the very onset that these accruals recorded at year-end were already collected in January-February 2022. In fact, the collections received were their basis for the setting up of accruals on December 31, 2021.

5.7 Further analysis disclosed that by effecting said adjustment, the computed IL of P277,281 for AR-MF supposedly presented in the CY 2022 financial statements was no longer reflected for it was already absorbed in the adjustments made, as shown in Table 11.

Table 11 – Effect of the Adjustment in Impairment Loss - MF

AR Accounts	Impairment Loss per Books	Computed Impairment Loss, net of valid adjustments	Difference
Annual PRA Fee	36,642,253	36,642,253	-
Management Fee	(48,816,859)	277,281	(49,094,140)

AR Accounts	Impairment Loss per Books	Computed Impairment Loss, net of valid adjustments		Difference
Visitorial Fee	10,946,774		10,946,774	-
Harmonization Fee	7,316,781			
Computed Impairment Loss		7,446,829		
Less: adjustments at year-end		(130,048)	7,316,781	-
Total	**P(6,088,949)**		**P55,183,089**	(49,094,1401)

5.8 Consequently, the RE and IL accounts were both understated by P49.094 million (P48.817 million + P277,281), which affected the fair presentation of the said accounts in the financial statements as of December 31, 2022.

Correctness of the valuation of the AR - Accounts Receivable account could not be ascertained due to inconsistency with the requirements of Philippine Financial Reporting Standard (PFRS) 9 in measuring the Expected Credit Losses (ECL) on the agency's receivables, and in the disclosure of relevant information in the financial statements

5.9 Paragraph 5.5.17 of PFRS 9 provides the following pertaining to ECL, quoted as follows:

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

5.10 The AR account has a gross amount of P246.489 million as of December 31, 2022 consisting of APF, Visitorial Fees and Harmonization Fees and receivables on MF from the PRA's accredited and de-accredited banks. The corresponding AFI was provided as P180.405 million, thus, the net realizable value/carrying value of the AR amounted to P66.084 million, as shown in Table 12.

Table 12 – Summary of Accounts Receivable and Allowance for Impairment accounts as of December 31, 2022

Account	Annual PRA Fee	Management Fee	Visitorial Fee	Harmonization Fee	Total
Accounts Receivable	139,069,721	28,666,426	67,998,836	10,753,754	246,488,737
Allowance for Impairment	109,397,207	2,642,890	58,459,209	9,905,512	180,404,818
Net carrying value	**29,672,514**	**26,023,536**	**9,539,627**	**848,242**	**66,083,919**

5.11 Review showed that the PRA applies the ECL model to its financial assets measured at amortized cost such as the AR. Based on accounting records, the ECL rates were multiplied by each age group/bracket of the outstanding AR to come up with the year-end balance of the AFI to which the AFI-beginning balance, as adjusted, shall be compared with to arrive at the amount of IL for the current year. Shown in Table 13 are the ECL rates being adopted by the PRA.

Table 13 – Details of the established Expected Credit Losses

AR Account	Computed AFI *as of 12/31/2022	AFI, 12/31/21 (as adjusted)	Impairment Loss	Below 90 days	91-365 days	over 1 year	over 2 years	over 3 years
Annual PRA Fee	72,754,955	72,754,955	109,397,207	51.57%	79.90%	82.81%	85.00%	100.00%
Visitorial Fee	47,512,435	47,512,435	58,459,209	62.55%	71.35%	80.15%	85.00%	100.00%
Harmonization Fee	2,588,731	2,588,731	9,905,512	75.05%	86.64%	89.29%	90.00%	100.00%
Management Fee	2,642,890	2,635,609	277,281	-	-	100.00%	100.00%	100.00%

5.12 As noted, the ECL rates used in the computation of the current year's IL were similar to the prior year's rate despite the previous year's audit recommendation to make an immediate reassessment of the established ECL. This is due to their existing ECL rates which are significantly above what is usual since the credit loss rate of above 70 percent on AR aging less than one year while 100 percent for over three years.

5.13 As pointed out, the assessment should be based on relevant factors such as collectibility rates as well as collectibility efforts, among others, to come up with more factual and/or realistic ECL of the agency's AR that is consistent with the above-cited provision.

5.14 On the other hand, the ECL rates for AFI – AR for MFs were partly modified in CY 2022 based on their experience and practice of recording, and to address the prior year's audit observation as well. However, examination showed that the imposition of nil/uncollectibility rate on the first two age groupings as shown in Table 13, was highly influenced by the FMD's practice of recording only those MF receivables that have been collected at the beginning of the following year or in the process of being collected.

5.15 Moreover, setting to 100 percent loss rate on its client banks upon reaching one year undermines the collection efforts of the agency and depicts weakness in the collection efficiency of the agency as a whole. The banks are the obligor and given their reputable and good credit ratings, it is our view that it would not be proper to set receivables from them as uncollectible instantaneously without rigorous assessment. Moreover, it was noticed that billing statements were not regularly sent to all concerned banks, so, how can an agency collect its receivables when substantial efforts to recover the same are not being carried out?

5.16 Further, it was noted that the adopted ECL established by the FMD was not incorporated in a written policy that has to be approved by the PRA policy-making body which is the Board of Trustees while requirements for disclosure were not yet complied with despite the prior year's recommendation, contrary to Paragraph 15 of PAS 1 which provides that *"Xxx.The application of IFRSs with additional disclosure when necessary, is presumed to result in financial statements that achieve a fair presentation."*

5.17 Considering the inconsistencies of the PRA with Paragraph 5.5.17 of PFRS 9 in the formulation of the ECL measurement and the non-disclosure of relevant information pertaining thereto, the correctness of the valuation of the Receivables - AR having a net carrying amount of P66.084 million as of December 31, 2022, could not be ascertained.

5.18 **We recommended that Management direct the FMD to:**

a. **Effect the necessary adjustments to correct the understatement of both the IL and RE accounts in the amount of P49.094 million, and moving forward, ensure that all prior period errors are adjusted in the books retrospectively in compliance with Paragraph 42 of PAS 8 to come up with correct year-end balances;**

b. **Conduct an immediate reassessment of the established ECL that is notably above what is usual by considering all relevant factors as required in PFRS 9 to come up with a more realistic, truthful, and reflective basis for its measurement at the reporting date;**

c. **Expedite the formulation of a written accounting policy specifically on measuring the ECL on receivables which shall serve as basis for the adoption of the requirements of PFRS 9, and submit the said policy to the PRA General Manager and the Board of Trustees, for approval; and**

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

5.19 **We also recommended that Management enhance the collection process of its outstanding receivables in view of the estimate or projection of the FMD on the ECL related to it. Be proactive in the collection efforts by sending Billing Statements regularly to the retiree members/client banks for them to be notified of their obligations to the PRA, assigning/designating specific personnel to manage and handle the collection of receivables, and employing additional collection strategies to improve the agency's collection efficiency.**

5.20 Management commented that it is currently conducting review of the accounts affected and the necessary adjustments will be effected in the January 2023 accounting records. Also, Management agreed to make review and reassessment of the established ECL including the formulation of written policy for determining the provision for AFI. Other recommendations such as regular sending of Billing Statements, and employment of more efficient collection strategies were likewise committed by the Management.

5.21 As a rejoinder, the Audit Team acknowledged the Management's commitment to implement the audit recommendations. However their full implementation of all the recommendations will be monitored in the CY 2023 audit. Further, provide to the Audit Team a copy of the approved policy on the adoption of the requirements of the PFRS 9 and a copy of JEV as proof of effecting the adjustment/s.

6. The fair presentation of the balance of the Cash and Cash Equivalent account totaling P314.976 million as of December 31, 2022 could not be established due to the net variance of P59.980 million between the balances per books and confirmed bank balances consisting of various book reconciling items and errors which remained unadjusted as of year-end, contrary to Paragraph 15 of the Philippine Accounting Standard 1.

6.1 Paragraph 15 of PAS 1 - Presentation of Financial Statements provides that:

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

6.2 Examination of the balances per books and the balances confirmed by the corresponding depository banks for the agency's five Cash-in-Bank (CIB) accounts as of December 31, 2022, showed a total variance of P59.980 million, details of which are presented in Table 14:

Table 14 – Summary of Variances of Balances per Books vs Banks as of December 31, 2022

Account Title	Balance per Books	Balance Per Bank	Difference
Cash in Bank-Local Currency, CA LBP Buendia	P86,326,403	P 90,588,891	(4,262,488)
Cash in Bank-Local Currency, CA LBP Cebu	12,650,595	16,574,092	(3,923,497)
Cash in Bank-Local Currency, CA DBP HO	378,083	376,673	1,410
Cash in Bank-Foreign Currency, SA LBP	165,668,922	213,991,014	(48,322,092)
Cash in Bank-Foreign Currency, SA LBP Cebu	16,632,261	18,490,739	(1,858,478)
Cash in Bank-Foreign Currency, SA DBP HO	31,881,855	33,496,407	(1,614,552)
Total	**P313,538,119**	**P 373,517,816**	**(59,979,697)**

6.3 It was verified in the Bank Reconciliation Statements (BRSs) submitted by the FMD that the variance of P59.980 million pertained to book and bank reconciling items with total net amount of P57.999 million and P2.074 million, respectively. The summary of the book reconciling items (BRIs) is shown in Table 15:

Table 15 – Summary of BRIs of the CIB account as of December 31, 2022

BRIs	CY 2022	CY 2021	CY 2020	CY 2009 - 2019	Total
Unrecorded Credits/ Deposits	P15,300,244	P19,205,803	P18,569,190	P14,406,903	**P67,482,140**
Unrecorded Debits/ Withdrawals	(510,839)	(163,393)	(517,276)	(2,374,291)	**(3,565,800)**
Errors from previous BRS/For further verification	(5,936,021)	(4,468,713)	(746,961)	5,234,875	**(5,916,821)**
Total	**P 8,853,384**	**P14,573,697**	**P17,304,953**	**P17,267,487**	**P57,999,519**

6.4 As shown in the above table, the bulk of BRIs pertained to unrecorded deposits of P67.482 million which were payments of APFs directly deposited by the clients/retirees to the PRA's depository accounts. These remained unrecorded in the books because no information and/or copy of validated deposits slips were furnished to the FMD. Since the FMD did not know to whom these payments/deposits are applied to, both the SI and AR accounts of the PRA were affected as the direct deposits may pertain to income which may have been accrued already.

6.5 Likewise, part of the BRIs were unrecorded debit/withdrawals of P3.566 million covering primarily the payments of interests earned by the retirees on pre-terminated Certificate of TD maintained in the Land Bank of the Philippines (LBP) and the DBP. These were not supported with debit memos, among others. There were also errors from previous BRSs and items still for further verification totaling P5.917 million which maybe caused by returned checks, misstatements, errors in the translation, among others. Of the said amount, P93,683 pertains to errors in translation of several dollar denominated transactions during the preparation of the BRS for the CIB-LBP-FC-SA.

6.6 It was informed that the PRA has been requesting the concerned banks for copies of the credit memos for the said 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 preferred by its clients. Also, the FMD explained that the volume of transactions and the lack of personnel handling the accounts hindered the timely verification and recording of the same.

6.7 However, this could also be attributable to the non-preparation of the BRSs on a monthly basis and to be submitted to COA as required under Sections 4, 6, and 7 of Chapter 21 of the Government Accounting Manual (GAM) Volume I. The practice of the FMD is to prepare the same at year-end only, thereby, defeating the purpose of reconciliation which is to detect and immediately correct/adjust any book reconciling items between the books and the bank. Had the BRSs been prepared as required, the BRIs were adjusted before the year-end as the FMD has ample time to analyze and prepare the adjustments with the necessary supporting documents instead of doing it on the succeeding year.

6.8 On the other hand, the BRIs totaling P2.074 million consist of outstanding checks of P2.537 million issued in CYs 2019 and 2020; uncleared checks deposits of P7.579 million; erroneous credits/debits to the account of P2.459 million; and delayed postings of P0.564 million. The delayed postings refer to the interest payments to retirees not yet debited by the bank despite prior instructions from the PRA. Management claimed that efforts were already made to the concerned banks in notifying them for appropriate action on the mispostings and delayed posting of transactions.

6.9 In view of the material amount of BRIs which remained unadjusted as at year-end, the correctness and reliability of the CIB account could not be ascertained, thereby, affecting the fair presentation of the balance of the Cash and Cash Equivalent account totaling P314.976 million in the financial statements as of December 31, 2022, contrary to Paragraph 15 of PAS 1 - Presentation of Financial Statements.

6.10 **We recommended that Management:**

a. **Direct the concerned FMD personnel to expedite the reconciliation of the bank accounts by assigning additional personnel to focus on the validation of collections through direct deposits and the correct preparation of the BRSs on a monthly basis and thereafter, submit to COA. Likewise, verify thoroughly the BRIs and immediately effect the necessary adjustments to fairly present the balance of the Cash and Cash Equivalents account in the financial statements;**

b. **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 the clients to immediately notify/inform the FMD aside from the Resident Retiree Servicing Department personnel for any direct deposits made; and**

c. **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 submission of pertinent documents by the LBP/DBP branches such as Debit Memos, Credit Memos, etc. so that necessary adjustments could be effected in the PRA's books and in the concerned banks' records.**

6.11 The Management commented that the Administrative Finance Services Department-FMD has considered COA's analysis/findings and is pursuing the conduct of review of the account and will effect all the necessary adjustments on the CIB account in the January 2023 accounting records. It also acknowledged other recommendations such as the timely preparation and submission of monthly BRSs, among others. Likewise the FMD is always committed to make further review of the present accounting and finance procedures and pursuing to work on adapting measures for improvement and change.

6.12 As a rejoinder, the Audit Team acknowledged the Management's commitment to effect the adjustments, and to implement the other recommendations. The full implementation of all the recommendations will be monitored in CY 2023 audit.

7. Comparative Financial Statements for CYs 2022 and 2021 were not restated due to the absence of details or breakdown of prior period adjustments reflected under the Retained Earnings account totaling P16.756 million, contrary to Paragraphs 42 and 49 of Philippine Accounting Standard 8.

7.1 Paragraphs 42 and 49 of PAS 8 provide the following:

> *Subject to paragraph 43, an entity shall correct material prior period errors retrospectively in the first set of financial statements authorized for issuance after discovery by:*
>
> *a. Restating the comparative amounts for the prior period(s) presented in which the error occurred; or*

b. If the errors occurred before the earliest period presented, restating the opening balances of assets, liabilities and equity for the earliest prior period presented.

Xxx

In applying paragraph 42, an entity shall disclose the following:

(a) The nature of the prior period error;
(b) For each prior period presented, to the extent practicable, the amount of the correction;
(c) The amount of the correction at the beginning of the earliest prior period presented; and
(d) If retrospective restatement is impracticable for a particular prior period, the circumstances that led to the existence of that condition and a description of how and from when the error has been corrected.

7.2 Review of accounting records showed that the RE account has a balance of P2,208.848 million as of December 31, 2022. For CY 2022, there was an increase of P347.615 million pertaining to the comprehensive income for the year as well as decreases covering the payments of dividends of P400 million, and other adjustments totaling P16.756 million.

7.3 Verification however, revealed that there was no schedule as to the details and/or breakdown of the adjustments totaling P16.756 million. This has been requested from the FMD however, it was informed that they are yet to identify the details of such.

7.4 While the Audit Team understand the volume of transactions being attended and recorded by the FMD, these adjustments should have been taken into account at the time of the recording to facilitate the restatement process of the Financial Statements and to save time from tracing back to hundreds of adjustments at year-end.

7.5 Due to the absence of the details/breakdown of the adjustments totaling P16.756 million, the comparative financial statements of the PRA covering the years ended December 31, 2022 and 2021, were not restated, which was not in accordance with the above-mentioned standards.

7.6 **We recommended and Management agreed to direct the FMD to:**

a. Immediately identify all the related adjustments totaling P16.756 million, and thereafter, restate the financial statements to the earliest period presented by restating the opening balances of assets, liabilities and equity for the earliest prior period presented;

b. Submit to COA the breakdown thereof for verification purposes; and

c. Ensure that at the recording stage, all prior period adjustments are identified as to the particular year they refer to, by assigning one FMD personnel to handle such in order to expedite the restatement process of financial statements at year-end.

7.7 As a rejoinder, the Audit Team acknowledged the Management's commitment to implement the audit recommendations. However, their full implementation of all the recommendations will be monitored in the the CY 2023 audit.

8. The reliability of the balances of three asset and three liability accounts having total balances of P20,980.290 million and P21,237.132 million, respectively, as at December 31, 2022 could not be ascertained in the absence of Subsidiary Ledgers to support their General Ledger balances, contrary to Paragraph QC26 of the Conceptual Framework for Financial Reporting which hindered the Audit Team to perform other alternative procedures to verify the correctness of the balances of these accounts.

8.1 Paragraph QC26 of the CFFR provides that:

> *Verifiability helps assure users that information faithfully represents the economic phenomena it purports to represent. Verifiability means that different knowledgeable and independent observers could reach consensus, although not necessarily complete agreement, that a particular depiction is a faithful representation that information faithfully.*

8.2 Sections 114 (2) and 111 (2) of Presidential Decree No. 1445 on the keeping of accounts of a government agency, likewise state that:

> *114 (2). The accounts of an agency shall be kept in such detail as is necessary to meet the needs of the agency and at the same time be adequate to furnish the information needed by fiscal or control agencies of the government.*
>
> *Xxx*
>
> *111(2) Subsidiary records shall be kept where necessary.*

8.3 Appendix 6 of the GAM Volume II also provides that the SL shows detail for each control account in the GL which is maintained per account by the Accounting Division/Unit and that at the end of each month, after all transactions in the journals have been posted, the debit and credit columns of each account shall be footed while the totals of the SL balances shall be reconciled with the corresponding GL controlling account.

8.4 Verification of the Financial Statements of the PRA disclosed that the SLs per debtor and creditor were not maintained for the two asset and two liability accounts totaling P19,395.798 million and P19,914.523 million, respectively, and SL per component of the DTA and the DTL accounts to support their GL balances, details are presented in Table 16.

Table 16 – Balances of Accounts without SL

Classification		Balance	Classification	Balance
Assets			Liabilities	
Account Receivables, net	P246,488,736		Accounts Payable	P56,331,840
	(180,404,818)	P66,083,918		
Restricted Fund		19,329,713,680	Trust Liabilities	19,858,191,209
Sub-total		**P19,395,797,598**	**Sub-total**	**P19,914,523,049**
Deferred Tax Assets		1,584,492,850	Deferred Tax Liabilities	1,322,609,359
Total		**P20,980,290,448**		**P21,237,132,408**

8.5 The AR account consists of AR-APF, MF, Visitorial Fees (VFs), and Harmonization Fees (HFs) with gross amount of P178.490 million. As noted, there is no SL being maintained by the FMD for the account of each PRA retiree member which has been a perennial problem. For CY 2022, the AR-APF/VFs/HFs was merely supported with two separate schedules but do not have the consolidated balance and details that would show the total receivable from each retiree member as of year-end.

8.6 Similarly, the AR-MF is a receivable of the PRA from its accredited banks which are holding the VDs of the retiree members. Despite having 21 servicing banks only as debtors, the FMD was not able to establish and maintain the required SL for each client bank, thus, the correct receivable from each accredited/accredited bank cannot be verified.

8.7 Likewise, the balances of the RF and TL accounts presented in the GL were not supported with the required SLs. The RF and TLs, which are contra-accounts, pertain to the VDs received by the PRA from the retirees and the PRA's liabilities for the amount to be refunded to latter upon cancelation of their PRA's membership, respectively. As noted, despite the accounts' material year-end balances, only GL is being maintained for each account containing hundreds of VD-related transactions during the year. Details and balances cannot be traced as there is no SL maintained for each retiree.

8.8 As to the AP, this is merely supported with GL bearing all the related transactions. No Schedule was submitted whereas SL for each creditor is not maintained.

8.9 The DTA and the DTL accounts, despite their substantial year-end balances of P1,584.923 million and P1,322.609 million, respectively, were simply supported with GL containing one adjustment for each at year-end relative to the net movements of its various components. Had SL been prepared, the details of each component, particularly on the unrealized gain (loss) on FOREX could have been verified and be used as well for reconciliation and monitoring of accounts.

8.10 In all the above-cited significant accounts, the details of their balances appearing in the Financial Statements and in the GLs cannot be verified due to the absence of SLs. As a result, the Audit Team was hindered to conduct other alternative procedures to verify the reliability and correctness of the balances of these accounts as presented in the Financial Statements and GLSs. Whereas the agency itself was not able to perform other important procedures that could somehow improve its operations such as collection of receivables from various debtors, confirmation of payables to creditors, speedy reconciliation, among others.

8.11 **We recommended that Management direct the FMD and other concerned Divisions to immediately prepare and maintain SLs for the six significant accounts such as the AR, RF, DTA, AP, TL and DTL to support their balances presented in the GL and in the Financial Statements, in conformity with Paragraph QC26 of the CFFR.**

8.12 The Management through the FMD acknowledged the audit recommendation which is to establish/create and maintain SLs.

8.13 As a rejoinder, the Audit Team acknowledged the Management's commitment to implement the audit recommendations. However, their full implementation of all the recommendations will be monitored in the CY 2023 audit.

9. The Prepayments – Withholding Tax at Source account with balance of P21.531 million as at December 31, 2022 has a net overstatement of P7.964 million due to non-recording in the books the amount of creditable withholding tax deducted by the servicing banks from payment of Management Fee (MFs) and the utilization thereof by the PRA as required under COA Circular No. 2020-002 dated January 28, 2020, which also overstated the Income Tax Payable account by P17.193 million, and understated the Service Income - MFs account by P9.229 million, contrary to Paragraph QC12 of the Conceptual Framework for Financial Reporting.

9.1 Section 2.1 of COA Circular No. 2020-002 prescribes the proper recording of the Withholding Tax at Source (WTS) account in the books, quoted as follows:

> *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.*

9.2 In addition, Paragraph QC12 of the CFFR 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 it purports to represent. To be a perfectly faithful representation, a depiction would have three characteristics. It would be complete, neutral and free from error. Xxx.*

9.3 Sound accounting practice likewise dictates that the balance of the WTS account at year-end would equal to the Creditable Tax Withheld (CTW) for the 4th quarter of the current year given. This is initially recognized in the books in the period the corresponding revenue is earned while applied/utilized it for payment of taxes in the same period.

9.4 The PRA's CTW usually arises from the taxes on income from MFs withheld by its servicing banks (accredited and de-accredited). The FMD debits the WTS account and credits the SI - MF account upon recognition of withheld taxes. The WTS account is subsequently credited when the CTW is applied as tax credits in the quarterly Income Tax Returns (ITRs). As of December 31, 2022, the WTS account has a balance of P21.531 million while the remaining CTWs for the 4th quarter as verified from the CY 2022 Annual ITR amounted only to P3.045 milllion.

9.5 Review of records disclosed that CTWs totaling P6.184 million were used/applied as tax credit in the 2nd and 3rd quarters - CY 2022 ITRs of the PRA, however, these were not initially recognized under the asset and income accounts upon receipt of the accomplished Bureau of Internal Revenue (BIR) Form 2307 from the servicing banks. Only the utilization/application thereof was recorded by the FMD.

9.6 Similarly, CTWs of P3.045 million for the 4th Quarter - CY 2022 were used in the CY 2022 Annual ITR, however, accounting records showed otherwise. Additionally, the CTWs for the 4th quarter - CY 2021 amounting to P2.832 million previously debited under the WTS account was applied when the CY 2022 Annual ITR was filed in April 2022. Yet, these were not recorded in the books as utilized or reduction from the WTS account.

9.7 These circumstances in CY 2022 were caused by various factors, one of which is the improper procedures in the recording of the MFs where the accruals of MFs are recorded net of CTW instead of gross. Since the CTW was no longer a part of the AR-MF and the collection, the taxes withheld may have been disregarded. As such, the WTS and MFs Fees accounts were understated in the amount of P9.229 million, contrary to the above-mentioned provisions/standards.

9.8 Further, this condition already existed in the previous years and was brought to the attention of the Management through AOM No. 2012-012 (2021), but remained unresolved. In fact, those adjustments required to correct the misstatements in CY 2021 remained unadjusted in CY 2022.

9.9 To reiterate, the CTWs totaling P9.723 million per BIR Form 2307 covering 1st to 3rd quarters - CY 2021, were recorded in the books and it was verified in the filed Quarterly (CY 2021) ITRs that the same were already applied/used as tax credits. However, validation in the accounting records showed that the application was not recorded in the books resulting in the overstatement of the WTS account by P9.723 million. Shown in Table 17 is the summary of misstatements in CYs 2020-2022.

Table 17 – Summary of the Misstatements in CYs 2020-2022

	Particulars	Amount	Effect to WTS account	Effect to MF account	Effect to ITP account
a.	CTWs utilized in 2nd and 3rd quarters - CY 2022 but not recognized initially in the books	P6,184,339	P6,184,339	P6,184,339	None
b.	CTWs not recognized in 4th quarter – CY 2022 but utilized in CY 2022 Annual ITR	3,044,699	3,044,699	3,044,699	None
c.	Initially recorded but utilization/application of the CTWs in CY 2022 remained unrecorded	2,831,594	(2,831,594)	None	P(2,831,594)
d.	CTWs initially recognized in CY 2021 but its utilization remained unrecorded	9,723,253	(9,723,253)	None	(9,723,253)
e.	CTWs initially recognized in CY 2020 but its utilization remained unrecorded	4,637,852	(4,637,852)	None	(4,637,852)
	Total – Under (Over)		**P(7,963,661)**	**P9,229,038**	**P(17,192,699)**

9.10 Due to the noted errors, the WTS account and its corresponding Income Tax Payable account were overstated by P7.964 million and P17.193 million, respectively, while the SI - MF account was understated by P9.229 million, thereby, affecting the faithful representation in the financial statements of the balances of the said accounts as of December 31, 2022.

9.11 As regards the transactions pertaining to CY 2019 and prior years, the Audit Team was not able to validate due to voluminous transactions and inadequate documents. The forwarded balance on January 1, 2020 might also be erroneous considering that CTWs are subject to expiration. Therefore, all recorded CTWs in the previous years have to be used/utilized in the period of applicability which is within the year, otherwise, these could no longer be used as tax credit. Relatedly, the expired CTWs recorded under the WTS account no longer meet the criteria of an asset as there is no more future economic benefits associated with it.

9.12 **We recommended that Management direct the FMD to:**

a. Effect the necessary adjustments to correct the overstatement of the WTS and Income Tax Payable accounts in the amounts of P7.964 million and P17.193 million, respectively, and the understatement of the MF account totaling P9.229 million, to fairly present the affected accounts in the financial statements as of December 31, 2022;

b. Conduct analysis and reconciliation by determining the applied CTWs per ITR covering CY 2020 and below, and thereafter, compare with the unapplied CTWs as reflected in the WTS account to establish whether such may still meet the definition of an asset. Thereafter, effect the necessary adjustments and submit to COA a copy of the reconciliation for monitoring purposes;

c. Recognize in the books the accruals on MF gross of the CTW to ensure that the latter shall be recorded upon collection of the former and receipt of the duly accomplished BIR Form 2307; and

d. **Orient properly the personnel assigned to handle the withholding tax credit and WTS account, and the recording of tax transactions to avoid errors, misleading information, and possible tax deficiencies.**

9.13 The Management commented that the FMD has considered COA's analysis/findings and currently pursuing the conduct of review of the amounts. The necessary adjustments on the Prepayments - Withholding Tax will be effected in the January 2023 accounting records and financial reports. The FMD is always committed to make further review of the present accounting & finance procedures being used, and to always work on improvements. This is done by giving continues orientation to the personnel handling and maintaining the withholding tax credit and WTS accounts.

9.14 As a rejoinder, the Audit Team acknowledged the Management's commitment to effect the adjustments, and implement the other recommendations. The full implementation of all the recommendations will be monitored in CY 2023 audit. Further, provide the Audit Team copies of the reconciliation to be prepared and the JEVs with supporting documents as proof of adjustments in the books.

10. The Restricted Fund-Visa Deposits (VD) - Disbursing and Trust Liabilities (TL) - VDs accounts were both understated by P20.239 million while the Cash-in-Bank - Foreign Currency and TL-Interest on VDs accounts were likewise understated by P307,822 as of December 31, 2022 due to the recording in the books of withdrawals for the refunds of the retirees' VDs despite the absence of validation/confirmation from the Bank of actual disbursements/transfers thereof, contrary to Paragraph 15 of the Philippine Accounting Standard 1, which further resulted in several adjustments caused by subsequent reprocessing by the same.

10.1 Among the retirement program scheme of the PRA is the Simplified and Simple, Marketing-oriented, Integrated, Long-lasting and Efficient where the retiree is extended with benefits and incentives such as grants of certain tax exemptions, resident status, among others, provided he must, as a policy, open/maintain a time deposit through inward remittance called "Visa Deposit" (VD) with the DBP or with a bank duly accredited by the PRA in the amount of US$ 50,000 which decreased to US$20,000 through the years.

10.2 On June 8, 2011, the PRA and the DBP executed a MOA with provision that for every VD from each retiree, a Certificate of TD is issued under the name of the PRA with maturity of one year and can be rolled over. The receipt of VD is recorded in the PRA's books as debit to RF-VDs-Receiving account and credit to TL-VDs account. Should the retiree decide to withdraw his VD upon termination of its membership, all the necessary requirements for cancellation of his visa by the Bureau of Immigration are submitted to the PRA.

10.3 Upon receipt of the Cancellation Order, the FMD issues the retiree's withdrawal clearance to the DBP with the amount to be refunded and instructions to transfer thereof to the retiree's personal bank account. The withdrawal/refund is recorded in the books and supported by JEV and various documents.

10.4 Review of accounting records shows that in CY 2022, the PRA has processed refunds totaling P350.315 million for the cancelled membership of 303 retirees. Said withdrawals were recorded in the books using the spot rate on that date as debit to TL - VDs and credit to RF – VDs-Disbursing accounts and were supported with the required documents. Withdrawals of the matching earned interest were also recorded as credit to CIB-FC-DBP and debit to TL-Interest on VDs accounts.

10.5 It was verified that at year-end, withdrawals of P20.547 million out of the P350.315 million are yet to be transferred to the retirees' personal bank accounts but these were already reflected in the PRA's books as withdrawn, refunded, and transferred to the retirees' respective bank account. The timing difference as informed, was due to the usual delay on the part of the DBP in processing the transfers as it has to do validations and evaluations. Shown in Table 18 are the details of the late recording.

Table 18 – Summary of Withdrawn Visa Deposit in CY 2022 but yet to be Transferred

SRRV NO.	Recorded Withdrawn Visa Deposit and Interests			Date Received by DBP	Date Debited from the PRA Account
	Visa Deposit	Interest	Total		
M-013447	1,103,000	23,926	1,126,926	12/27/2022	1/13/2023
M-019334	1,105,905	30,115	1,136,020	12/21/2022	1/10/2023
M-022603	1,103,000	24,379	1,127,379	12/27/2022	1/12/2023
M-029398	1,933,008	36,535	1,969,543	12/27/2022	1/13/2023
M-032885	540,624	8,596	549,220	1/19/2022	Not yet released*
M-033158	1,103,276	17,837	1,121,113	12/27/2022	2/8/2023
M-033685	1,105,076	17,844	1,122,920	12/21/2022	1/12/2023
M-034222	2,093,328	33,725	2,127,053	10/18/2022	1/5/2023
M-034992	1,148,606	18,521	1,167,127	11/14/2022	2/9/2023
M-038539	1,120,680	18,032	1,138,712	12/6/2022	1/13/2023
M-039304	1,132,331	15,106	1,147,437	12/1/2022	1/9/2023
M-041166	1,126,810	15,000	1,141,810	12/29/2022	1/12/2023
M-041640	1,145,745	15,267	1,161,012	11/14/2022	1/9/2023
M-041862	1,103,000	14,665	1,117,665	12/27/2022	2/8/2023
M-053671	1,107,522	6,152	1,113,674	12/27/2022	1/13/2023
M-054496	1,161,946	6,232	1,168,178	11/10/2022	1/9/2023
M-059077	1,105,482	5,890	1,111,372	12/27/2022	2/2/2023
Total	**P20,239,339**	**P307,822**	**P20,547,161**		

10.6 It was further verified though that these recorded withdrawals were not supported with confirmation/validation from the DBP as proof of successful remittance to the retirees' accounts. This has been the practice of the PRA contrary to Paragraph 15 of PAS 1 which states that:

> *Xxx. 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.*

10.7 While the duly accomplished Remittance Instructions (RI) were already received by the DBP, the FMD failed to consider that the processing of subject refunds/transfers is not immediate, hence, not real-time transactions. The gap between the RI receipt date and the actual debit to the PRA's account was noted as average of 18 days or ranging from 1 to 103 days except for the refund of one retiree that remained unprocessed by the DBP despite lapse of 436 days from the DBP's receipt of RI.

10.8 Due to the practice of recording withdrawals of VDs and its interest despite lack of confirmation/validation, the RF-VDs-Disbursing and TL-VDs accounts were both understated by P20.239 million while the CIB-FC, SA-DBP and TL-Interest on VDs accounts were likewise understated by P307,822.

10.9 Further, it was found that the FMD made several (13) adjusting/reversing entries to re-establish/set up the existence of the funds in the PRA's books of account because the DBP had returned to them those requests with errors for correction purposes. Additionally, another adjustment has to be made by the FMD to record again the withdrawal applying the current exchange rate which differs from the previous entry, thus, adding efforts and time. These conditions could have been avoided had withdrawals were recorded upon receipt of confirmation of remittance.

10.10 The withdrawals cannot be likened to an outstanding check since the nature of the transaction itself, the process being undertaken, and the manner of recording in the books are unique. Moreover, the complete transfer of fund is dependent on the bank as there is no specific period being observed.

10.11 Currently, there is no written policy or even checklist requirements of the process and the supposed supporting documents prior to the recording of VDs withdrawal while the MOA between the DBP and the PRA has no provisions on matters such as withdrawal process of the VDs, the supposed obligation of the DBP to process immediately the PRA RIs, and notification on the corresponding validation and confirmation of the successful transfer.

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

a. Direct the concerned FMD personnel to:

a.1 Effect the necessary adjusting entries to correct the understatement of the RF-VD-Disbursing and TL-VD accounts in the amount of P20.239 million and CIB-FC and TL-Interest on VDs accounts in the amount of P307,822 to fairly present the affected accounts in the financial statements as of December 31, 2022; and

a.2 Formulate written policies on the processing and recording of withdrawals of VDs to be approved by the authorized Official to ensure consistency, uniformity, and timely recording of transactions in the books of accounts.

b. Make representation with the DBP and discuss the noted delays in the processing of remittance instructions as well as the prompt reporting to the PRA confirmation for every successful disbursement/transfer from PRA's account to retirees.

10.13 As a rejoinder, the Audit Team acknowledged the Management's commitment to effect the adjustments, and to implement the other recommendations. The full implementation of all the recommendations will be monitored in the CY 2023 audit.

11. The Property, Plant, and Equipment (PPE) - Furniture and Fixtures (FF), Machinery and Equipment (ME), and Other PPE acount with total carrying amount of P10.996 million as at year-end was overstated by P2.838 million due to (a) non-reclassification of several PPE items to semi-expendable property, and (b) erroneous adjustments on the increase in the capitalization threshold under COA Circular No. 2022-004, which also overstated the Accumulated Depreciation (AD) – FF, Retained Earnings, Semi-Expendable (SE) - ME, SE – FF, ME, and AD-ME accounts in the amounts of P2.838 million; P1.725 million; P1.234 million; P0.520 million; P439,554; and P468,180, respectively, contrary to Paragraph 22 of the Philippine Accounting Standard 8.

11.1 COA Circular No. 2022-004 dated May 31, 2022 provides the following provisions regarding the increase in the capitalization threshold, quoted as follows:

4.0 IMPLEMENTING GUIDELINES

4.1 Tangible items which meet the definition and recognition of PPE but cost is below Fifty Thousand Pesos (P50,000) shall be accounted in the books of accounts of the agencies as semi-expendable properties. This shall be supported by the issuance of Inventory Custodian Slip (ICS) to establish accountability of the end-user. Xxx

4.2 The increase in the capitalization threshold from P15,000 to P50,000 shall be considered as a change in accounting policy and shall be applied retrospectively. It means that the new capitalization threshold of P50,000 shall be applied for all tangible items purchased in calendar year (CY) 2022 onwards and in the prior years.

Xxx

4.4 For tangible items acquired prior to CY 2022 with amounts from P15,000 to below P50,000 previously classified as PPE which are still in the custody of the Supply and/or Property Division/Unit:

a. These items shall be reclassified to the appropriate semi-expendable property account.

11.2 Review of the submitted Schedules of the PPE account showed that a total amount of P5.741 million of PPE items was adjusted as they qualify under the new classification of semi-expendable properties amounting to below P50,000. These include items such as FF, Information and Communication Technology Equipment (ICTE), Office Equipment and Other PPE acquired in CY 2022 and prior years.

11.3 Analysis of the adjustments revealed that most of the reclassified PPE items were procured in the previous years, and therefore, fully depreciated already. The carrying amounts (CA) of these properties represent their respective residual values. However, it was noted in the recorded adjustments that the total amount of P1.673 million representing the CAs of these items was closed to the SE property account/s instead of the RE account, contrary to the above-cited provisions.

11.4 Moreover, the increase in the capitalization threshold is treated as change in accounting policy requiring the resulting adjustments to be made to the RE account. Relatedly, Paragraph 22 of PAS 8 provides that *"Subject to paragraph 23, when a change in accounting policy is applied retrospectively, in accordance with paragraph 19(a) or (b), the entity shall adjust the opening balance of each affected component of equity for the earliest prior period presented and the other comparative amounts disclosed of each prior period presented as if the new accounting policy had always been applied."*

11.5 Additionally, another error was noted in the reclassification of the FF of P2.838 million to SE items per JEV No. 202212325 dated December 29, 2022. In reclassfying the FF items to SE, the AD – FF account was erroneously credited instead of FF account which resulted in the overstatement of both accounts by P2.838 million. It was subsequently corrected but the same was erroneously excluded from the financial statements.

11.6 Further, audit disclosed that two ME items which qualify as semi-expendable property were excluded from the reclassifications made. Per Schedule, the items consisting of: (a) Compaq EVO D510 SFF (two items/units), P96,200; and (b) HP DC 7800 Desktop PC Ultra Slim (ten units), P424,000, is below the capital threshold of P50,000. These were also fully depreciated and have residual values of P9,620 and P42,400, respectively, or a total of P52,020. Accordingly, the ME, AD – ME, and RE accounts were overstated in the amounts of P0.520 million; P468,180; and P52,020, respectively.

11.7 Shown in Table 18 is the summary of the misstatements for each affected account which resulted from the noted errors.

Table 18 – Summary of Misstatements

JEV Nos.	SE – ME	SE – FF	FF	AD-FF	ME	AD-ME	RE
202212323	P(999,228)						P(999,228)
202212235		P(439,554)	P(2,838,060)	P(2,838,060)			(439,554)
202212314	(77,923)						(77,923)
202212305	(67,236)						(67,236)
202212303.	(89,245)						(89,245)
Not reclassified					P(520,200.00)	P(468,180)	(52,020)
Total	**P(1,233,632)**	**P(439,554)**	**P(2,838,060)**	**P(2,838,060)**	**P(520,200.00)**	**P(468,180)**	**P(1,725,206)**

11.8 In view of the above-mentioned errors, the RE, SE-ME, SE – FF, FF,AD-FF, ME and AD-ME accounts were overstated in the amounts of P1.725 million; P1.234 million; P439,554; P2.838 million; P2.838 million; P0.520 million; and P468,180, respectively, thus, affecting the faithful representation of the said accounts in the financial statements as of December 31, 2022.

Other Observation on PPE account

The existence, accuracy and reliability of the PPE - ME, FF, Motor Vehicle (MV) account with total carrying amount of P15.330 million could not be established due to discrepancies between the balances per GL vis-a-vis per schedule and physical count, and unserviceable items that remained unadjusted

11.9 Paragraph 15 of PAS 1 states that, *"xxx. 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. The application of IFRSs, with additional disclosure when necessary, is presumed to result in the financial statements that achieve a fair presentation."*

11.10 Review of the financial statements of the PRA shows that the PPE account has total carrying amount of P72.743 million as of December 31, 2022, consisting of ME, P10.386 million; FF, P0.609 million; and MVs, P4.335 million, or a total of P15.330 million, and Building and Other Structures, P57.412 million.

11.11 The agency conducted inventory-taking of its PPE items such as MEs, FF, and MVs covering the PRA Headquarters and all of its Satellite Offices. Comparison between the results of the physical count of the FF and ME items and the balance per schedule/GL as of September 2022 and December 31, 2022 disclosed a significant difference of P5.025 million, details are as follows:

Name of PPE	Physical Count as of September 2022	Balance per Ledger as of Sept. 2022/Dec. 2022	Difference
Furniture and Fixtures	P869,119	P5,893,683	P5,024,564

11.12 The difference may be partly attributed to the missing items identified during the physical count, detailed in Table 19.

Table 19 – List of Missing items during Physical Count

Description	Cost
a. Table, Reception (07/23/1999)	P61,600
b. Table, Reception (12/30/2003)	76,800
c. System C, 1 lot (10/18/2002)	73,498
d. Workstation 1 lot (2) (12/27/2002)	88,750
e. Table Clerical 5 seater (2) (12/30/2003)	134,995
Total	**P435,643**

11.13 Inquiry revealed that items C, D, and E totaling P297,243 could no longer be located and identified as to their exact appearance due to damage or missing parts. On the other hand, items A and B totaling P138,400 were reported as donated to Tanauan Institute located at Sambat, Tanauan City, Batangas on

March 26, 2015 upon the authority of former PRA General Manager per copy of Invoice Receipt for Property. While it was claimed as already donated, this remained recorded in the PRA's books.

11.14 It was also noticed that the year-end balances per Schedule and per GL of the ME-ICTEs' account which are supposedly equal, have a difference of P1.083 million. No reason was provided but simply indicated as subject to reconciliation.

11.15 Further, various lapses and deficiencies were noted by the Audit Team during the witnessing of physical count, one of which is the vehicle of the Cebu Satellite Office with carrying amount P1.210 million that has been unserviceable for quite some time yet, there was no initiative done by the concerned personnel. Section 6.3.1 (h) of COA Circular No. 2020-006 provides that the Property Unit shall *"Prepare Inventory and Inspection Report of Unserviceable Property (IIRUP) using the format prescribed under the Accounting Manuals of the respective Sectors for all PPEs found unserviceable, obsolete and/or no longer needed."* Unserviceable items are supposed to be derecognized from the books upon disposal.

11.16 Considering the difference between the balances per physical count and per books/GL, per Schedule and per GL, and the unserviceable item which remained unadjusted in the books, the existence, accuracy and reliability of the PPE – ME/FF/MV account having a total carrying amount of P10.779 million cannot be verified and established, contrary to Paragraph 15 of PAS 1.

11.17 **We recommended that Management:**

a. Direct the FMD to effect the necessary adjustments to correct the overstatement of the PPE, AD – FF, RE, SE - ME, SE – FF, ME, and AD-ME accounts in the amounts of P2.838 million; P1.725 million; P1.234 million; P0.520 million; and P439,554; and P468,180, respectively, to fairly present the affected accounts in the financial statements as of December 31, 2022;

b. Exercise all efforts in the recording of transactions to avoid errors and ensure that all journal entries for the agency's transactions are posted to the corresponding GL/SLs prior to preparation of financial statements so that the same are completely reflected therein;

c. Require the Administrative and Support Division (ASD) to verify and complete the required supporting documents of donated FF items totaling P138,400 and submit to the FMD for adjustments in the books while those items identified as missing and/or unserviceable totaling P297,243 are to be subjected to the necessary procedures, in compliance with Section 6.3.1 of COA Circular No. 2020-006;

d. Require the FMD to reconcile the difference of P1.083 million between the schedule and GL in order to determine the correct list and amount of ME - ICTE items recorded in the books, and thereafter, submit to COA a status report; and

e. **Instruct the ASD/Property Unit to complete the necessary documents and undertake all pertinent procedures relative to the unserviceable MV, in compliance with Section 6.3.1(h) of COA Circular No. 2020-006.**

11.18 The Management commented that:

a. It would effect the necessary adjustments to correct the overstatement on the various accounts which will be done in January 2023 accounting records and financial reports while disclosures/restatement will be included in the CY 2023 Notes to the Financial Statements.

b. The ASD issued memorandum to the Acting Property Custodian at the time of donation to submit to the ASD all supporting documents required for the donation including the complete documents relative to the FF identified as missing/unserviceable.

c. Likewise, the ASD issued a memorandum to the official custodian of the MV assigned to Cebu Satellite Office, to submit the necessary documents to be able to undertake the necessary procedures relative to the unserviceable MV.

11.19 As a rejoinder, the Audit Team acknowledged the Management's commitment to effect the adjustments and to implement the other recommendations as stated above and in the issued AOM. The full implementation of all the recommendations will be monitored in the CY 2023 audit.

12. The Cost of Services – Marketers' Fee and Accounts Payable accounts were understated by P2.281 million and P267,572, respectively, while the Retained Earnings account in CY 2021 was also understated by P2.013 million in view of the inconsistent policies in the recognition of expenses and liabilities arising from Marketers' Fee, contrary to Paragraphs 4.46, 4.49, and QC22 of the Conceptual Framework for Financial Reporting.

12.1 To qualify as Marketer, one has to comply with all the general documentary requirements for the Marketers' Accreditation/Registration per PRA Administrative Order No. 23. Thereafter, a contract between the PRA and the accredited Marketer is executed. Section 5.2 thereof provides that:

> *2. The accredited MARKETER shall be entitled to a MARKETER's Fee of US$500.00 which will be paid in check, converted to its Philippine peso equivalent according to current exchange rate, less withholding tax (subject to applicable withholding tax rates), for each principal retiree successfully enrolled under the SRR Visa.*

12.2 A retiree is considered enrolled under the Special Resident Retiree's Visa upon his oath-taking. Only then will he be considered a member and consequently, by virtue of the agreement, the marketer/s will be entitled to MF which shall be the time to recognize the liability of the PRA to the Marketer and the corresponding expense.

12.3 Paragraphs 4.46 and 4.49 of the CFFR state that:

> *4.46 A liability is recognized in the balance sheet when it is probable that an outflow of resources embodying economic benefits will result from the settlement of a present obligation and the amount at which the settlement will take place can be measured reliably.*
>
> *Xxx*
>
> *4.49 Expenses are recognized in the income statement when a decrease in future economic benefits related to a decrease in an asset or an increase of a liability has arisen that can be measured reliably. This means, in effect, that recognition of expenses occurs simultaneously with the recognition of an increase in liabilities or a decrease in assets.*

12.4 For CY 2022, the PRA has reported Cost of Services (COS) – MF expenses totaling P34.964 million which includes accruals of P2.101 million. It was informed that the FMD relies only on the Disbursement Vouchers (DVs) prepared and submitted by the Processing Division (PD) as to the setting up of the liabilities because they do not have a record of the dates of the retirees' oath-taking.

12.5 Review of documents and as confirmed by the PD disclosed that it takes days or weeks after the oath-taking that DVs and supporting documents are forwarded by the PD to the FMD. Thus, the liabilities to the Marketers are not timely recognized in the books, particularly at year-end resulting in the misstatement of the reported liabilities and COS-MF expenses of the PRA.

12.6 Records showed that there were 10 other retirees who took oath in CY 2022 but the corresponding MF expenses of P267,572.10 were recorded only in CY 2023 resulting in the understatement of COS – MF and Accounts Payable (AP) accounts by the same amount.

12.7 It was also noted that in CY 2021, the FMD recognized in the books the COS-MF expenses totaling P2.013 million although the concerned retirees took oath only in CY 2022. This was erroneous as the marketers are not yet entitled to the MF until said retirees have taken their oath. Accordingly, the balance of the RE account as of December 31, 2021 was understated by P2.013 million while the COS-MF Expenses account for CY 2022 was likewise understated by the same amount, summarized in Table 20.

Table 20 – Summary of Misstatements

Year of Oath-Taking	MF Recorded in	COS-MF	RE	AP
CY 2022	CY 2023	P 267,572	-	P267,572
	CY 2021	2,013,415	2,013,415	-
Total – Under (Over)		**P2,280,987**	**P2,013,415**	**P267,572**

12.8 Due to the noted errors and inconsistencies, the COS–MFs and AP accounts were net understated by of P2.281 million and P267,572, respectively, while the RE account was understated by P2.013 million on December 31, 2021/January 1, 2022.

12.9 While the effect of the misstatement of P2.013 million in CY 2021 to RE account will finally be offset from the misstatement in CY 2022, thereby, rendering a net effect of zero to the same on December 31, 2022, it is emphasized that the manner of recording the expenses and obligations was not consistent as well as contrary to the above-mentioned provisions. As such, the COS-MF expense account was not fairly presented in the financial statements for the year ended December 31, 2022.

12.10 **We recommended and Management agreed that the FMD:**

a. Effect the necessary adjustments to correct the understatement of COS - MF expense, RE and AP-MF accounts in the amounts of P2.281 million; P2.013 million; and P267,572, respectively, to fairly present the said accounts in the financial statements as of December 31, 2022; and

b. In coordination with the PD, formulate a written policy on the recognition of liabilities and expenses arising out from the transactions in MF taking into consideration Paragraphs 4.46, 4.49 of the CFGPFR and the provisions in the contract executed between the PRA and the Marketer to ensure consistency and timely recognition thereof.

12.11 As a rejoinder, the Audit Team acknowledged the Management's commitment to effect the adjustments. The full implementation of all the recommendations will be monitored in CY 2023 audit. Further, provide the Audit Team copy of the approved written policy and approved JEV/s with supporting documents as proof of adjustments in the books.

13. The Lease Payable account with a balance of P43.243 million on December 31, 2022 was understated in the amount of P2.397 million due to the inconsistent recording and the non-amortization of the interest corresponding to lease payments which also understated the Interest Expense account by the same amount, contrary to Paragraph 36 of Philippine Financial Reporting Standard 16.

13.1 The PRA, being a lessee, initially recorded the Right-of-Use (ROU) asset and the Lease Payable (LP) in the books for all its finance leases with a term of more than 12 months, unless the underlying asset is of low value, while the corresponding depreciation and interest were periodically recognized as well.

13.2 Paragraph 36 of PFRS 16 provides the measurement of lease liability and ROU asset, respectively, after initially recognized in the books, as follows:

After the commencement date, a lessee shall measure the lease liability by:

(a) increasing the carrying amount to reflect interest on the lease liability;
(b) reducing the carrying amount to reflect the lease payments made; and
(c) remeasuring the carrying amount to reflect any assessment or lease modifications specified in paragraphs 39-46, or to reflect revised in-substance fixed lease payments.

13.3 During the initial recognition of the aforementioned assets and liabilities by the PRA in CY 2021, the Lease Amortization Table for their leases (except those less than 12 months) was formulated to determine the specific amount of amortization of interests during the lease term to facilitate the recording of lease payments including the depreciation and Interest Expense (IE).

13.4 As of December 31, 2022, the LP account has a balance of P43.243 million, however, review of the Lease Amortization Table showed a balance of P45.641 million, or a difference of P2.397 million, as shown in Table 21.

Table 21 – Balance of LP account Per Books vs Per Amortization Table

Lessee	Per Books	Per Amortization Table	Discrepancy
MBTC	27,580,000	29,148,724	1,568,724
BDO	15,165,012	15,982,630	817,618
J.A.D. Savers Development Co. Inc.	498,706	509,863	11,157
Total	**43,243,718**	**45,641,217**	**2,397,499**

13.5 Verification of accounting records disclosed that the above-noted discrepancy is attributable to the following:

a. Non-amortization of the corresponding interest upon recording of lease payments resulting in unrecorded interest expenses totaling P2.402 million. The FMD had erroneously recorded the lease payments under the LP in full amount disregarding the interest expense of P2.402 million for the leases with the three Lessors.

b. Inconsistent recording of lease payments which resulted in the difference of P4,672 between the recorded amount and that of the amortization table. It was informed that the minor differences were caused by the use of the actual number of days per month due to escalation in the lease payment, instead of adopting the amounts in the amortization table.

13.6 Due to the noted errors and deficiencies, the LP and the IE accounts were both understated in the amount of P2.397 million which affected the fair presentation of the balances of the same in the financial statements as of December 31, 2022.

13.7 **We recommended and Management agreed to direct the FMD to:**

a. Effect the necessary adjustments to correct the understatement of the LP and IE accounts in the amount of P2.397 million so that the balances

of the affected accounts shall be fairly presented in the financial statements as of December 31, 2022; and

b. **Exercise extra care in the recording of transactions relating to the lease payments by referring to the Lease Amortization Table to avoid errors and further adjustments in the books.**

13.8 As a rejoinder, the Audit Team acknowledged the Management's commitment to effect the adjustments. However, their full implementation of all the recommendations will be monitored in CY 2023 audit.

NON-FINANCIAL

14. The granting to, handling and utilization/disposition of the Petty Cash Fund (PCF) by various Disbursing Officers which resulted in the total replenishments of P6.047 million for CY 2022 was not in conformity with the existing laws, rules, and regulations in view of the following:

a. Regular expenses of the agency such as postage/courier fees, and fuel/oil totaling P0.736 million and P1.439 million, respectively, were charged to the PCF of the agency, contrary to Section 4.3.2 of COA Circular No. 97-002, which resulted in unnecessary establishment of PCF for that purpose, additional time allotted for processing of documents, and exclusion of said expenses from the regular procurement required under Section 7.2 of Republic Act No. 9184;

b. Replenishments of petty cash expenses by several Petty Cash Custodians did not reach the required minimum of 75 percent of the disbursements of PCF contrary to Section 4.3.1 of COA Circular No. 97-002, thereby, exposing the agency's funds to risk of possible losses; and

c. The PCF accounts of various Dibursing Officers were closed at year-end, contrary to Section 35 (b/c) of Chapter 6 of the Government Accounting Manual Volume I, which resulted in unnecessary adjustments/entries in the books and additional time for processing of disbursements.

14.1 For CY 2022, the PRA has 12 Disbursing Officers who were designated as Petty Cash Custodian (PCC) to each of the four Departments and Divisions, and the four Satellite Offices (SO) located in Davao, Cebu, Clark and Baguio.

14.2 Review of accounting records and disbursements showed that for CY 2022, these PCC were able to submit and receive replenishments totaling P6.047 million covering various operating expenses . However, audit revealed that the granting, handling, and utilization of the PCF was not in accordance with the existing laws, rules, and regulations as discussed below.

Agency's regular expenses such as postage/courier fees, and fuel totaling P0.736 million and P1.440 million, respectively, were charged to the agency's PCF

14.3 Section 4.3 of COA Circular No. 97-002 provides the guidelines pertaining to the petty operating expenses, as follows:

> *4.3 Petty Operating Expenses*
>
> *4.3.1 Xxx.*
>
> *4.3.2 The cash advance shall not be used for payment of regular expenses, such as rentals, subscriptions, light and water and the like. Payments out of the cash advance shall be*

allowed only for amounts not exceeding P15,000.00 for each transaction, except when a higher amount is allowed by law and/or specific authority by the Commission on Audit. Splitting of transactions to avoid exceeding the ceiling shall not be allowed.

14.4 Audit disclosed that several PCFs of the agency were established for payment of courier fees/mailing services aside from other petty expenses, two of which were the Servicing Division (SD) and Marketing Department (MD). The SD has been in-charge with the mailing of documents to various retiree/members residing inside/outside of the country such as the PRA Identification Cards, copy of passport, among others, and to other government agencies. Whereas the courier/mailing services for the MD were likewise used for communication with the retiree-members, reports/letters between the Head Office (HO) and SO, and other pertinent communications. The PCFs of other divisions were also used for mailing services but not frequent and in small amounts only.

14.5 For CY 2022, a total of P0.736 million was reflected in the financial statements as courier expenses, almost 90 percent of which was incurred by the SD and MD thru PCF. It was verified that the courier services have been regularly/frequently taken by the SD and the MD, i.e. monthly or weekly, due to the bulk of documents which need to be forwarded to numerous retiree-members, thus, becoming a part of their operations and regular expenses thereof. As noted, the courier services of Company D and Company L have been used for mailing in most cases covering mails sent within and outside the country.

14.6 Meanwhile, it was also noted that in the same year, the PRA has incurred a total of P1.439 million for fuel, lubricants, and oil expenses, all of which were paid through PCF. Out of 12 PCFs established, eight were partly used for the purchase of gasoline needed for the agency's vehicles, four of which pertained to the PRA's SOs while another four in the HO. Analysis disclosed that of the total consumption, more than one million pesos pertained to fuel consumption in the HO, wherein P0.995 million was charged to the PCF handled by the Administrative and Finance Services Department (AFSD).

14.7 Since the PCF was used for the procurement of fuel, the practice of the agency is for each driver to request petty cash from the PCC which is done every two to three days or daily in some instances, depending upon the consumption of the said agency vehicles.

14.8 As such, both the fuel and mailing/courier services are deemed regular expenses of the PRA, therefore, these should not be charged to the PCF as required under Section 4.3.2 of COA Circular No. 97-002. Consequently, there was unnecessary establishment of PCF as well as additional time utilized on the documentation and processing for the release and liquidation of petty cash pertaining thereto. Also, as there is a need to pay instantaneously with cash so the agency is exposed to higher risk due to possible misappropriation or theft. Moreover, this practice poses difficulty in monitoring the real-time fuel transactions and in providing more organized and comprehensive reports of fuel consumption.

14.9 Further, as the courier services and fuel were purchased using the PCF, these were not included in the Annual Procurement Plan (APP) of the agency which contravenes Section 7.2 of RA No. 9184, quoted as follows:

> *No procurement shall be undertaken unless it is in accordance with the approved APP, including approved changes thereto. The APP must be consistent with the duly approved yearly budget of the Procuring Entity and shall bear the approval of the HoPE or second-ranking official designated by the HoPE to act on his behalf.*

14.10 It was verified that the budgeted amounts for fuel consumption and courier/postage services were reflected in the PRA's Approved Corporate Operating Budget, however, these were not included in the Approved APP of the PRA. As such, the agency was not able to undertake the applicable mode of procurement which could have given them the opportunity to undertake an efficient and cost-effective management in terms of fuel purchases for its vehicles and in the hiring of courier services for its mails.

The PCF accounts of various Disbursing Officers were closed at year-end which resulted in unnecessary adjustments/entries in the books and additional time for processing of disbursements.

14.11 Section 35, Chapter 6 of GAM provides several guidelines on the handling of PCF, as follows:

> *a. The unused balance of the PCF shall not be closed/refunded at the end of the year. The fund shall be closed only upon termination, separation, retirement or dismissal of the Petty Cash Fund Custodian (PCFC), who in turn shall refund any balance to close his/her cash accountability; and*
>
> *b. At the end of the year, the PCFC shall submit to the Accounting Division/Unit all unreplenished Petty Cash Vouchers (PCVs) for recording in the books of accounts.*

14.12 Review disclosed that the PCF of each PCC has been closed at the end of the year contrary to the above requirement. It was then verified that this is being done through refund in order to close the PCF accounts at year-end after liquidation and per Memorandum issued by the Office of the General Manager instructing all Disbursing Officers to refund the unexpended amount on or before December 31, 2022.

14.13 As to the petty cash expenses incurred until the refund of the PCF or otherwise named as unreplenished Petty Cash Vouchers (PCVs), these were treated as liquidation of ordinary cash advances which were recorded in the books as debit to the corresponding expense accounts and credit to the PCF account. Hence, at the beginning of the succeeding year, the PCF account is re-established by granting PCF to similar PCF Custodians in the same amount which involves processing of documents instead of simply recording an entry to reverse the take up of the unreplenished PCVs at year-end.

14.14 This has been the practice of the PRA as it was also noted that in CY 2021, the PCF of these Custodians was closed at year-end and a new establishment of the same was done in January/February 2022.

14.15 In consequence, the FMD has to effect unnecessary adjustments/entries in the books as well as allot additional time for processing of disbursements. Moreover, the PCCs are compelled to shoulder the operating expenses incurred on the first month of the succeeding year, particularly the SOs, and submit their reimbursements for processing. All of these conditions could have been avoided had Section 35, Chapter 6 of GAM been complied with.

Replenishments of petty cash expenses by several PCCs did not reach the required minimum of 75 percent of the disbursements of PCF contrary to Section 4.3.1 of COA Circular No. 97-002, thereby, exposing the agency's funds to risk of possible losses

14.16 Section 4.3 of COA Circular No. 97-002 dated February 10, 1997 explicitly states the following on the replenishment of petty cash expenses:

> *4.3 Petty Operating Expenses*
>
> *4.3.1 The cash advance shall be sufficient for the recurring expenses of the agency for one month. The AO may request replenishment of the cash advance when the disbursements reach at least 75%, or as the need requires, by submitting a replenishment voucher with all supporting documents duly summarized in a report of disbursements.*

14.17 Examination of accounting records, however, disclosed that replenishments made by some PCF Custodians were not able to reach the prescribed level of at least 75 percent of disbursements of the PCF, contrary to the above-mentioned provision. The percentage of replenishments from the concerned personnel in the HO ranged from 22 percent to 72 percent. It is worth to mention that majority of the replenishments made by the AFSD's PCC was below 75 percent. As noted, despite inclusion of the other issued PCVs with pending liquidation, the total utilized fund would still be lower than the replenishment threshold of 75 percent.

14.18 In the case of the PCC stationed in the SO, it was observed that several replenishments were below the threshold of 75 percent as these were done monthly, however, these were submitted to the PRA - HO for processing more than one month after the last recorded transaction, which makes it appear otherwise.

14.19 It was informed that said practice was due to slow processing of replenishments. However, review of the number of days of processing their replenishments showed otherwise. It was verified that for those assigned in the HO, the processing takes only two to three days from the time these were prepared/received until the release of replenishment check to the PCC. For those assigned in the SO, the processing from the time it was forwarded by the PCC until the date of receipt of replenishment check takes more than five days.

14.20 Considering that the expended amount of PCF can be replaced/replenished immediately given the short period of processing, therefore, there is no need to make replenishments below the threshold of 75 percent, or to increase the amount of PCF as this might result to excessive PCF in the custody of the PCF Custodians. For emphasis, the cash which includes PCF is very susceptible to losses due to thefts/misappropriations, hence, the reason for the guidelines set forth on the replenishment requirement/s. The replenishment threshold would prevent the excessive amount and/or idle funds in the custody of the Custodian.

14.21 **We recommended that Management direct the FMD to:**

a. **Discontinue the practice of closing the PCF account every year-end. Instead, strictly comply with the requirement on the proper accounting treatment of the PCF at year-end so as not to defeat the purpose for which it was created/established, and to avoid unnecessary adjustments/entries in the books, and processing of disbursements and reimbursements that would entail additional costs to the government, the PRA in particular;**

b. **Formulate a written policy on the establishment, handling, maintenance, and disposition of the PCF that would serve as guide to all PCCs in the discharge of their duties and functions, and to the FMD as to the proper accounting treatment and recording in the books;**

c. **Direct all PCCs to strictly adhere to the replenishment requirement of PCF which is to reach the amount of disbursements of at least 75 percent of the PCF, except in cases which are highly justifiable, in compliance with Section 4.3.1 of COA Circular No. 97-002; and**

d. **Instruct the FMD to ensure that all replenishments being processed are compliant with the threshold on replenishment of PCF of 75 percent.**

14.22 **We further recommended that Management:**

a. **Discontinue the procurement of fuel, courier services, and the like through PCF as these are part of the regular expenses of the agency, in compliance with Section 4.3.2 of COA Circular No. 97-002 and to lessen the exposure of risk since cash is susceptible to misappropriation/theft;**

b. **Strictly comply with the requirements of RA No. 9184 by undertaking the procurement of fuel/lubricant/oil, courier services, and the like through public bidding or alternative methods of procurement, whichever is applicable as prescribed to ensure efficient and cost effective management of fuel purchases/consumption and courier services;**

c. **Moving forward, include in the agency's APP the procurement of fuel and service provider for courier services including the method of procurement and other pertinent information in order to be consistent with the agency's approved corporate operating budget for the year and in compliance with Section 7.2 of RA No. 9184; and**

d. **Conduct study for other items (goods/services) being procured/ purchased using the PCF and include or undertake its procurement in accordance with the provisions of RA No. 9184.**

14.23 The Management commented that:

a. The FMD is in the process of formulating a policy on the PCF's establishment, handling, maintenance, replenishment, and disposition, to serve as guide to all PCCs in the discharge of their duties and functions, and for the proper accounting treatment and recording in the books by the Accounting; and

b. For the procurement of fuel and postage/courier services, the Management is currently evaluating, selecting and accrediting suppliers in compliance wth the requirements of RA No. 9184.

14.24 As a rejoinder, the Audit Team acknowledged the Management's commitment to implement the audit recommendations as indicated above and in all other issued AOMs relating to the PCF. Their full implementation of all the recommendations will be monitored in the CY 2023 audit.

15. The necessity of the foreign travel expenses incurred for ocular inspection totaling P424,122 cannot be established due to purposes that could have been achieved through alternative measures without entailing additional costs, which was not consistent with Section 2 of Presidential Decree No. 1445 and Section 4.1 of COA Circular No. 2012-003 dated October 29, 2012.

15.1 Section 2 of Presidental Decree No. 1445 states that:

> *It is the declared policy of the State that all resources of the government shall be managed, expended or utilized in accordance with law and regulations, and safeguard against loss or wastage through illegal or improper disposition, with a view to ensuring efficiency, economy and effectiveness in the operations of government. The responsibility to take care that such policy is faithfully adhered to rests directly with the chief or head of the government agency concerned.*

15.2 In CY 2022, two of the travels in Japan and South Korea by various PRA personnel were conducted for purposes such as: (a) ocular inspection for the Ads Placement of the agency; (b) validation of Ads viewership in the area; (c) other possible advertising opportunities in South Korea and Japan; (d) engage in Business-to-Business meetings for collaboration/partnership; and (e) coordination meetings with Japan-based media partners on their insights and possible advertising strategies for Japanese and South Korea market.

15.3 The Ads Placement subject to ocular inspection are: (a) Digital Signage Ads Ltd. having contract price (CP) of P0.995 million with four digital signage located at Terminal 3, 2/f Arrival - Haneda Airport; and (b) Taxi Media Bar Advertisements with 1,600 units of taxi located in Seoul, Inceon and Busan having CP of P0.838 million.

15.4 Review of documents showed that the duration of both placements was one month covering December 1-31, 2022. Moreover, the executed contract between the PRA and the said suppliers/advertisers stated under Item 3 that:

> *Monitoring and inspection – Service Provider A/B shall provide a monthly report of the ad campaign's status/compliance or a day for inspection with prior notice to PretA to monitor and evaluate, through an ocular inspection or other available means, the ad placement's conformity with the specification stipulated in the Contract. PRetA's settlement of its monthly bill shall be subject to Service Provider A/B's compliance.*

15.5 Further review revealed that the payment for the performance/delivery of advertising services was supported by one or two pictures from the supplier instead of the usual reports/status required of a supplier. The rest pertained mainly to those submitted by the PRA Teams who conducted ocular inspection in Japan and South Korea such as pictures of the actual advertisement, terminal report, among others. As noted in the above-stated Contract, "ocular inspection" was one of the options for the monitoring of the suppliers' compliance.

15.6 Based on accounting records, the total expenses incurred by the PRA personnel in the conduct of ocular inspection amounted to P192,971 and P231,151 which is equivalent to 23.04 percent and 23.23 percent of the CP of advertising services from Company A and B, respectively, details are presented in Table 22.

Table 22 - Expenses Incurred in the Conduct of Occular Inspection

KOREA (Company A)	**Pre-departure**	**Per diem**	**Clothing Allowance**	**Airfare**	**Total**	**Contract Price**
Employee A	3,500	44,883	11,328	23,998	83,709	
Employee B	3,500	63,929	11,328	30,505	109,262	
Sub-total	**7,000**	**108,812**	**22,656**	**54,503**	**192,971** 23.04%	P837,520
JAPAN (Company B)						
Employee C	3,500	36,073	11,204	62,261	113,038	
Employee D	3,500	41,148	11,204	62,261	118,113	
Sub-total	**7,000**	**77,221**	**22,408**	**124,522**	**231,151** 23.23%	P995,000
TOTAL					**P424,122**	**P1,832,520**

15.7 The said activities conducted by two teams consisting of one personnel each from the Inspection Committee and the MD, covered three days inclusive of travel time, thus, basically one day for the said purposes. However, it was known during inquiry that the agency does not have any written policy regarding conduct of inspection for such purpose.

15.8 Moreover, review of submitted documents disclosed that one of the PRA's bases in performing monitoring and inspection of advertisements in Japan and Korea is Chapter 10, Section 19 of PPE of GAM, Volume I. However, the application of this provision is misplaced as this is applicable to the delivery of supplies/property, plant and equipment items that could be inspected and verified as to quantity and specifications, which is different from advertising services. In fact, COA Circular No. 2012-001 under Section 9.1.3.5 provides the following as documentary requirements for the said services:

> *Xxx.*
> *Additional Documentary Requirements*
> - *Bill/Statement of Account*
> - *Copy of newspaper clippings evidencing publication and/or CD in case of TV/Radio commercial.*

15.9 In which case, the need to conduct ocular inspection to support the payment for the advertising services was not mentioned or required. Moreover, with the innovations and advance technology nowadays, the second documentary requirement may not be necessarily a CD but something alike that is reliable, corresponds or is receptive to the existing advertising platforms such as the digital/print/outdoor advertising presently adopted by the PRA. In addition, the agency's requirements for reports and proof of performance or delivery of advertising services can be well-defined in the terms of reference prior to procurement.

15.10 The ocular inspection including the other purposes of said travels may be a part of the agency's promotional campaign, however a comprehensive and thorough study should have been conducted so that all the necessary requirements, marketing analyses, applicable rules and regulations, costs, benefits, appropriate personnel, and other vital factors were taken into consideration, to come up with best marketing strategies and policies that can be executed in the most economical and efficient manner, yet effective, consistent with the best interest of the government as provided in the above-mentioned provision.

15.11 In the subject travels, the necessity to conduct inspection should have been studied carefully in view of the additional costs incurred which was equivalent to more than 23 percent of the CP, yet covering one day only, and could have resorted to other options such as submission of reports without entailing additional costs. In terms of validation of advertisement viewership in the area including the effectivity of materials, it is of our view that this cannot be simply attained by one's visit/presence thereat in few hours but rather through reliable reports/statistics covering the whole duration of the advertisement/s.

15.12 As to the other purposes, these can be achieved without incurring additional costs or perhaps at lower costs, if any, by means of available communication platforms such as via zoom/videoconferencing, facebook live, Microsoft teams, google meet, among others, with the agency personnel directly involved in the advertising activities. In fact, review of their narrative reports and supporting documents show that one of the purposes which was meetings, etc. was not done/performed. Likewise, the exploration of possible advertising opportunities cannot be merely accomplished through a one-day visitation but through market opportunity analysis, credible researches, evaluation, and referrals, and again, with the right people to handle.

15.13 As provided under Section 4.1 of COA Circular No. 2012-003 dated October 29, 2012, *"xxx… An expenditure that is not essential or that which can be dispensed with without loss or damage to property is considered unnecessary."* Finally, Section 3 (b) of EO No. 77 enunciates that *"All officials authorized to approve local or overseas travels, as far as practicable, to minimize travel cost. Hence, all forms of communications, such as, but not limited to teleconferencing and videoconferencing or submission of briefs and position papers, as alternatives to travel, must be explored, xxx."*

15.14 We recommended that Management:

a. Devise means of monitoring and verifying the compliance of the supplier with the deliverables or obligations required of him other than ocular inspection such as a Certificate of Completion/Compliance duly supported by reliable reports, videos, pictures with the actual dates and time when taken, and, other reliable ways, taking advantage of the available technology advancements, to avoid the incurrence of unnecessary costs/expenditures which are disallowable in audit;

b. Formulate written policies pertaining to the agency's advertising strategies, the best ways of measuring the compliance of the supplier/advertiser with the agreed deliverables including possible alternative activities for practicality and economic purposes, the reliable documents/reports to be submitted, and the right people to handle; and

c. Exercise the diligence of a good father of a family in the utilization of the funds of government in conformity with Section 2 of the Presidential Decree No. 1445 in order to avoid unnecessary expenses as defined in Section 4.1 of COA Circular No. 2012-003.

15.15 The Management commented that:

a. Due to the nature and corporate structure of the Authority, it will take some time to formulate the mentioned recommended policies as it will involve convening and approval of the Board of Trustees. Said policy-formulation might also include the creation of a Technical Working Group which will engage the services of a consultant, or initiate a study/research on the subject.

b. It was said that the repeated lockdowns and travel restrictions stunted the PRA's plans and programs for advertisements and promotions, thus, one of the agency's coping methods is the modification of advertisement media in order to adapt to the new normal. The provision cited per COA Circular No. 2012-001 should not be made applicable to subject advertisement placements since it clearly pertains to traditional advertising placements, particularly print media and TV/Radio Commercials. As the world changes, marketing also evolves and new non-traditional ad placements are conceived, such as Out-of-Home Ads, Digital Media, etc. Thus, ad placements which are of a different class from traditional media, should be inspected and verified according to its nature. Since Out-of-Home advertisement is not expressly covered by the requirement stated in COA Circular No. 2012-001, Section 9.1.3.5, then it should not be made to apply to such. In statutory construction, what is not expressly included is deemed to be excluded. Hence, it is our humble opinion that the succeeding provision of COA Circular No. 2012-001, which is Section 9.2 Procurement Through Alternative Modes should be applied in the subject ad placements.

c. In addition, the actual inspection of the end-user (MD) is vital to its function. The said inspection involves not only the verification of whether the terms of reference were properly followed but also to actually experience the impact of our out-of-home ad placements, which cannot be captured by mere pictures and videos. <u>These factors include foot traffic in the location, demographic of the population in the area, visual impact and experience, visibility of the advertisement in the surrounding area, noticeability of ad placement, aesthetic value vis-à-vis the background, among others.</u> These factors help the MD decide whether to replicate the same project in the future as well as to give insight on how to improve our craft and plan future advertisements.

d. Nonetheless, in the interim, some adjustments will be implemented in the monitoring and inspection of PRA's international ad placements to minimize travel cost which include (i) only one PRA personnel from the MD, unless deemed otherwise necessary, shall travel for the advertisement inspection and other intended purpose/s to lessen the cost; maximizing the number of days of travel vis-a-vis carrying out the purpose/s of the travel; and forgoing foreign travel for inspection on replicated projects on the same location and by the same supplier, resorting to other means of verification such as live broadcasting/video conferencing, if possible, and/or requesting Department of Tourism (DOT) and other government agency officers to do the inspection/verification in case they have an existing office in the location.

e. The PRA's mandate is the promotion of the Philippines as a retirement haven for foreign nationals and former Filipinos. To be faithful with our mandate, our advertisements would naturally involve foreign placements. That being said, the agency spends millions every year on foreign advertisements. It would be a greater disservice to the government if the plans and projects which involves millions of pesos would be improperly monitored, inspected and/or verified. Prudence dictates that due diligence must be exercised by the Authority in handling these projects instead of relying on one-sided assurances from the supplier/s which can be prone to bias and possible deception.

15.16 As rejoinder, the Audit Team acknowledged the actions initially taken up by the Management. However, the same maintains that the PRA must devise or seek means or alternatives other than conducting ocular inspection in the monitoring of the Out-of-Home advertisements due to the following reasons:

a. While actual inspection of the end-user is vital to its functions, it is equally vital to have policies pertaining to the best ways of measuring the compliance of the supplier/advertiser with the agreed deliverables including possible alternative activities for practicality and economic purposes, the reliable documents/reports to be submitted, and the right people to handle.

b. It was stated that the purpose of conducting ocular inspection is one way of verifying whether the terms of reference were properly followed. Relatedly, what have been stated in the contract as measures for monitoring were two options such as (i) conduct of one-day ocular inspection, or (ii) provision of monthly reports by the Supplier. The second option, despite no additional cost, was not selected, yet, it cannot be disregarded that this is equally reliable as the first option since the required reports are presumed trustworthy as these requirements were evaluated by the Bids and Awards Committee (BAC) and approved by the Head of the Procuring Entity (HOPE). After all, the selection of the Supplier to be providing the reports should have undergone the rigorous procurement process. Additionally, there was never any report stating that the service providers of advertising activities to the PRA deviated from the agreed terms of reference.

c. In terms of the additional purpose of the inspection as enumerated in their explanation, these factors should have been determined already during the the formulation of the feasibility/proposals for these projects and were supposedly considered prior to approval. In fact, the study cannot be considered as comprehensive without involving all these factors. Hence, to subject this to another inspection for these purposes could result to redundancy of activities which leads to incurrence of additional costs.

d. As to the comment that Section 9.2 of COA Circular No. 2012-001 is more appropriate than Section 9.1.3.5 justifying the conduct of inspection, we beg to disagree considering that this is applicable only to goods which are quantifiable. Even the contents of the Inspection and Acceptance Report would show that this is accomplished for the verification of procured supplies, goods, equipment/property, in terms of their quantity and specifications.

e. There is no question that it would be a greater disservice to the government if the plans and projects which involves millions of pesos would be improperly monitored, inspected and/or verified. However, in doing so, this has to be accomplished with an aim to ensure "*efficiency, economy and effectiveness*" in the operations of the government. As such, consider additional alternatives in the placement of advertising activities such as possible partnership or collaboration with the DOT and/or DOT attached agencies considering that they are primarily responsible for promoting the Philippines in terms of tourism and other matters, which could greatly help the PRA as they share the same goals and objectives.

16. Various disbursements relating to foreign travel, and marketing, promotional and advertising activities of the agency in the total amount of P498,480 were not compliant with the applicable laws, rules and regulations in view of the following:

a. The validity of the marketing expenses covering the payment of interpreters' fee of P245,348 (US$4,380) is doubtful due to failure to undertake the required procurement process for the hiring of interpreters, and the absence of appropriation, contrary to Appendix 28 of the Republic Act No. 9184, and Section 4(1) of Presidential Decree No. 1445; and

b. Cash Advances of P253,132 were granted for representation expenses despite being reimbursable only while the total meal expenses of P22,008.83 ($394) relative to the liquidation thereof were not supported with the required documents, contrary to Section 16 (a) of Executive Order No. 77 dated March 15, 2019. Meanwhile, expenses for excess baggage were claimed despite incomplete basis and documentation.

16.1 The PRA is mandated to develop and promote the Philippines as 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 best quality of life to the targeted retirees in a most attractive package. To implement such, the PRA has included in its plans and programs the traveling and promotional materials/activities for international events such as participation to exhibits, business missions, and others.

16.2 For CY 2022, the PRA has incurred traveling expenses of P3.479 million, 66.31 percent of which or P2.307 million pertains to foreign travel. Audit of the travelling expenses incurred disclosed deficiencies and lapses as discussed hereunder.

Validity of marketing and promotional expenses covering payment of interpreters' fee of is doubtful due to failure to undertake the required procurement process for the hiring of interpreters, and the absence of appropriation

16.3 Sections 3 and 4 of Appendix 28 of RA No. 9184 prescribes the guidelines for the goods and services, among others, to be procured and performed overseas, quoted as follows:

3. General Guidelines

a. Annual Procurement Plan. In accordance with Section 7.2 of the IRR, no procurement shall be undertaken unless it is in accordance with the approved APP of the Procuring Entity.

b. Advertisement and Posting of Procurement Opportunity. The Procuring Entity may dispense with the advertisement in the newspaper as prescribed in Section 21.2.1 of the IRR of R.A. 9184. Accordingly, the Procuring Entity shall post the Request for Quotation (RFQ) or Request for Proposal (RFP) in the 1.) PhilGEPS website, once the facility for the procurement of Goods and Services, Infrastructure Projects, and Consulting

Services to be procured and performed overseas becomes available; 2.) The official website of the Procuring Entity; and 3.) In a conspicuous place reserved for this purpose in the premises of the Procuring Entity.

c. *Xxx*

4. Specific Guidelines

a. *The End-User shall submit to the BAC or to the authorized personnel or committee a purchase/job request, which indicates the technical specifications, scope of work, terms of reference, ABC and other terms and conditions relevant to the Goods and Services, Infrastructure Projects and Consulting Services to be procured.*

b. *The BAC or the authorized personnel or committee shall determine the technical, legal, and financial eligibility requirements to be submitted by the prospective bidders or any other means to verify the technical, legal and financial capability of the supplier, contractor or consultant.*

c. *The BAC or the authorized personnel or committee shall prepare and send the Request for Quotations (RFQ) or Request for Proposals (RFP) to at least three (3) suppliers, contractors or consultants of known qualifications. This, notwithstanding, those who responded through any of the required postings shall be allowed to participate. Receipt of at least one (1) quotation on the deadline for submission of quotations shall be sufficient to proceed with the evaluation thereof. In no instance shall Procuring Entities be required to pay any sum of money for the purpose of obtaining RFQs/RFPs.*

16.4 In CY 2022, a total of $6,800 or P387,608 was granted as cash advances to three PRA personnel for the payment of interpreters' fee during their official travel in Japan and Taiwan. The hiring of interpreter, as informed, is for the purpose of providing coordination, translation, and assistance during participation in international events to disseminate information and materials about the PRA's retirement program.

16.5 Of the said amount, a total of P245,348.60 or $4,380 was actually paid to eight interpreters, two for each travel, based on the liquidation documents submitted to COA. Review of supporting documents revealed that the granted cash advances were based on the Office Order (OO) issued by the General Manager (GM) of the agency. There were no other documents that would show the identity of these interpreters, proof of expertise/qualifications, criteria for selection, their specific functions, and how the amount intended for their fees was arrived at, which is unusual considering the nature of services that they are going to render.

16.6 According to the concerned personnel, the hiring was made through request for referrals from the DOT or the Embassy. However, they informed that the process was carried out by means of personal messages/texts between the PRA and the DOT personnel. Likewise, the paid interpreters' fees were merely supported with

Contract of Service (COS), copy of passports, acknowledgement receipts, and list of guests for some. It was also noted that the COSs were merely executed during the period of the event/s while contracts were not properly accomplished. Also, the cash advances for the interpreters' fee in the Taipei/Kaoshiung, Taiwan and Osaka, Japan travels were noticed as higher than the actual fees paid, which may imply that said fees were not yet clear/known prior to the event.

16.7 Verification revealed that the agency failed to undertake the required guidelines set forth for services being procured and performed overseas, contrary to Appendix 28 of RA No. 9184. Likewise, the said expenditures were neither incorporated in the PRA's approved APP nor reflected in the Operational Plan and Budget of the MD but simply included in the cash advances granted to the concerned personnel, denoting the absence of appropriation or budget for such.

16.8 Section 3 (c) of Appendix 28 states that *"in all cases, the Procuring Entity shall base its award on the quotations received in accordance with the corresponding RFQ/RFP and abstract of quotations",* however, the agency was not compliant as there were no quotations obtained, thus, the validity of the marketing expenses covering interpreters' fee is doubtful. Also, the procurement/payment is inconsistent with Section 4 (1) of Presidential Decree No. 1445, which states that, *"No money shall be paid out of any public treasury of depository except in pursuance of an appropriation law or other specific statutory authority."*

16.9 Furthermore, the hiring of interpreters who did not undergo the required qualification requirements and selection process may result in inefficient/ ineffective performance, thus, defeating the main purpose of engaging their services.

Cash Advances of P253,132.50 were granted for representation expenses despite being reimbursable only while the total meal expenses of P22,008.83 ($393.96) relative to the liquidation thereof were not supported with the required documents

16.10 For CY 2022, a total of P0.744 million ($13,100) of cash advances were granted to various personnel of the PRA during foreign travel based on the OOs issued by the GM of the PRA in which he is the head of the delegation. The amount of $4,500 and $2,000 pertained to representation expenses such as meetings/briefings and excess baggage. Review of the liquidations thereof disclosed that representation expenses, specifically meals, totaling $393.96 were incurred during meeting of the head of the delegation with the retirees, guests, and DOT Officials as evidenced by the submitted official receipts and pictures.

16.11 However, Section 16 (a) of EO No. 77 provides the following guidelines on representation expenses with regard to those incurred during foreign travel, quoted as follows:

> *Section 16. Reimbursement of Representation Expenses*
>
> *(a) The following officials, who are authorized to attend international conference or meetings or undertake official missions or*

assignments in the exigency of the service, maybe entitled to reimbursement of actual representation expenses not exceeding the following rate, subject to the approval of the authorities listed under Section 10(a) of this Order, based on justifications presented and upon presentation of bills and receipts:

Xxx

(iv) Those holding positions lower than an Assistant Secretary level who are designated as head of the delegation – US$300.00 xxx.

Such expenses may cover necessary entertainment, contributions, flowers, wreaths, and the like, when justified by circumstances and in conformity with generally accepted customs, usages, and practices.

16.12 As clearly stated above, the representation expenses incurred may be reimbursed by the authorized personnel, therefore, the granting of cash advances of $4,500 for possible expenses during meetings/briefings in foreign travels was contrary to what has been allowed of them. Simply stated, there is no provisions in EO No. 77 allowing the grant of representation expenses except for reimbursements. As a result, said act had exposed the PRA to pecuniary loss in case of non-liquidation of the subject cash advances.

16.13 Also, it is worth to mention that the cash advances of $1,500 granted for each travel was far beyond the prescribed rate given that the head of a delegation is allowed for maximum reimbursement of $300 only. The premise that whatever excess can be refunded during liquidation, hence, cash advances may be allowed, does not contemplate the purpose of the said provision.

16.14 Further, the law requires that for any representation expense incurred, proper justification and approval of the proper authorities are to be complied with by the recipient prior to reimbursement. Since the fund used by the delegation/team was through cash advances, these were merely supported with official receipts during liquidation, thus, not subjected to the approval of the proper authorities required of that kind of expenses.

16.15 As to the excess baggage, cash advances totaling $2,000 was granted to the various Teams during their foreign travel per OOs issued by the head of the agency. Notwithstanding, it was not stated therein the specific details, items that will be covered by excess baggage fee, and its necessity. During liquidation, the total amount of $371.12 was incurred for the payment of excess baggage and this was merely supported with official receipts issued by the airline company. Nevertheless, there is also no specific provision of EO No. 77 allowing such expenses during foreign travel.

16.16 **We recommended that Management:**

a. Strictly comply with the provisions of Appendix 28 of RA No. 9184 in procuring for services of interpreters for overseas events as part of marketing strategy to ensure transparency and accountability as well as quality services from the hired interpreters;

b. **Strictly adhere to the provision/s that all procurements made are in accordance with the approved APP in compliance with Section 7.2 of the Implementing Rules and Regulations of RA No. 9184;**

c. **Conduct a study as to the necessity, and the appropriate number of interpreters to be hired, if any, to maximize the fee being paid by the agency for their services;**

d. **Ensure that contracts between the PRA and the hired interpreter, if any, are executed correctly and properly;**

e. **Direct the concerned personnel to submit justification on the incurrence of representation expenses of $393.96 approved by the authorized officer in compliance with Section 16 of EO No. 77 to avoid suspension and/or disallowance in audit;**

f. **Discontinue the granting of cash advances intended for representation expenses during foreign travel since these can be claimed only through reimbursement, subject to the submission of the requirements;**

g. **Refrain from granting excessive cash advances for any purpose and ensure that these are supported with estimated expenses within the limits; and,**

h. **Ensure that payment of fee for excess baggage during official travel , if any, is strictly for the materials and paraphernalia used for promotional and marketing campaign.**

16.17 Management commented that:

a. While the Marketing Team headed by the GM has institutional knowledge and expertise in the promotion and recruitment of qualified foreign nationals to the Special Resident Retiree's Visa (SRRV) program, particularly in Japan, Korea and Taiwan, its members have very minimal or no language proficiency at all. Thus, in the case of active pursuit of information such as briefings, orientations, and inquiries, the marketing team would need the aid and assistance of a native speaker or someone with adequate language faculty to interpret, explain, or profound the program during a person to person or a person to audience engagements. This is the main reason why an interpreter is a necessity – to remove the communication barrier and sustain successful communication.

b. They also commented that as a responsive action from the marketing team, a maximum of two interpreters are sought to provide language solutions to the many inquiries during participation of the PRA in the international exhibits. As to its budget, it may not have its own line entry in the Operating, Plan and Budget (OPB) as observed, but it was appropriated in the same OPB of the MD under the International Promotions budget impliedly for countries/nations that are predominantly Non-English speaking.

c. The PRA bases its choice in hiring interpreters on cost and benefit. Since the inquiries in booths, although needs fluent-speaking interpreters, do not require the highest level of language proficiencies. Hence, PRA mostly engages in services from semi-professional and even student language interpreters. These referrals are usually made by the Authority's previous coordination abroad, including retirees and other partners.

d. In any case, the Management shall abide by the Audit Team's recomendation/s, particularly in the rules of procurement of said interpreters, including an indication of a separate entry to explicitly allocate the budget for language solutions required for future promotional activities. The management will create a Committee on Local and International Promotions which will be composed of officers from the concerned operations and support divisions, which will be tasked to issue guidelines that cover areas similar and related concerns as recommended above, including the need to ensure adherence to the procurement provisions based on the APP, correct and proper execution of contracts between the PRA and hired interpreters, compliance with the procurement provisions for services of interpreters for overseas events as part of the marketing strategy, and transparency, accountability, and quality of services from the hired interpreter.

e. As regards the expenses incurred for meetings, the Management commented that it was not in any way an expenditure incurred by the GM in the exercise of his function as the head of the agency. The amount of $393.96 was paid by the Authority to gather in one discussion table with the Philippine Tourism Attaché in Tokyo and his team together with the former DOT Undersecretary to deliberate the strategies of the industry and the alignments that has to do with the Authority's programs and activities. Also discussed was the transition to a new Tourism Secretary that could impact the DOT. Nonetheless, the Finance Support Division was notified by the concerned Division Chief to reclassify the account to Advertisement and Promotions under the Marketing Expenses instead of Representation Expense to be very explicit and transparent with the accounting entries.

f. As to the excess baggage, the Management commented that depending on the airline, policies on excess baggage have been updated for travel after the pandemic. The liquidation report and attachments were supported by official receipts from concerned companies and were most definitely presented so in good faith. The checked-in luggage was boarded according to the number of pieces and not the actual weight.

g. Moreover, the PRA conducts promotional campaigns abroad and it necessarily entails bringing of paraphernalia for the booth which includes roll-up banners, the PRA logo, tarpaulin, tokens, flyers, and other promotional materials. For this reason, the excess baggage expense is charged to the Traveling Expense of the Client Relations and Program Development Division's (CRPDD) OPB as it is a necessary expense for international promotion. The management commits to earmark this concern in the earlier-mentioned creation of the local and international promotion committee which will handle and provide a basis for prospective promotions and travel abroad purposely to improve the policies and compliance with governmental issuances.

16.18 Below are the rejoinders of the Audit Team.

a. As rejoinder, the Audit Team acknowledged the explanation from the concerned Division. However, the services of interpreters were never mentioned in the OPB and if these were indeed part of the planned expenses as it is considered by the MD as necessity, these could have been clearly stated therein just like the other items. As to the number of interpreters, this has to be justified with the estimated number of clients/visitors in the booth being entertained by the interpreters based on experience in the previous exhibits. As mentioned in the Exit Conference, the number of interpreter/s being needed may vary from one location to another, hence, the necessity to conduct study or research to determine the exact requirement to avoid unnecessary or excessive costs.

b. Regarding hiring the services of interpreters for overseas performance, the Audit Team maintains that the applicable provisions of RA No. 9184, one of which is Appendix 28, are to be observed by the PRA. Merely referrals cannot be a substitute for such in the disbursement of government funds. There must be sufficient and legal basis for whatever amount that would appear in the contract to serve as the basis for payment. In fact, research would show that even the DOT and other government agencies have been undertaking their procurement of said services through RA No. 9184. Hence, there is no reason why the PRA cannot adopt the same. Considering the cost-benefit analysis in the hiring of interpreters is appreciated, however, this has to be done by following the applicable laws, rules, and regulations. As to the qualifications of the interpreter/s and other concerns, these have to be addressed properly in the terms of reference to be set and approved by the concerned Division/Committee and authorized personnel.

c. As to the expenses of \$393, the Audit Team maintains that these are representation expenses thus the required supporting documents are to be complied with. Based on the explanation of the Management, the nature of the expenditures is advertising, marketing and promotion representation expense and should not be construed as representation expense. However, it was in his capacity as head of the agency that he was tasked to meet and discuss with other officials in the DOT regarding various matters which have something to do with the Authority’s programs and activities and not necessarily on the Marketing aspect only. Moreover, who would have been in a better position to join the DOT’s Officials in the said meetings than the head of the agency himself. On the other hand, the reclassification of expenses to advertising, promotional and marketing expenses (APM) is not acceptable since the nature of the expense is indeed for representation and was budgeted for such, and not an APM expense.

d. With regard to excess baggage, if its indeed intended solely for the transport of materials and paraphernalia which are necessary for promotional activities during international exhibits, then it has to be procured simultaneously with the plane fare to lessen the cost. However, there must be controls in place such as proper documentation, accurate and reliable estimates, and other pertinent measures for transparency and accountability puposes.

17. The PRA's practices in paying the Marketers' Fees (MFs) to the claimants are not aligned towards maximizing the agency's resources due to undertaking processes and entailing costs that can be dispensed with, that was not consistent with Section 2 of Presidential Decree No. 1445, which eventually resulted in the settlement of the MFs beyond the required period.

17.1 For CY 2022, the total checks paid relating to COS- MFs amounted to P28.180 million. The MFs cover 67.76 per cent of the total COS while the remaining parts pertain to fees paid to the Bureau of Immigration for the retirees' visa. In the same year, the FMD was able to process at least 1,284 checks payments of MFs to various Marketers. Currently, there are 212 accredited marketers of the PRA as stated in its website.

17.2 Based on review and interview, the disbursement/payment for the MFs involves several processes. After the oath of the retirees, the PD prepares all the documentary requirements to be attached to the DVs such as (a) Notice of Client Registration; (b) Application Form of Principal Retiree; (c) Official Receipt of Payment of Processing Fee; and (d) Certificate of Accreditation of the Marketer. The same shall be forwarded to the FMD for processing and payment.

17.3 Computation shows that the processing from oath-taking to the preparation of a check takes an average of 75 days, and at least a week to about two months for the Marketers to collect the payment from the Cashier, which contravenes to the required period. Section 5.3 of the Contract executed between the PRA and the Marketer states that:

> *PRA shall ensure that the Marketer's Fee is paid to the respective accredited MARKETER/s not later than fifteen 15 working days from the date of the retiree-member's Oath of Affirmation. Such fee shall only be released to the MARKETER upon the issuance of the latter of a BIR-registered official receipt.*

17.4 As shown above, it can be deemed that the process of paying the marketers by the PRA is not consistent with the requirement under Sections 6 and 9 of COA Circular No. 2012-001 dated June 01, 2012 requiring the billing statement or SOA from suppliers of goods or services as one of the supporting documents. This would affirm that the Marketer has indeed a claim from the PRA which the latter will validate based on its available records and documents.

17.5 It was also noted that all the procedures relating to the payment of MFs were performed by the PD without the participation of the Marketers, such as providing and gathering the above-cited supporting documents (SDs) as attachments to the DVs, which may have been one of the factors in the long process of payment. As noted, the practice of the FMD is to pay and issue check to the Marketer per enrolled retiree. In CY 2022, there were at least 1,284 DVs processed, along with the said SDs, which suggests voluminous documents that the PD has to provide and assume.

17.6 This practice results in additional tasks for the PD on top of processing special resident retiree's visa, keeping in custody the bulk of papers that can be dispensed with, and shouldering additional cost for the said documents and the man hours being utilized in providing the required SDs and in completing the whole process.

17.7 On the manner of issuing checks, the FMD informed that the issuance of one check for MF per retiree makes it easier for them to cancel it in the event of corrections or problems with a particular retiree as compared to a check pertaining to multiple retirees. However, it was not articulated as to what particular errors were encountered based on their experience to prompt corrections and how frequent those cases may be. The Team reviewed the canceled checks in CY 2022 and found that there were only 11 checks involving check payments to Marketers but pertaining to other issues.

17.8 With the submission of the SOA and the required SDs by the Marketer himself, the processing of the payments of MF will be hasten while avoiding additional costs thus, promoting cost efficiency.

17.9 The Audit Team is aware that the Marketers play a vital role in the promotion of the retirement program of the PRA through SRRV but the agency is duty-bound to ensure that, *"all resources of the government shall be managed, expended or utilized in accordance with law and regulations, and safeguard against loss or wastage through illegal or improper disposition, with a view to ensuring efficiency, economy and effectiveness in the operations of government,"* as clearly enunciated under Section 2 of Presidential Decree No. 1445.

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

a. Require the Resident Retiree Servicing Department to revisit its policies on the processing of the claims of its Marketers particularly on the documentary requirements/supporting documents taking into consideration the aspects on efficiency and economy to maximize the resources of the PRA;

b. Instruct the FMD to reconsider the manner of preparing checks for the payment of Fees to Marketers considering the bulk of transactions to be processed until issuance of checks; and

c. **Revisit the provision of the executed contract between the PRA and the Marketer about the required number of days that the MF is to be paid in view of the observation that the said Fee is actually settled at an average of 75 days which is way beyond the requirement.**

17.11 As a rejoinder, the Audit Team acknowledged the Management's commitment to implement the audit recommendations. Their full implementation of all the recommendations will be monitored in the CY 2023 audit.

GENDER AND DEVELOPMENT

18. The submission of Gender and Development (GAD) Plan and Budget and Accomplishment Report to the Philippine Commission on Women (PCW) by the PRA was within the prescribed period while its allocation of GAD Budget was in accordance with the required amount under the provisions of PCW-National Economic and Development Authority-Department and Budget and Management Joint Circular No. 2012-01.

18.1 For CY 2022, review of records show that the PRA has allocated P50.643 million or 12.33 percent of its approved Corporate Operating Budget of P410.676 milion which is compliant with the requirement of at least five percent thereof under the Joint Circular.

18.2 Likewise, it is noteworthy to mention that the PRA's GAD Focal Point System (GFPS) was able to submit the agency's GAD Plan and Budget (GPB) to the Philippine Commission on Women (PCW) within the prescribed period and had conformed with all the requirements of the latter as evidenced by its endorsement of the said GPB on September 7, 2022. It was also noted that the PRA's GAD Accomplishment Report (AR) was submitted to the PCW for review on March 28, 2023 which was within the required time.

18.3 Further, comparison was made with respect to the GAD Programs, Activities and Projects (PAPs) as reflected in the GPB and the AR. Review shows that there were planned PAPs that were accomplished and/or implemented during the year while others were not, details are presented in Table 23.

Table 23 – Details of PRA's GPB and Accomplishment Report for CY 2022

	GAD Activity	Budget	Budget Utilization	
			Actual Expenses	% of Utilization
CLIENT-FOCUSED ACTIVITIES				
1	Printing and distribution of Information, Education and Communication (IEC) materials relative to the Observance of Women's Month	295,000	81,934	27.77%
2	Printing and distribution of IEC materials relative to the 18-Day Campaign to End Violence Against Women	265,000	134,800	50.87%
3	Conduct of activities relative to the development of GAD Modules	19,250	-	-
4	Installation of GAD Section in the agency website	30,000	-	-
ORGANIZATION-FOCUSED ACTIVITIES				
5	Conduct of activities by GFPS	5,750	2,400	41.74%
6	Conduct of Workshop on the Formulation of PRA GAD Agenda Phase 1	137,597	-	-
7	Conduct of Workshop on the use of Harmonized Gender Development Guidelines and Assessment Checklist for Project Implementation, Management, Monitoring and Evaluation	104,034	142,398	136.88%
8	Attendance of the members of the top management in Gender Sensitivity Training	50,798	-	-
9	Attendance of new and old employees to GAD related trainings/events	282,704	-	-
ATTRIBUTED PROGRAMS				
10	Intensify Marketing and Promotion Campaign	23,111,450	30,626,700	132.52%
11	Recruitment and Management of SRRV Applicants, PRA Partners and Stakeholders	8,914,949	-	-
12	Processing of Special Resident Retiree Visa Application	15,414,904	-	-
13	Social Integration Program	2,011,808	1,607,180	79.88 %
TOTAL		**50,643,244**	**32,595,412**	**64.36%**

18.4 As shown in Table 24, the PRA's GAD budget was intended for 13 activities which were mainstreamed to (a) client-focused activities, four; (b) organization-focused activities, five; and attributed programs, four. Of the 13 PAPs, seven were not implemented at all while the other six were implemented as evidenced by the utilization of the allotted budget. The percentage of budget utilization was 64.36 percent though majority of the PAPs were not implemented.

18.5 Moreover, it was noted that the greater part of the budget was utilized for activity Nos. 7 and 10 which exceeded the allotted fund/budget. However, the concerned personnel informed that there was under attribution to activity No. 7 since the allowed salaries of personnel/participants thereto was not included during the planning. As regards to activity No. 10, the personnel assigned in the attribution of such informed that they have little knowledge about the Harmonized Gender and Development Guidelines but were able to consider and include in the actual implementation what they have learned during their seminar/workshop, hence, the excess of utilization over budget.

18.6 The Audit Team appreciates the adequacy of the formulated GAD activities indicated in the endorsed GPB of the agency and recognizes as well the causes for the under attribution of the GAD Budget. However, it is worth mentioning that to comply with the requirement of optimum utilization of GAD Funds, there is a need to integrate GAD activities in the regular activities, programs and projects of the agency such as the Processing of Special Resident Retiree Visa Application, and others.

18.7 **We recommended that Management:**

a. Continue to comply with the GAD related laws, rules and regulations, particularly on the required allocation of GAD Budget, and the submission of GPB and GAD AR to the PCW within the prescribed period and compliance thereof with all other requirements; and,

b. Require the GFPS to prioritize unimplemented GAD PAPs particularly the attributed programs to ensure optimum utilization of GAD funds.

18.8 The Management agreed with the audit recommendations and had given its assurance that its GFPS will always strive to improve its capability to attain the goal of meeting the requirements set by the PCW.

18.9 As rejoinder, the Audit Team will monitor the PRA Management's implementation on the recommendations in the CY 2023 audit.

COMPLIANCE WITH TAX LAWS

19. 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, 2022 were remitted in CY 2023, as shown in Table 24.

Table 24 - Remittances to BIR of the Due to BIR as of December 31, 2022

	Amount	Date Remitted
Employees' withholding tax	P 796,479.00	January 9, 2023
Withholding tax on VAT	285,540.00	January 9, 2023
Expanded withholding tax	600,045.26	January 9, 2023
Income tax payable	13,467,190.00	April 13, 2023

COMPLIANCE WITH GSIS, HDMF AND PHILHEALTH LAWS

20. The PRA consistently complies with the requirements on the withholding from its employees' salaries the corresponding contributions to the Government Service Insurance System (GSIS), Home Development Mutual Fund (HDMF) and Philippine Health Insurance Corporation (PhilHealth) and regularly remits to the respective government agencies the withheld amounts together with the PRA's share. Contributions for December 2022 were remitted in January 2023, as presented in Tables 25, 26, and 27.

Table 25 - Remittance to GSIS

	Amount	Date Remitted
Life and retirement premium	P923,053.32	January 9, 2023
Calamaty/ Emergency loan	266,176.99	January 9, 2023
Policy loan	4,600.00	January 9, 2023
ECC	8,000.00	January 9, 2023
Conso loan	140,553.32	January 9, 2023

Table 26 - Remittance to HDMF

	Amount	Date Remitted
HDMF Contributions	P24,100.00	January 12, 2023

Table 27 - Remittance to PHIC

	Amount	Date Remitted
PhilHealth Contributions	P166,427.48	January 17, 2023

COMPLIANCE WITH PROPERTY INSURANCE LAW

21. For CY 2022, the PRA's properties such as buildings and MVs were insured with the GSIS in compliance with RA No. 656, otherwise known as the "Property Insurance Law," as amended by Presidential Decree No. 245 dated July 13, 1973. The insured properties are presented in Table 28.

Table 28 - Insured Properties

Property	Amount Insured	Premiums Paid
Buildings/ Leasehold Improvements	P2,082,183.10	P 6,918.76
Motor Vehicles	4,482,152.68	29,389.12
Total	**P 6,564,335.78**	**P 36,307.88**

SUMMARY OF SUSPENSIONS, DISALLOWANCES AND CHARGES

22. The summary of audit suspensions and disallowances in CY 2022 is shown in Table 29 and the details and status thereof are presented in Part IV, Annex A of this Report. There was no audit charge in CY 2022.

Table 29 - Audit Suspensions and Disallowances

	Beginning balance January 1, 2022	Issued	Settled	Ending balance December 31, 2022
Suspensions	P 175,132.39	P -	P -	P 175,132.39
Disallowances	2,271,896.23	-	-	2,271,896.23
Charges	-	-	-	-

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

Of the 41 audit recommendations embodied in the prior year's Annual Audit Report (AAR), 23 were fully implemented and 18 were not implemented. Details as follows:

Reference	Observations	Recommendations	Actions Taken/Comments
FINANCIAL AAR 2021 Audit Observation (AO) No. 1, page 61	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.	We recommended that the Management direct the concerned personnel of FMD to expedite and exert all efforts to reconcile the balances of Trust Liabilities-VD and IP with their contra accounts, ONCA-RFs-VDs, Interest Receivable-VDs, Investment in TDs-Foreign Currency-RFs 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.	Not Implemented. Reiterated with updates under Part II – Observation and Recommendation No. 1 of this Report.
AAR 2021 AO No. 2, page 63	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	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	Not Implemented. Reiterated with updates under Part II – Observation and Recommendation No. 3 of this Report.

Reference	Observations	Recommendations	Actions Taken/Comments
	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.	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;	The Finance Management Division (FMD) continues on the analysis and reconciliation of the accounts. All the necessary adjustment will be effected in January 2023 accounting records while notes to financial statements/ disclosures will be included in the CY 2023 Notes to the Financial Statements.
		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;	Not Implemented. Reiterated with updates under Part II – Observation and Recommendation No. 3 of this Report
		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	Fully Implemented.
		d. Disclose all the necessary	Not Implemented.

Reference	Observations	Recommendations	Actions Taken/Comments
		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.	
AAR 2021 AO No. 3, page 68	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, cannot 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.	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;	Not Implemented. Reiterated with updates under Part II – Observation and Recommendation No. 6 of this Report. Of the unrecorded bank credits, P44.152 million have already been issued with Official Receipts as of September 30, 2022. Bulk of the credits pertained to collections made on CY 2021. Efforts to ascertain those collections for prior years had been in place by coordinating with Land Bank of the Philippines (LBP)

Reference	Observations	Recommendations	Actions Taken/Comments
			through email and phone calls. There will be a continuous dialogue with the LBP personnel on the said matters.
		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;	Not Implemented. Reiterated with updates under Part II – Observation and Recommendation No. 6 of this Report.
		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	Fully Implemented. .
		d. Ensure proper preparation of BRS to avoid confusion, further errors, and/or misleading information.	Not Implemented. Reiterated with updates under Part II – Observation and Recommendation No. 6 of this Report

Reference	Observations	Recommendations	Actions Taken/Comments
		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.	Fully Implemented.
		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.	Fully Implemented.
AAR 2021 AO No. 4, page 71	The faithful representation in the financial statements of the Accounts Receivable account with carrying amount of P60.993 million as of	We recommended that Management direct the concerned personnel of the FMD to:	

Reference	Observations	Recommendations	Actions Taken/Comments
	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.	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;	Not Implemented. Reiterated with updates under Part II – Observation and Recommendation No. 4 of this Report.
		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	Not Implemented. Reiterated with updates under Part II – Observation and Recommendation No. 4 of this Report.
		c. Ensure full disclosure of all relevant information pertaining to the ECL formulation and measurement in compliance with Paragraph 15 of IAS 1.	Not Implemented. Reiterated with updates under Part II – Observation and Recommendation No. 4 of this Report.
		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.	Not Implemented. The FMD continues on the analysis and reconciliation of the accounts. All the necessary adjustment will be effected in January 2023 accounting records while notes to financial statements/

Reference	Observations	Recommendations	Actions Taken/Comments
			disclosures will be included in the CY 2023 Notes to the Financial Statements.
AAR 2021 AO No. 5, page 75	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.	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;	Fully Implemented. The FMD has started in 2022 the creation of retirees' folders for financial records to support the Subsidiary Ledger 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 COA for financial accounting and reporting and the Bureau of Internal Revenue for taxes. Moreover, the FMD has adjusted per Journal Entry Voucher (JEV) No. 202201209 dated January 31, 2022 the error noted in the prepared Bank Reconciliation Statement unadjusted balance of P1.544 million that were

Reference	Observations	Recommendations	Actions Taken/Comments
			due to errors in posting JEV Nos. 202102182 and 202103168 to the General Journal in 2021.
		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	Fully Implemented.
		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.	Not Implemented.
		We further recommended that the CY 2022 financial statements be restated.	Not Implemented.
AAR 2021 AO No. 6, page 79	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	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	Not Implemented. Reiterated with updates under Part II – Observation and

Reference	Observations	Recommendations	Actions Taken/Comments
	transactions pertaining to recognition and utilization of the creditable tax withheld, contrary to COA Circular No. 2020-002 dated January 28, 2020.	P11.530 million to fairly present the balances of these accounts in the financial statements as of December 31, 2021;	Recommendation No. 9 of this Report. The FMD continues on the analysis and reconciliation of the accounts. All the necessary adjustment will be effected in January 2023 accounting records while notes to financial statements/ disclosures will be included in the CY 2023 Notes to the Financial Statements.
		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	Not Implemented.
		c. Exercise prudence in the recording of tax transactions to avoid errors and misleading information.	Fully Implemented.
AAR 2021 AO No. 7, page 81	The Service Income – Annual PRA Fee and Retained Earnings accounts were understated in the	We recommended that Management direct the FMD to:	

Reference	Observations	Recommendations	Actions Taken/Comments
	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	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	Not Implemented. The FMD continues on the analysis and reconciliation of the accounts. All the necessary adjustment will be effected in January 2023 accounting records while notes to financial statements/ disclosures will be included in the CY 2023 Notes to the Financial Statements. Fully Implemented. Fully Implemented.

Reference	Observations	Recommendations	Actions Taken/Comments
	Paragraph 42 of the International Accounting Standard 8.	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	Fully Implemented.
		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.	Fully Implemented.
AAR 2021 AO No. 8, Page 85	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	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	Not Implemented. Reiterated with updates under Part II – Observation and Recommendation No. 11 of this Report.

Reference	Observations	Recommendations	Actions Taken/Comments
	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.	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;	Fully Implemented.
		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;	Fully Implemented.
		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;	Fully Implemented.
		e. Instruct the Property Unit to	Fully Implemented.

Reference	Observations	Recommendations	Actions Taken/Comments
		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;	Fully Implemented.
		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	Not Implemented. Reiterated with updates under Part II – Observation and Recommendation No. 11 of this Report.

Reference	Observations	Recommendations	Actions Taken/Comments
		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.	Fully Implemented.
AAR 2021 AO No. 9, Page 90	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	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	Fully Implemented. Adjustment pertaining to the overstatement of the Leave Benefits Payable and Terminal Benefits accounts in the amount of P172,429.31 was already made per JEV No. 202204198 dated April 29, 2022.

Reference	Observations	Recommendations	Actions Taken/Comments
	COA Circular No. 2020-002 dated January 28, 2020.	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.	Fully Implemented. Proper recording of transaction relative to payment of monetization of leave credits was already implemented last June 30, 2022 (balances were charged to Leave Benefits Payable). Accrual of Earned Leave Credits was also being implemented by the agency as early as January 2022.
NON-FINANCIAL AAR 2021 AO No.10, page 92	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.	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	Fully Implemented. From the date of receipt of Audit Observation Memorandum No. 22-009 dated 04/21/2022, the Administrative Support Division (ASD) discontinued the practice of allowing monetization of sick leave credits of the PRA employees. The ASD only allowed the application of monetization of vacation leave

Reference	Observations	Recommendations	Actions Taken/Comments
			credits provided that there will be remaining five days or more on the employee's Vacation Leave after monetization.
		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.	Fully Implemented.
<u>GENDER AND DEVELOPMENT</u> AAR 2021 AO No. 11, page 96	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.	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	 Fully Implemented.

Reference	Observations	Recommendations	Actions Taken/Comments
	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.	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.	Fully Implemented

Status of Unsettled Audit Suspensions and Disallowances
As of December 31, 2022

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 Cost of Living Allowance (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. P33,300.00 were partially settled as of December 31, 2022
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 the 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**	